

THE DIAMOND INSIGHT REPORT

2016

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**MILLENNIALS SPENT NEARLY
US\$26 BILLION ON DIAMOND
JEWELLERY IN THE FOUR MAIN
MARKETS LAST YEAR, ACQUIRING
MORE THAN ANY OTHER GENERATION.**

BRUCE CLEAVER



FOREWORD

De Beers first published its Diamond Insight Report in 2014. In the two years since, much has changed, but the strong diamond industry fundamentals remain the same.

2014 was a record year for consumer diamond jewellery demand and also a strong year for rough diamond demand.

2015, however, saw a more contrasting performance. While consumer diamond demand remained reasonably strong, rough diamond demand fell.

With the first half of 2016 showing signs of more stable conditions returning, it is clear that volatility in the diamond sector is not a short-term phenomenon, but the new normal.

The sector has shown itself consistently to be resilient – in the face of financial crises, fluctuating demand and increased competition from other luxury categories.

But the pace of change is quickening and, as a sector, we cannot look to the past for solutions to tomorrow's challenges.

As our research with Millennials shows, tomorrow's consumers are not the same as yesterday's. However, they do share many of the same views as older generations. It is perhaps because of this that diamonds are high on their wish list.

Indeed, they spent nearly US\$26 billion on diamond jewellery in the four main markets last year, acquiring more than any other generation.

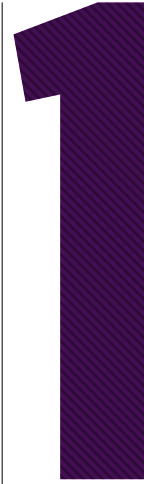
And, perhaps most encouragingly, Millennials are still 10 years away from their most affluent life stage, presenting a significant opportunity for the sector to capitalise fully on a generation comprising more than 220 million potential diamond consumers in the four main markets.

This year's *Diamond Insight Report* explores the diamond sector's fundamentals and the factors that are influencing them. I hope that it will help to provide clarity, direction and, of course, insight, in an ever-changing world.

BRUCE CLEAVER
CEO, DE BEERS GROUP

EXECUTIVE SUMMARY

In the two years that have passed since the publication of De Beers' inaugural Diamond Insight Report, the world has experienced continued economic uncertainty and moderate levels of economic growth. Over this period, diamond jewellery demand has remained strong. Indeed, it has been higher over the past three years than any other three-year period.



2016 DIAMOND INDUSTRY OUTLOOK

The diamond industry has faced recent challenges, particularly in 2015.

While global consumer demand slowed down, the midstream faced squeezed margins and working capital challenges – both of which impacted rough diamond purchases and sales.

Upstream, cost pressures increased as a larger share of production came from ever deeper mines.

Some of these trends are likely to continue over the next decade as volatility becomes the new normal as a result of fluctuating global growth.

Nine fundamental trends are likely to shape the industry over this period and these are explored in section one.

2

DIAMOND INDUSTRY VALUE CHAIN

After five years of uninterrupted value growth of global diamond jewellery demand – and following a record level in 2014 – demand (in US dollars) fell slightly in 2015 to US\$79 billion. This was due primarily to the stronger US dollar and slower growth in China and other emerging markets.

While consumer demand for diamond jewellery remained relatively robust in 2015, the trading environment for rough diamonds was tougher, with midstream businesses experiencing a range of interconnected issues that led to severe ‘inventory indigestion’.

However, a number of actions were taken by the industry to address issues related to supply, demand and profitability, and this has seen a return to more normal trading conditions in 2016.

2016 sees three new diamond mines begin production, which are expected between them to add around seven million carats annually to global production once fully operational.

3

IN FOCUS: MILLENNIALS AND THE FUTURE OF DIAMONDS

Despite experiencing less favourable economic conditions than preceding generations and progressing more slowly along the traditional life path, Millennials do express strong desire for diamonds when they reach financial and demographic maturity.

In 2015, Millennials spent nearly US\$26 billion on diamond jewellery in the largest four markets combined, representing 45 per cent of the total retail value of new diamond jewellery acquired in these markets.

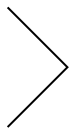
Demand for diamond jewellery from Millennials in the US alone rose from US\$10 billion in 1999 to US\$16 billion in 2015.

