

THE MARKETING OF DIAMONDS

How a successful cartel turned a worthless rock into a priceless gem
by Edward Jay Epstein

For decades, people have cherished diamonds as a token of everlasting love. But are diamonds truly valuable—or could it all be a myth? In this article, historian Edward Jay Epstein discusses how De Beers, the world's largest supplier of diamonds, managed to transform a worthless, common rock into a precious symbol of everlasting love.

The diamond invention — the creation of the idea that diamonds are rare and valuable, and are essential signs of esteem — is a relatively recent development in the history of the diamond trade. Until the late nineteenth century, diamonds were found only in a few riverbeds in India and in the jungles of Brazil, and the entire world production of gem diamonds amounted to a few pounds a year. In 1870, however, huge diamond mines were discovered near the Orange River, in South Africa, where diamonds were soon being scooped out by the ton. Suddenly, the market was deluged with diamonds. The British financiers who had organized the South African mines quickly realized that their investment was endangered; diamonds had little intrinsic value — and their price depended almost entirely on their scarcity. The financiers feared that when new mines were developed in South Africa, diamonds would become at best only semiprecious gems.

The major investors in the diamond mines realized that they had no alternative but to merge their interests into a single entity that would be powerful enough to control production and perpetuate the illusion of scarcity of diamonds. The instrument they created, in 1888, was called De Beers Consolidated Mines, Ltd., incorporated in South Africa.

De Beers proved to be the most successful cartel arrangement in the annals of modern commerce. While other commodities, such as gold, silver, copper, rubber, and grains, fluctuated wildly in response to economic conditions, diamonds have continued, with few exceptions, to advance upward in price every year since the Depression. Indeed, the cartel seemed so superbly in control of prices — and unassailable — that, in the late 1970s, even speculators began buying diamonds as a guard against the vagaries of inflation and recession. The diamond invention is far more than a monopoly for fixing diamond prices; it is a mecha-

nism for converting tiny crystals of carbon into universally recognized tokens of wealth, power, and romance. To achieve this goal, De Beers had to control demand as well as supply. Both women and men had to be made to perceive diamonds not as marketable precious stones but as an inseparable part of courtship and married life. To stabilize the market, De Beers had to endow these stones with a sentiment that would inhibit the public from ever reselling them. The illusion had to be created that diamonds were forever — "forever" in the sense that they should never be resold.

In September of 1938, Harry Oppenheimer, son of the founder of De Beers and then twenty-nine, traveled from Johannesburg to New York City, to meet with Gerold M. Lauck, the president of N. W. Ayer, a leading advertising agency in the United States. His bankers were concerned about the price of diamonds, which had declined worldwide.

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In Europe, where diamond prices had collapsed during the Depression, there seemed little possibility of restoring public confidence in diamonds. In Germany, Austria, Italy, and Spain, the notion of giving a diamond ring to commemorate an engagement had never taken hold. In England and France, diamonds were still presumed to be jewels for aristocrats rather than the masses. Furthermore, Europe was on the verge of war, and there seemed little possibility of expanding diamond sales. This left the United States as the only real market for De Beers's diamonds. In fact, in 1938 some three quarters of all the cartel's diamonds were sold for engagement rings in the United States. Most of these stones, however, were smaller and of poorer quality than those bought in Europe, and had an average price of \$80 apiece. Oppenheimer and the bankers believed that an advertising campaign could persuade Americans to

buy more expensive diamonds.

Oppenheimer suggested to Lauck that his agency prepare a plan for creating a new image for diamonds among Americans. Lauck instantly accepted.

In their subsequent investigation of the American diamond market, the staff of N. W. Ayer found that since the end of World War I, in 1919, the total amount of diamonds sold in America, measured in carats, had declined by 50 percent; at the same time, the quality of the diamonds, measured in dollar value, had declined by nearly 100 percent. An Ayer memo concluded that the depressed state of the market for diamonds was

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"the result of the economy, changes in social attitudes and the promotion of competitive luxuries."

