



**Source:** Adopted from <http://insightreport.debeersgroup.com/>

## **Introduction:**

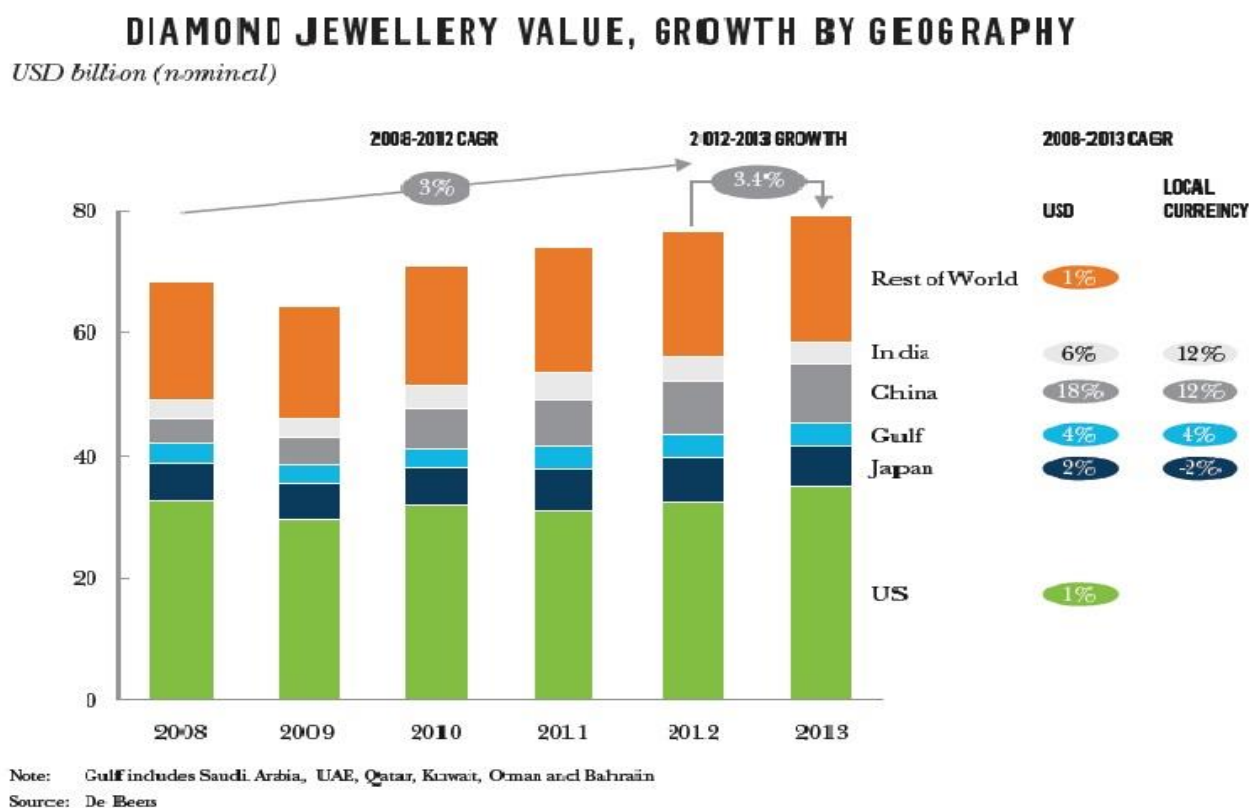
The aims and objectives of this assignment is to provide solutions by applying strategic methods where included analytical justification in order to develop the global diamond market. It will also be designed as a strategic report about world diamond market where included strategies and backgrounds of diamond market. An environmental analysis will be applied to global diamond market in order to identify different issues that need to be considered when evaluating the global diamond market. Therefore, PESTEL model will be applied to identify different factors and for the strategic recommendations to global diamond market. To conclude, the strategic approaches will be applied to global diamond market in order to provide solution to the issues identified.

## **Definition of Strategy:**

Strategy is the process of planning where an organization can designed plan of action in order to achieve a long term goal. It is also defined as the process of analysis, decisions and actions need to be taken by an organization in order to achieve strategic goals. However, it is an ongoing process which will be analysed within internal and external environment of an organization. Strategy is the long term direction and scope of an organization to accomplish the market needs and stakeholders expectations by configuring resources within internal and external environment (Johnson et al., 2005). Henry Mintzberz (1994) stated in his book, *The Rise and Fall of Strategic Planning*, strategy is a plan, pattern in actions, position and perspective which are reflects on success of an organization.