In the top four diamond jewellery markets of the US, China, India and Japan, which account for 73 per cent of global demand, the potential diamond buying Millennial market is more than 220 million people, 39 per cent of the diamond buying population in these four countries in 2015.

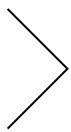
As such a large cohort, Millennials are already driving global consumer demand, yet they also represent a source of considerable future potential for the sector.

In order to unlock this potential the industry needs to find appropriate ways to engage Millennials’ inherent need for self-expression and interconnectivity.

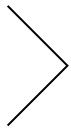
THE FUTURE AT A GLANCE



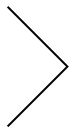
The diamond industry is likely to continue to experience increased sales and price volatility. Organisations across the value chain will need to improve the way they forecast and plan to navigate this trend successfully.



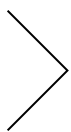
Consumer demand growth will continue to be generated from Asia, particularly China and India, driven by higher household income over the next 10 years, and the US, the world's largest market.



Millennials in all main markets are set to become the most important cohort for diamond jewellery purchases.



Continued innovation by retail in general, and competitive sectors in particular, will generate strong competition from other luxury and experiential categories; investment will be needed to safeguard and nurture the diamond dream and capture the opportunity presented by the growth potential in Asia, the US, and globally, by Millennials.



The midstream will continue to come under pressure periodically; financially robust and transparent diamantaires with scale, differentiated business models, and/or strong collaborations with downstream players are most likely to thrive.

-
- Beneficiation will continue to be a key driver in the geographic shift of the midstream to countries and regions where diamonds are mined.*
-
- The upstream will need continued focus on cost reduction and productivity improvements; innovation as well as strong, collaborative relationships with governments and other stakeholders will be increasingly important.*
-
- Diamond production will likely increase slightly in the short term and decline slowly after 2020, with large, economically viable new discoveries unlikely.*
-
- While consumer demand is currently negligible, the capacity to produce synthetics for gem applications will continue to expand and, over time, the cost and value of synthetic production will fall.*
-
- Across the value chain, innovation will remain critical – to strengthen the diamond dream and motivate sales, to develop new business models in the midstream, and to counter cost pressures in the upstream.*
-

2016 DIAMOND INDUSTRY OUTLOOK

The fundamental supply and demand trends of the diamond industry continue to be positive and, by acting to strengthen its competitive position, the diamond industry can anticipate a positive future.



In the two years that have passed since the publication of De Beers' 2014 *Diamond Insight Report*, new global and regional trends have been identified. The main changes relate to macro-economic trends in emerging economies, especially in China and India, as well as volatility in world economic growth forecasts.

These developments will demand that diamond industry participants strengthen their competitive capabilities even more through better planning and more investment in innovation and marketing.

A MORE VOLATILE FUTURE

Since 2014, the world has experienced moderate annual global growth at 2.5 per cent,¹ although this has been uneven across markets and is, in some regions, characterised by political uncertainty. Ultimately, consumer demand for diamond jewellery has remained strong; indeed, it has been higher over the past three years than in any other three-year period.

But there have also been industry challenges. While consumer demand for diamonds is still growing in the US, growth has slowed in China and declined in India. Midstream players faced fresh pressure in 2015, when inventory indigestion led diamantaires to destock, impacting rough diamond sales. Furthermore, diamond producers face increasing cost pressures as production comes from ever deeper mines.

Volatility is here to stay as global markets are likely to continue to fluctuate, potentially increasing the diamond industry's inherent volatility. Consumer preferences will continue to evolve, and innovation by global luxury brands and new online propositions will generate strong competition for the industry. The midstream will be required to continue its process of professionalisation, and the upstream will continue to face cost challenges. Fig. 1 sets out nine of the fundamental trends De Beers believes will shape the industry in the next 10 years.