Although it could do little about the state of the economy, N. W. Ayer suggested that through a well-orchestrated advertising and public-relations campaign it could have a significant impact on the "social attitudes of the public at large and thereby channel American spending toward larger and more expensive diamonds instead of "competitive luxuries." Specifically, the Ayer study stressed the need to strengthen the association in the public's mind of diamonds with romance. Since "young men buy over 90% of all engagement rings" it would be crucial to inculcate in them the idea that diamonds were a gift of love: the larger and finer the diamond, the greater the expression of love. Similarly, young women had to be encouraged to view diamonds as an integral part of any romantic courtship.

Since the Ayer plan to romanticize diamonds required subtly altering the public's picture of the way a man courts — and wins — a woman, the advertising agency strongly suggested exploiting the relatively new medium of motion pictures. Movie idols, the paragons of romance for the mass audience, would be given diamonds to use as their symbols of indestructible love.

In addition, the agency suggested offering stories and society photographs to selected maga-

zines and newspapers which would reinforce the link between diamonds and romance. Stories would stress the size of diamonds that celebrities presented to their loved ones, and photographs would conspicuously show the glittering stone on the hand of a well-known woman. Fashion designers would talk on radio programs about the "trend towards diamonds" that Ayer planned to start. The Ayer plan also envisioned using the British royal family to help foster the romantic allure of diamonds. An Ayer memo said, "Since Great Britain has such an important interest in the diamond industry, the royal couple could be of tremendous assistance to this British industry by wearing diamonds rather than other jewels." Queen Elizabeth later went on a well-publicized trip to several South African diamond mines, and she accepted a diamond from Oppenheimer.

In addition to putting these plans into action, N. W. Ayer placed a series of lush four-color advertisements in magazines that were presumed to mold elite opinion, featuring reproductions of famous paintings by such artists as Picasso, Derain, Dali, and Dufy. The advertisements were intended to convey the idea that diamonds, like paintings, were unique works of art.

By 1941, The advertising agency reported to its client that it had already achieved impressive results in its campaign. The sale of diamonds had increased by 55 percent in the United States since 1938, reversing the previous downward trend in retail sales. N. W. Ayer noted also that its campaign had required "the conception of a new form of advertising which has been widely imitated ever since. There was no direct sale to be made. There was no brand name to be impressed on the public mind. There was simply an idea — the eternal emotional value surrounding the diamond." It further claimed that "a new type of art was devised ... and a new color, diamond blue, was created and used in these campaigns.... "

In its 1947 strategy plan, the advertising agency strongly emphasized a psychological approach. "We are dealing with a problem in mass psychology. We seek to ... strengthen the tradition of the diamond engagement ring — to make it a psychological necessity capable of competing successfully at the retail level with utility goods and services...." It defined as its target audience "some 70 million people 15 years and over whose opinion we hope to influence in support of our objectives." N. W. Ayer outlined a subtle program that

Even though diamonds can be shattered, chipped, discolored, or incinerated to ash, “A Diamond Is Forever” became the official motto of De Beers.

constant publicity to show that only the diamond is everywhere accepted and recognized as the symbol of betrothal."

N. W. Ayer was always searching for new ways to influence American public opinion. Not only did it organize a service to "release to the women's pages the engagement ring" but it set about exploiting the relatively new medium of television by arranging for actresses and other celebrities to wear diamonds when they appeared before the camera. It also established a "Diamond Information Center" that placed a stamp of quasi-authority on the flood of "historical" data and "news" it released. "We work hard to keep ourselves known throughout the publishing world as the source of information on diamonds," N. W. Ayer commented in a memorandum to De Beers, and added: "Because we have done it successfully, we have opportunities to help with articles originated by others."

N. W. Ayer proposed to apply to the diamond market Thorstein Veblen's idea, stated in *The Theory of the Leisure Class*, that Americans were motivated in their purchases not by utility but by "conspicuous consumption." "The substantial diamond gift can be made a more widely sought symbol of personal and family success — an expression of socio-economic achievement," N. W. Ayer said in a report. To exploit this desire for conspicuous display, the agency specifically recommended, "Promote the diamond as one material object which can reflect, in a very personal way, a man's ... success in life." Since this campaign would be addressed to upwardly mobile men, the advertisements ideally "should have the aroma of tweed, old leather and polished wood which is characteristic of a good club."