## **Global Diamond Market:**

The world diamond market has improved significantly and represented 3% growth, which estimates \$79 billion global diamond sales in 2013. According to the diamond insight report, which was published by the De Beers group of companies in 2014, the USA, Japan, China and India were showed promising trends growth over the long term perspective of global diamond market. This growth was reflected in the recovery of global financial crisis especially in the US and other developing markets for instance China, India since 2008. Therefore, the diamond market in the US and Japan were accelerated rapid growth sales of 14% and 7% respectively against the global average of 3% in 2014. On the other hand, India and Japan were decreased by 10% and 6% (De Beers, 2014).

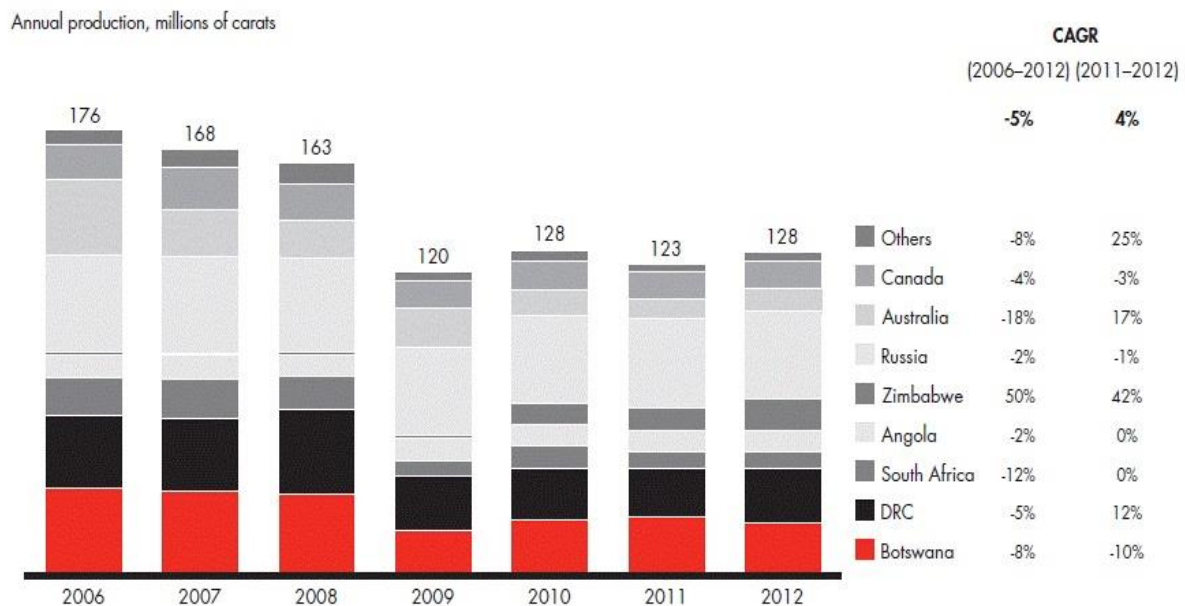


**Figure 1.1:** Diamond Jewellery value, growth by geography.

**Sources:** Adopted from <http://insightreport.debeersgroup.com/downloads/pdfs/de-beers-insight-report-2014.pdf>.

The rough diamond production was estimated to 146 million carats in 2013 whereas it was 176 million carats in 2006. However, diamond supply will be increased within next few years if new investments come into place in production sector. But it is expecting that, in 2020, global diamond production will be dropped gradually if there is no discover of mining operation. African countries are well ahead of rough diamond production but production is becoming challenging for deeper and remote locations.

Production declined significantly during the crisis and volumes have not yet recovered



Note: Russia includes ALROSA, Nizhne-Lenskoye (acquired by ALROSA in 2013) and Uralalmaz  
Source: Kimberley Process

Figure 1.4: Production declined significantly during the crisis and volumes have not yet recovered  
Source: Adopted from <http://www.bain.com/publications/articles/global-diamond-report-2013.aspx>

### The PESTEL framework:

The PESTEL framework analysed an audit of macro-environmental influences within an organization by using six different factors which are leads to make strategic decisions. This assumption will be enabled an organization to assess the existing environment and potential changes need to be taken for its competitors. The purpose of this framework is to identify the factors which are influences to strategic successes or failures. These factors are political, economic, social, technological, environmental and legal. These macro-environmental factors are not directly affect the organization's profitability but increases the opportunities and decreases the threats (CIPD, 2014). Particularly political factors are influences government's roles towards policies and regulations; economic factors assesses potential changes of interest rates, exchanges and unemployment rates, inflation, regulations of an economy; social factors states changes of population demographics and cultures; technological factors highlights the revolutionary development of internet and rapid growth of composite materials; environmental factors influences the waste disposal and energy consumption and lastly, legal factors considerate legislation related

with the employment, competition, health and safety. It also helps an organization to detect and understand risks **related with market growth or decline**, positions, situations and directions. Therefore, to evaluate the macro-environment analysis of diamond industry, in below the PESTEL framework applied to global diamond market in order to elaborate and recognise the factors impacting on diamond industry (Johnson *et al*, 2011).