FIG. 1: NINE FUNDAMENTAL INDUSTRY TRENDS

| | 1 | 2 | 3 | 4 |
|--------------------|---|---|--|---|
| TREND | ECONOMIC VOLATILITY | CONTINUED GROWTH IN DEMAND FROM EMERGING MARKETS | NEW CONSUMER PREFERENCES | RETAIL INNOVATION |
| DESCRIPTION | <p>Global economic growth will continue to be volatile, as businesses become more highly leveraged, markets become more interconnected, current account imbalances widen, foreign exchange fluctuates and geopolitical instability increases.</p> <p>The diamond industry is likely to experience increased volatility under any macro-economic scenario, relative to recent years.</p> | <p>Positive consumer demand growth is likely to continue to come from Asian consumers, particularly Chinese and Indian, driven by increasing household wealth over the next 10 years but at lower levels than previously assumed.</p> <p>Due to increasing international travel, national demand may not necessarily be domestic.</p> | <p>Consumer demographics will evolve, with retiring and elderly consumers expected to generate the majority of global urban consumption growth by 2030, and with Millennials becoming the largest age cohort in the US.</p> <p>Consumer preferences can be expected to change, with an increased focus on self-expression; as a result, design and branded jewellery will continue to increase in relevance.</p> <p>Economic empowerment will drive self-purchases especially among women, and demand for lower entry-point diamonds will rise.</p> <p>Consumers will continue to become more knowledgeable and push for ethical products with known provenance.</p> | <p>Continued innovation by global luxury players – especially in retail, omnichannel, attraction of international travellers, increased product offering (eg customisation) and more sophisticated consumer segmentation – will generate strong competition from other luxury categories.</p> <p>Retailers focused on branded diamond jewellery will be able to differentiate themselves from generic propositions.</p> |

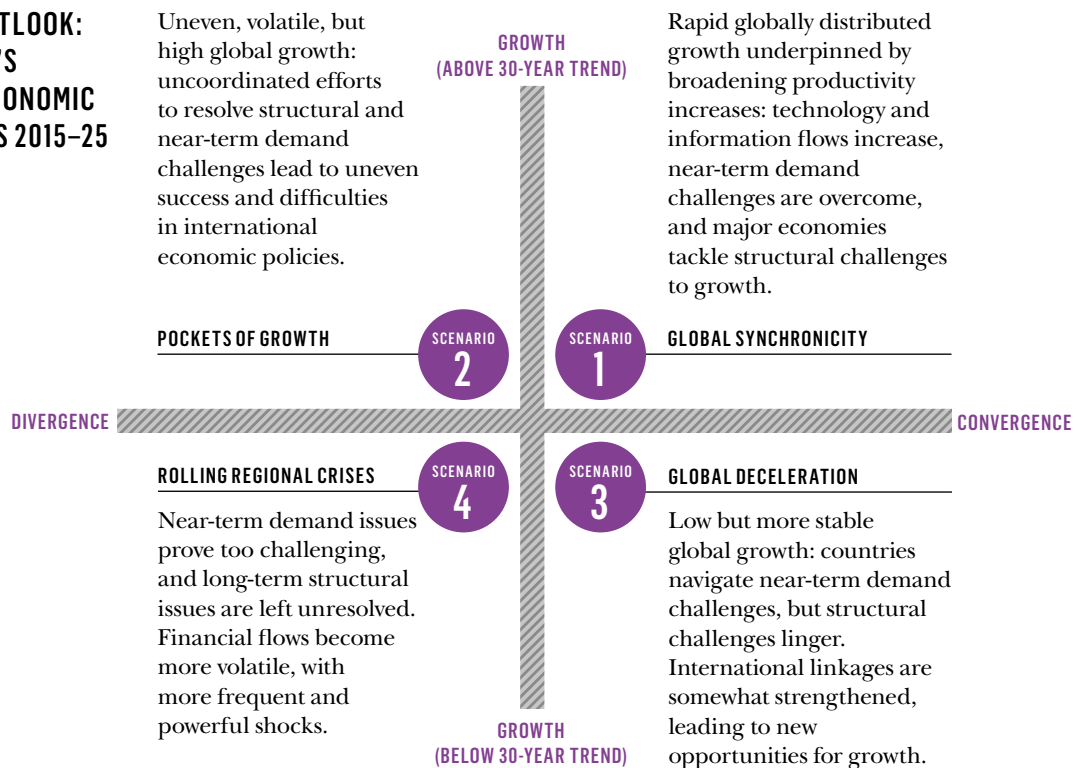
| 5 | 6 | 7 | 8 | 9 |
|--|--|--|---|--|
| <p>INCREASING PRESSURE ON THE MIDSTREAM</p> <p>Financing challenges are expected to persist, driven by tighter lending standards and less availability, placing additional pressures particularly on midstream players with outdated and unprofitable business models.</p> <p>Diamantaires will need to operate under increasingly rigorous professional standards, such as compliance with IFRS.</p> <p>There is expected to be increasing transparency of the supply chain through digitalisation, leading to potential disintermediation of players without value-added services.</p> <p>Retailers/jewellers are likely to demand more value added from their midstream suppliers.</p> | <p>HIGHER MINING COSTS</p> <p>A larger share of production is expected to come from ever deeper mines, which are complex and costly to operate; additional investment is required by producers to drive productivity.</p> <p>Unit capital cost is expected to continue to rise.</p> <p>In addition, unit costs of energy, labour and consumables are expected to increase.</p> <p>Fluctuations in foreign exchange and energy prices will cause higher cost volatility.</p> | <p>PREDICTABILITY OF ROUGH DIAMOND PRODUCTION FOR THE NEXT 10 YEARS</p> <p>Rough diamond production is expected to remain predictable and relatively stable over the next 10 years with a relatively sparse new project pipeline.</p> <p>It is expected there will be increases in the short term, given investments in the last 10 years.</p> <p>Large economically viable finds will remain unlikely.</p> | <p>PRESSURE FROM PRODUCING COUNTRIES TO MAXIMISE VALUE</p> <p>Diamond producing countries, in particular in southern Africa, will continue to look to maximise the value of the diamond assets.</p> <p>An expected rise in local beneficiation will likely put increasing pressure on midstream margins.</p> | <p>INCREASING CAPACITY TO PRODUCE SYNTHETIC DIAMONDS AT A LOWER COST</p> <p>While consumer demand is currently negligible, the capacity to produce synthetics for gem applications is likely to continue to expand.</p> <p>Over time, the production cost and value of synthetics are expected to reduce.</p> |