Toward the end of the 1950s, N. W. Ayer reported to De Beers that twenty years of advertisements and publicity had had a pronounced effect on the American psyche. "Since 1939 an

entirely new generation of young people has grown to marriageable age," it said. "To this new generation a diamond ring is considered a necessity to engagements by virtually everyone." The message had been so successfully impressed on the minds of this generation that those who could not afford to buy a diamond at the time of their marriage would "defer the purchase" rather than forgo it.

THE campaign to internationalize the diamond invention began in earnest in the mid-1960s. The prime targets were Japan, Germany, and Brazil. Since N. W. Ayer was primarily an American advertising agency, De Beers brought in the J. Walter Thompson agency, which had especially strong advertising subsidiaries in the target countries, to place most of its international advertising. Within ten years, De Beers succeeded beyond even its most optimistic expectations, creating a billion-dollar-a-year diamond market in Japan, where matrimonial custom had survived feudal revolutions, world wars, industrialization, and even the American occupation.

Until the mid-1960s, Japanese parents arranged marriages for their children through trusted intermediaries. The ceremony was consummated, according to Shinto law, by the bride and groom drinking rice wine from the same wooden bowl. There was no tradition of romance, courtship, seduction, or prenuptial love in Japan; and none that required the gift of a diamond engagement ring. Even the fact that millions of American soldiers had been assigned to military duty in Japan for a decade had not created any substantial Japanese interest in giving diamonds as a token of love.

J. Walter Thompson began its campaign by suggesting that diamonds were a visible sign of modern Western values. It created a series of color advertisements in Japanese magazines showing beautiful women displaying their diamond rings. All the women had Western facial features and wore European clothes. Moreover, the women in most of the advertisements were involved in some activity — such as bicycling, camping, yachting, ocean swimming, or mountain climbing — that defied Japanese traditions. In the background, there usually stood a Japanese man, also attired in fashionable European clothes. In addition, almost all of the automobiles, sporting equipment, and other artifacts in the picture were conspicuous foreign imports. The message was clear: diamonds represent a sharp break with the Oriental past and

a sign of entry into modern life.

The campaign was remarkably successful. Until 1959, the importation of diamonds had not even been permitted by the postwar Japanese government. When the campaign began, in 1967, not quite 5 percent of engaged Japanese women received a diamond engagement ring. By 1972, the proportion had risen to 27 percent. By 1978, half of all Japanese women who were married wore a diamond; by 1981, some 60 percent of Japanese brides wore diamonds. In a mere fourteen years, the 1,500-year Japanese tradition had been radically revised. Diamonds became a staple of the Japanese marriage. Japan became the second largest market, after the United States, for the sale of diamond engagement rings.

In America, which remained the most important market for most of De Beers's diamonds, N. W. Ayer recognized the need to create a new demand for diamonds among long-married couples. "Candies come, flowers come, furs come," but such ephemeral gifts fail to satisfy a woman's psychological craving for "a renewal of the romance," N. W. Ayer said in a report. An advertising campaign could instill the idea that the gift of a second diamond, in the later years of marriage, would be accepted as a sign of "ever-growing love." In 1962, N. W. Ayer asked for authorization to "begin the long-term process of setting the diamond aside as the only appropriate gift for those later-in-life occasions where sentiment is to be expressed." De Beers immediately approved the campaign.

The diamond market had to be further restructured in the mid-1960s to accommodate a surfeit of minute diamonds, which De Beers undertook to market for the Soviets. They had discovered diamond mines in Siberia, after intensive exploration, in the late 1950s: De Beers and its allies no longer controlled the diamond supply, and realized that open competition with the Soviets would inevitably lead, as Harry Oppenheimer gingerly put it, to "price fluctuations," which would weaken the carefully cultivated confidence of the public in the value of diamonds. Oppenheimer, assuming that neither party could afford risking the destruction of the diamond invention, offered the Soviets a straightforward deal — "a single channel" for controlling the world supply of diamonds. In accepting this arrangement, the Soviets became partners in the cartel, and co-protectors of the diamond invention.