**Source:** Adopted from <http://www.professionalacademy.com/news/marketing-theories-pestel-analysis>

#### **Application of PESTEL model to Diamond industry:**

##### **Political factors:**

Botswana, South Africa and Namibia are the largest diamond producing countries in the world diamond production market. Over the last few years, these countries have been agreed to increase **internal beneficiation** which lead to migrate cutting and polishing jobs between Botswana, South Africa and Namibia. At the same time, it is a challenging task for the government of these countries to create beneficiation policies to ensure the expansion of value chain in cutting and polishing sector by creating more jobs. They are also playing an important role to control the sale and distribution of rough diamonds in the world diamond market. Therefore, governments of these countries established a domestic sales channels for example, the state Diamond Trader (South Africa) and the Okavango Diamond Company (Botswana). According to this in country beneficiation, Botswana government allows De Beers to move their global sightholder sales to Gaborone, Botswana in 2013. This movement followed by sales and marketing agreement between De Beers and Botswana

government where included sorting and rough diamond activities, employees from London office moved to work in Botswana. Similarly, under this policy, same agreement exists between Namibia government and Namdeb Holdings, in South Africa- Black Economic Empowerment partner Ponahalo with the South African government. In summary, the aims of these countries government and stakeholders are to ensure the long term sustainability of the diamond industry (De Beers, 2014).

### **Economic factors:**

The exploration cost has been increasing therefore capital investment is required for many large scale development projects. Though large diamond companies wanted to invest in exploration but profitability of new diamond discovery remained abstract in terms of feasibility of the project. If billions of US dollars invest in exploration by large mining companies, there is no guarantee to discover economically feasible projects. Further, the global diamond industry facing pressures on exploration and consequently, capital expenses such as electricity, oil, gas, petrol or diesel which resulting on hold situation in different development projects.

In addition, the diamond jewellery retailers are facing pressures on both developed and developing markets. Especially, retailers from developed market failing to cover cost of capital which results negative returns because of weak economic environment, competition with branded luxury products, low and multiple price models exists in this sector. Further, the midstream companies such as cutting and polishing sectors are facing pressures on inventory and finance cost, these financial challenges are increasing critically over the coming years. As they are expecting banks will be applied more interest rates to the midstream companies. To conclude, the largest diamond producing countries migrating cutting and polishing jobs according to in country beneficiation but Southern Africa's cutting cost is higher than countries like India, China (De Beers, 2014).

### **Technological factors:**

The synthetic diamonds were discovered when it marketed in 2012. These diamonds were known as laboratory made diamonds which conflicts with the world diamond market. These diamonds were collapsed consumers confident and purchasing perception about naturally made diamonds. This news was shocked the customers and traders confidence when it compares with the naturally made diamonds. It was also revealed that, naturally mined producer for example; De Beers produced a new detecting equipment to identify lab-grown gems. Technology was an important factor on that time. However, De Beers and other independent laboratories developed a synthetic melee detector which was found authentic to screen automatically from large numbers of small diamonds. This equipment is working effectively in the pipelines where no synthetics were found after implementation of this equipment (De Beers, 2014; Stringer, 2014).



Further, the laboratory made diamond producers were introduced a "type IIa" quality few years ago diamond where they believed it is more natural than naturally mined diamonds. They also revealed that, these quality diamonds are "100% conflict free" and environmentally better than naturally made mined diamonds. Lastly, there are no available data of this synthetic type IIa diamonds to compare with other mined diamonds (Stringer, 2014).

### **Social and environmental factors:**

Health and safety, child labour are important factors for the mining industry. There are so many accidents are happening in African countries because of health and safety reason. Mineworkers are dying due to lack of health and safety policy. According to BBC (2014) report, there are so many child workers are involved with mining industry in African countries such as Zimbabwe, Sierra Leone and Angola. However, Global mining industry closely connected with the energy uses, emissions, biodiversity, global warming, and waste of water. It is also revealed that, there are some unfriendly environment in mining sector due to use of dangerous materials.