The diamond industry also faces a number of uncertainties. First among them is the overall macro-economic environment. The outlook for the industry and consumer demand is intrinsically linked to the strength of the global economy. Fig. 2 refers to the macro-economic scenarios published by McKinsey Global Institute² in 2015.

There are three additional uncertainties across the value chain that are likely to have significant implications for the industry:

- **Consumer attitudes to diamonds:** Over the next decade, consumer demand could continue to broaden as diamond jewellery retailers innovate and invest to keep diamond jewellery relevant for new consumer demographics; alternatively, new consumers could move away from diamonds if the industry fails to invest and innovate to keep diamonds relevant to them, and other experiential or luxury categories therefore become more relevant.
- **Supply of diamonds:** Though rough diamond production levels are likely to vary marginally around a known trend in the next decade, overall diamond supply may continue to expand slightly due to technological breakthroughs in diamond mining and in cutting and polishing as well as a greater supply of recycled diamonds.
- **Evolution of the distribution channel:** The next decade could bring increased corporatisation and consolidation to the midstream; alternatively, continued fragmentation and relative opacity could characterise the midstream.

FIG. 2: **MACRO OUTLOOK: MCKINSEY'S GLOBAL ECONOMIC SCENARIOS 2015-25**



Source: "Shifting tides: Global economic scenarios for 2015-25." McKinsey Global Institute. January 2016 update.

Overall, most sector observers remain positive on the fundamentals of the industry – recent analyst reports state that demand growth for diamonds will continue to outstrip growth in carat production, predicting low single-digit nominal demand growth in the medium term (Fig. 3).³ At the same time, it is clear that the macro and competitive environment will continue to be challenging and volatile.

THE IMPERATIVE OF PARTNERSHIPS

The diamond sector is used to tackling challenges. In the past, the industry has thrived due to its ability to create strong partnerships – today this characteristic remains more important than ever.

De Beers believes that consumer demand will continue to be the key source of value – and retailers, manufacturers and producers must work together to preserve

and enhance the diamond dream in established, developing and emerging markets and across all consumer segments.

This will require investment and innovation across the value chain – in new retail formats, value-adding strategies in the midstream, technological innovation to ensure continuous supply and creative partnership with producing countries and communities to ensure the benefits of diamonds reach everyone.