Almost all of the Soviet diamonds were under half a carat in their uncut form, and there was no ready retail outlet for millions of such tiny diamonds. When it made its secret deal with the Soviet Union, De Beers had expected production from the Siberian mines to decrease gradually. Instead, production accelerated at an incredible pace, and De Beers was forced to reconsider its sales strategy. De Beers ordered N. W. Ayer to reverse one of its themes: women were no longer to be led to equate the status and emotional commitment to an engagement with the sheer size of the diamond. A "strategy for small diamond sales" was outlined, stressing the "importance of quality, color and cut" over size. Pictures of "one quarter carat" rings would replace pictures of "up to 2 carat" rings. Moreover, the advertising agency began in its international campaign to "illustrate gems as small as one-tenth of a carat and give them the same emotional importance as larger

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stones." The news releases also made clear that women should think of diamonds, regardless of size, as objects of perfection: a small diamond could be as perfect as a large diamond.

The new campaign met with considerable success. The average size of diamonds sold fell from one carat in 1939 to .28 of a carat in 1976, which coincided almost exactly with the average size of the Siberian diamonds De Beers was distributing. However, as American consumers became accustomed to the idea of buying smaller diamonds, they began to perceive larger diamonds as ostentatious. By the mid-1970s, the advertising campaign for smaller diamonds was beginning to seem too successful. In its 1978 strategy report, N. W. Ayer said, "a supply problem has developed ... that has had a significant effect on diamond pricing" — a problem caused by the long-term campaign to stimulate the sale of small diamonds. "Owing to successful pricing, distribution and advertising policies over the last 16 years, demand

for small diamonds now appears to have significantly exceeded supply even though supply, in absolute terms, has been increasing steadily." Whereas there was not a sufficient supply of small diamonds to meet the demands of consumers, N. W. Ayer reported that "large stone sales (1 carat and up) ... have maintained the sluggish pace of the last three years." Because of this, the memorandum continued, "large stones are being .. discounted by as much as 20%."

The shortage of small diamonds proved temporary. As Soviet diamonds continued to flow into London at an ever-increasing rate, De Beers's strategists came to the conclusion that this production could not be entirely absorbed by "eternity rings" or other new concepts in jewelry, and began looking for markets for miniature diamonds outside the United States. Even though De Beers had met with enormous success in creating an instant diamond "tradition" in Japan, it was unable to create a similar tradition in Brazil, Germany, Austria, or Italy. By paying the high cost involved in absorbing this flood of Soviet diamonds each year, De Beers prevented — at least temporarily — the Soviet Union from taking any precipitous actions that might cause diamonds to start glutting the market. N. W. Ayer argued that "small stone jewelry advertising" could not be totally abandoned: "Serious trade relationship problems would

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ensue if, after 15 years of stressing 'affordable' small stone jewelry, we were to drop all of these programs."

Instead, the agency suggested a change in emphasis in presenting diamonds to the American public. In the advertisements to appear in 1978, it planned to substitute photographs of one-carat-and-over stones for photographs of smaller diamonds, and to resume both an "informative advertising campaign" and an "emotive program" that would serve to "reorient consumer tastes and price perspectives towards acceptance of solitaire [single-stone] jewelry rather than multi-stone pieces."

Other "strategic refinements" it recommended were designed to restore the status of the large diamond. "In fact, this [campaign] will be the exact opposite of the small stone informative program that ran from 1965 to 1970 that popularized the 'beauty in miniature' concept...." With an advertising budget of some \$9.69 million, N. W. Ayer appeared confident that it could bring about this "reorientation."