### **Legal factors:**

There are so many African countries are involved with the illegally traded to fund conflicts which is also called as 'conflict diamonds'. Sierra Leone, Ivory Coast, Angola are the most conflict African countries in the world global market. According to World Diamond Council (2014), less than 1% diamonds are conflict diamonds in the world diamond production though it was 4% in 1990. This was happened when Kimberley process implemented in 2003 and agreed by governments of the exporting and importing countries. This process was taken into action jointly when governments, United Nations, diamond industry and NGO's were agreed to prevent conflicts diamonds. However, according to Kimberly process, every party have to show and retain Kimberly process certificates in order to export or import of diamonds from conflict free sources.

On the other hand, the government and its law enforcement agencies has to be focused on criminals and taxation issues. These law enforcement agencies has been trying to restrict the rules and regulations of export or import of the diamond supply chain from beginning mining to cutting, polishing and then manufacturing of the diamond jewellery (De Beers, 2014).

### **Selection of Strategic methods:**

This part of this report will be demonstrated about different strategies in order to consider probability of success and fundamental strategic directions and methods adopted by the global diamond market. An organization has strategic choices to implement and formulate by considering strategic directions and methods (Nag, Hambrick and Chen, 2007). However, the global diamond market is facing few fundamental trends in terms of shape of the industry perspective. This will be affected value chain and remained constant when it compares to macro-economic outlook. Here are some strate-

gic applications applied to world diamond market and about diamond market in Botswana in order to make recommendations.

### **Operational Strategy:**

Operational strategies are related with the resources, processes and peoples, how an organization or industry deliver this to corporate and business level strategies effectively. These strategies largely upon depends on decisions need to be taken in order to growth of the business (Johnson *et al.*, 2012). However, operational strategies can be applied to upstream and midstream market of world diamond market.

For example, in the upstream market, technological advancements will be enabled supply chain to sell more diamonds and growth of the diamonds industry. It will also help mining production and companies to compare production status with the other mining production companies. The global diamond industry illustrates that the major discovery about mining industry not has been developed which is resulting less production. That is why there should be new initiatives need to be taken to discover new mining places and develop the global production. Therefore, it will be reduced the operational cost in order to increase productivity and healthier balance sheet (Dee Beers, 2014).

In addition, for the midstream market like in Botswana, there are new difficulties is mining production and accessible areas of diamond so that mining costs has been increased in order to get the diamonds from the deeper underground areas. At the same time labour and power consumption costs also been increased due to this reason. So that, they need to increase more value of the diamonds through taxes, royalties because they are facing low level of diversification in terms of other countries like India, China, and USA (Dee Beers, 2014).

### **Differentiation Strategy:**

According to Porter, differentiation strategy is the alternative of cost leadership with respect to their principal. It is involved with the uniqueness and sufficient value of the customer's value. But it depends on industry to industry in terms of size of the business or industry locations, fashions and safety. Management need to identify the potentiality of the market when they analyse the competitor's product or services so that they can make new perpetual map for them (Johnson *et al.*, 2011).

According to global diamond report (2013), diamond price was high in 2013 term but prices will be high in next few years. Though prices may increase but stability of the supply chain of the diamond industry will be remained balanced. But another report was published by Bain & company (2013), the diamond industry will be separated its cities to larger gap then before and supply of the diamond



will be declined. In addition, China, India, and United States will be expected to rise their supply and demand to 2% and 5% respectively (Dee Beers, 2014).

Further, diamond business is not only business but also a relationship between mining sectors to consumer. Consumers are plays an important part of this business and they must aware about the fact that social and environmental responsibility, human rights responsibility are the part of morality. Global diamond industry believes that, quality and price are most challenging internal part of this industry to make new strategic partnership. Consumers are `mostly dependent on the price and quality. Creating brands need to be more specified to attract the new customers. Now a days consumers are preferring top brand jewellery. That is why brands are important to give purchasing choice to the customers (Dee Beers, 2014).

World diamond council (2014) released an ISO 14001 which is standard of environmental certificate demonstrates to the mining sector of the diamond industry. Because of this commitment, now a days environmental pollution decreasing which is impacts on global nature. Therefore, it has been happened when any companies need to practice environmental management when they get certificate and invest more money for environmental stability.

#### **Market development:**

According to Johnson *et al*, (2011), market development offers the existing products to the new market but diversification varies in terms of product development. It is required to identify the market development strategies according to products and services. Sometimes strategies may fail for the new market but strategic capabilities progressed the market by developing product and services.

Sustainable economic environment need to be increased to develop the diamond market which is mostly important part for the diamonds industry. However, retail sector need to be developed in Debswana. Retail sector will be created job opportunities and long term values for this mining sector. Botswana government need to be focused on retail sector for long term sustainability of mining sector. Therefore, government need to implement regulations and some additional investment (De Beers, 2014).

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