

De Beers: Reverse-disrupting the Diamond Industry

When Bob Dylan took the stage at the 1965 Newport Folk Festival with an electric guitar in place of his usual acoustic instrument, the audience of folk-music purists booed his performance as a sellout of the traditional genre. The event organiser allegedly tried to cut the sound cables with an axe and, after only three songs, Dylan bowed off the stage.¹ A similar turn of events took place in May 2018 when De Beers, the world's largest natural diamond producer by value, announced it would start selling jewellery made with diamonds grown in laboratories. Pundits and established industry players loudly vented their angst and disapproval.² They feared that such a move would legitimise lab diamonds, reducing the appeal of and demand for mined ones.³

Lab-grown diamonds are man-made, but feature the same chemical composition, physical and optical properties as natural diamonds and can be graded against the same criteria; i.e., size, clarity, colour, and shape.⁴ The main difference is their origin as the former are created above ground, while the latter are extracted from the earth, where they formed millions of years ago. The technology for making diamonds was invented in the 1950s and perfected over several decades.⁵ By the late 2000s, the cost and quality of lab diamonds had improved to the point where they could be produced at scale and sold for use in jewellery.⁶

The attractive economics of diamond-tech fostered investments, particularly from Silicon Valley. A spate of startups began marketing lab diamonds as direct substitutes to natural ones, but at discounts of about 30%.⁷ Some players, such as Leonardo DiCaprio-backed Diamond Foundry, emphasised other benefits, such as the traceability and reduced environmental footprint of man-made diamonds.⁸ These arguments resonated with younger consumers as they began making first-time purchases of diamond jewellery, especially engagement rings.⁹ Although sales of lab-created diamonds accounted for only about 2% of the diamond jewellery market in 2018, supply was set to grow at 20% annually.¹⁰

Lab diamonds posed an existential threat to the diamond-mining industry.¹¹ In recent years, sales of natural diamonds had stagnated, while deposits continued to deplete.¹² Some traditional players had considered entering the lab-grown market, but desisted due to low entry barriers and high risk of cannibalising their sales.¹³ De Beers, whose revenues slipped to \$5.8 billion in 2017 but still controlled 34% of the world's supply of mined diamonds, took a different view. It decided to market lab-grown diamonds, aiming to segregate them in a distinct category.¹⁴ De Beers had ready access to diamond-making capabilities through its Element Six subsidiary, which had been manufacturing industrial-grade diamonds for more than 50 years.

Stefano Turconi is a Teaching Fellow of Strategy and Entrepreneurship at London Business School. Thomas Horton and Minerva Rojanapenkul are Research Contributors and London Business School alumni. The authors are grateful to Francesco Furlani and Juliette Premmereur for their help during the preparation of this case.

London Business School cases are developed solely as the basis for class discussion and are not intended to serve as endorsements, sources of primary data, or illustrations of effective or ineffective management

© 2019 London Business School. All rights reserved. No part of this case study may be reproduced, stored in a retrieval system, or transmitted in any form or by any means electronic, photocopying, recording or otherwise without written permission of London Business School.