N. W. Ayer learned from an opinion poll it commissioned from the firm of Daniel Yankelovich, Inc. that the gift of a diamond contained an important element of surprise. "Approximately half of all diamond jewelry that the men have given and the women have received were given with zero participation or knowledge on the part of the woman recipient," the study pointed out. N. W. Ayer analyzed this "surprise factor":

Women are in unanimous agreement that they want to be surprised with gifts.... They want, of course, to be surprised for the thrill of it. However, a deeper, more important reason lies behind this desire.... "freedom from guilt." Some of the women pointed out that if their husbands enlisted their help in purchasing a gift (like diamond jewelry), their practical nature would come to the fore and they would be compelled to object to the purchase.

Women were not totally surprised by diamond gifts: some 84 percent of the men in the study "knew somehow" that the women wanted diamond jewelry. The study suggested a two-step "gift-process continuum": first, "the man 'learns' diamonds are o.k." from the woman; then, "at some later point in time, he makes the diamond purchase decision" to surprise the woman.

For advertising diamonds in the late 1970s, the implications of this research were clear. To induce men to buy diamonds for women, advertising should focus on the emotional impact of the "surprise" gift transaction. In the final analysis, a man was moved to part with earnings not by the value, aesthetics, or tradition of diamonds but by the expectation that a "gift of love" would enhance his standing in the eyes of a woman. On the other hand, a woman accepted the gift as a tangible symbol of her status and achievements.

By 1979, N. W. Ayer had helped De Beers expand its sales of diamonds in the United States to more than \$2.1 billion, at the wholesale level, compared with a mere \$23 million in 1939. In forty years, the value of its sales had increased nearly a hundredfold. The expenditure on advertisements, which began at a level of only \$200,000 a year and gradually increased to \$10 million,

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EXCEPT for those few stones that have been destroyed, every diamond that has been found and cut into a jewel still exists today and is literally in the public's hands. Some hundred million women wear diamonds, while millions of others keep them in safe-deposit boxes or strongboxes as family heirlooms. It is conservatively estimated that the public holds more than 500 million carats of gem diamonds, which is more than fifty times the number of gem diamonds produced by the diamond cartel in any given year. Since the quantity of diamonds needed for engagement rings and other jewelry each year is satisfied by the production from the world's mines, this half-billion-carat supply of diamonds must be prevented from ever being put on the market. The moment a significant portion of the public begins selling diamonds from this inventory, the price of diamonds cannot be sustained. For the diamond invention to survive, the public must be inhibited from ever parting with its diamonds.

In developing a strategy for De Beers in 1953, N. W. Ayer said: "In our opinion old diamonds are in 'safe hands' only when widely dispersed and held by individuals as cherished possessions valued far above their market price." As far as De Beers and N. W. Ayer were concerned, "safe hands" belonged to those women psychologically conditioned never to sell their diamonds. This con-

ditioning could not be attained solely by placing advertisements in magazines. The diamond-holding public, which includes people who inherit diamonds, had to remain convinced that diamonds retained their monetary value. If it saw price fluctuations in the diamond market and attempted to dispose of diamonds to take advantage of changing prices, the retail market would become chaotic. It was therefore essential that De Beers maintain at least the illusion of price stability.

In the 1971 De Beers annual report, Harry Oppenheimer explained the unique situation of diamonds in the following terms: "A degree of control is necessary for the well-being of the industry, not because production is excessive or demand is falling, but simply because wide fluctuations in price, which have, rightly or wrongly, been accepted as normal in the case of most raw materials, would be destructive of public confidence in the case of a pure luxury such as gem diamonds, of which large stocks are held in the form of jewelry by the general public." During the periods when production from the mines temporarily exceeds the consumption of diamonds — the balance is determined mainly by the number of impending marriages in the United States and Japan — the cartel can preserve the illusion of price stability by either cutting back the distribution of diamonds at its London "sights," where, ten times a year, it allots the world's supply of diamonds to about 300 hand-chosen dealers, called "sight-holders," or by itself buying back diamonds at the wholesale level. The underlying assumption is that as long as the general public never sees the price of diamonds fall, it will not become nervous and begin selling its diamonds. If this huge inventory should ever reach the market, even De Beers and all the Oppenheimer resources could not prevent the price of diamonds from plummeting.

Selling individual diamonds at a profit, even those held over long periods of time, can be surprisingly difficult. For example, in 1970, the London-based consumer magazine *Money Which?* decided to test diamonds as a decade long investment. It bought two gem-quality diamonds, weighing approximately one-half carat apiece, from one of London's most reputable diamond dealers, for £400 (then worth about a thousand dollars). For nearly nine years, it kept these two diamonds sealed in an envelope in its vault. During this same period, Great Britain experienced inflation that ran as high as 25 percent a year. For the diamonds to

have kept pace with inflation, they would have had to increase in value at least 300 percent, making them worth some £400 pounds by 1978. But when the magazine's editor, Dave Watts, tried to sell the diamonds in 1978, he found that neither jewelry stores nor wholesale dealers in London's Hatton Garden district would pay anywhere near that price for the diamonds. Most of the stores refused to pay any cash for them; the highest bid Watts received was £500, which amounted to a profit of only £100 in over eight years, or less than 3 percent at a compound rate of interest. If the bid were calculated in 1970 pounds, it would amount to only £167. Dave Watts summed up the magazine's experiment by saying, "As an 8-year investment the diamonds that we bought have proved to be very poor." The problem was that the buyer, not the seller, determined the price.

Selling diamonds can also be an extraordinarily frustrating experience for private individuals. In 1978, for example, a wealthy woman in New York City decided to sell back a diamond ring she had bought from Tiffany two years earlier for \$100,000 and use the proceeds toward a necklace of matched pearls that she fancied. She had read about the "diamond boom" in news magazines and hoped that she might make a profit on the diamond. Instead, the sales executive explained, with what she said seemed to be a touch of embarrassment, that Tiffany had "a strict policy against repurchasing diamonds." He assured her, however, that the diamond was extremely valuable, and suggested another Fifth Avenue jewelry store. The woman went from one leading jeweler to another, attempting to sell her diamond. One store offered to swap it for another jewel, and two other jewelers offered to accept the diamond "on consignment" and pay her a percentage of what they sold it for, but none of the half-dozen jewelers she visited offered her cash for her \$100,000 diamond. She finally gave up and kept the diamond.

Retail jewelers, especially the prestigious Fifth Avenue stores, prefer not to buy back diamonds from customers, because the offer they would make would most likely be considered ridiculously low. The "keystone," or markup, on a diamond and its setting may range from 100 to 200 percent, depending on the policy of the store; if it bought diamonds back from customers, it would have to buy them back at wholesale prices. Most jewelers would prefer not to make a cus-

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tomer an offer that might be deemed insulting and also might undercut the widely held notion that diamonds go up in value. Moreover, since retailers generally receive their diamonds from wholesalers on consignment, and need not pay for them until they are sold, they would not readily risk their own cash to buy diamonds from customers. Instead, retail jewelers almost invariably recommend to their clients firms that specialize in buying diamonds "retail." According to an estimate by Empire Diamonds, one such specialist, a half-carat diamond ring that might cost \$2,000 at a retail jewelry store could be sold for only \$600 at Empire.

When thieves bring diamonds to underworld "fences," they usually get only a pittance for them. In 1979, for example, New York City police recovere stolen diamonds with an insured value of \$50,000 which had been sold to a 'fence' for only \$200. According to the assistant district attorney who handled the case, the fence was unable to dispose of the diamonds on 47th Street, and he was eventually turned in by one of the diamond dealers he contacted.

While those who attempt to sell diamonds often experience disappointment at the low price they are offered, stories in gossip columns suggest that diamonds are resold at enormous profits. This is because the column items are not about the typical diamond ring that a woman desperately attempts to peddle to small stores and diamond buying services but about truly extraordinary diamonds that movie stars sell, or claim to sell, in a publicity-charged atmosphere. The legend created around the so-called "Elizabeth Taylor" diamond is a case in point. This pear-shaped diamond, which weighed 69.42 carats after it had been cut and polished, was the fifty-sixth largest diamond in the world. Except that it was a diamond, it had little in common with the millions of small stones that are mass-marketed each year in engagement rings and other jewelry.