FIG. 3: PERSPECTIVES FROM TWO INDUSTRY ANALYSTS ON THE VALUE CHAIN

BANK OF AMERICA MERRILL LYNCH AND MORGAN STANLEY COMMENT ON VARIOUS ISSUES ACROSS THE DIAMOND INDUSTRY VALUE CHAIN

BANK OF AMERICA MERRILL LYNCH

DEMAND

Polished diamond value (in nominal US dollars) is expected to expand at a Compound Annual Growth Rate (CAGR) of four per cent between 2016 and 2022, driven by:

- Positive US consumer confidence indicators; however, high end retail under pressure.
- Five per cent per annum growth in China due to campaign against corruption and conspicuous consumption.
- Slow European recovery.

MIDSTREAM

Small margins, liquidity, and fragmented structure have put huge pressure on the industry:

- Credit will be increasingly constrained in the industry, leading to liquidity issues.
- Liquidity hole will remain, but will lead to bankruptcies and consolidation, benefiting the industry long term.

SUPPLY

Global supply of rough diamonds (in carats) is expected to expand at a CAGR of three per cent between 2016 and 2022, peaking in 2021:

- New exploration and finds can be expected to take place in ‘tougher’ postcodes, which involve political and physical difficulties.
- Improving technology however is optimising cutting and polishing so that greater yields are being realised year on year.

MORGAN STANLEY

DEMAND

Diamond jewellery sales are expected to grow at a four per cent CAGR (in nominal US dollars) between 2016 and 2021, driven by:

- US providing a solid core, contributing 42 per cent of polished demand.
- Weakening Chinese consumer sentiment on luxury goods due to the economic slowdown and recent volatility in the stock market.

MIDSTREAM

Pressure on midstream margins will be exacerbated by tightening financing and liquidation of polished diamonds, as cutters and polishers try to obtain any possible cash flow:

- Recognition (of corporate loan defaults by jewellers) may further curtail liquidity available to the midstream and reduce appetite for rough diamonds.

SUPPLY

Global supply of rough diamonds (in carats) is expected to expand at a CAGR of one per cent between 2016 and 2021:

- Diamond supply growth will reach a post-financial crisis high of 143 million carats, or only 13 per cent below the pre 2009 crisis peak of 168 million carats.
- This is driven by growth mainly in Canada (Gahcho Kué, Stornoway) and Russia (ALROSA and Grib reaching full capacity).

Source: “Global Diamonds Metals & Mining,” Bank of America Merrill Lynch, June 2016; “The PIPE – diamond intel,” Morgan Stanley, March 2016; “Why we’re less bullish than the street,” Morgan Stanley, April 2016.

DIAMOND INDUSTRY VALUE CHAIN

There was a slowdown in global consumer demand in 2015, but a positive outlook remains, with clear growth opportunities in all main diamond jewellery geographic markets.



DOWNSTREAM

2015 SNAPSHOT

After five years of uninterrupted growth in the value of diamond jewellery sales to consumers, and following a record 2014, demand for diamond jewellery measured in US dollars declined marginally in 2015 (Fig. 4). This was principally due to unfavourable currency movements and economic slowdown in China and other emerging markets.

The value of diamond jewellery sold to consumers in 2015 reached an estimated US\$79 billion – down from US\$81 billion in 2014, or a two per cent decline. This contrasted with

positive growth of three per cent in 2014. At constant exchange rates, global demand for diamond jewellery grew by some two per cent in 2015.

The US – the world’s largest market for diamonds – was the main driver of global diamond jewellery sales growth in 2015. That was mostly due to the economy’s sustained recovery and the strength of the US labour market.

At the same time, and after years of buoyant growth, 2015 saw consumer demand for diamond jewellery slow in China and decline in India. In China, the widely reported Chinese economic slowdown was the main

contributor to the slower growth in diamond jewellery sales, but a change in patterns of travel by Chinese consumers also played a role in the market’s performance. In India, the market decline was driven by a more restricted consumer credit environment and overall weakness in consumer spending.

Other markets saw declines in the value of their diamond jewellery sales, driven by unfavourable macro-economics and large devaluations of their currencies against the US dollar.

FIG. 4: DIAMOND JEWELLERY VALUE: GLOBAL GROWTH BY MAIN GEOGRAPHY

US\$ BILLION (NOMINAL) AND GROWTH IN %

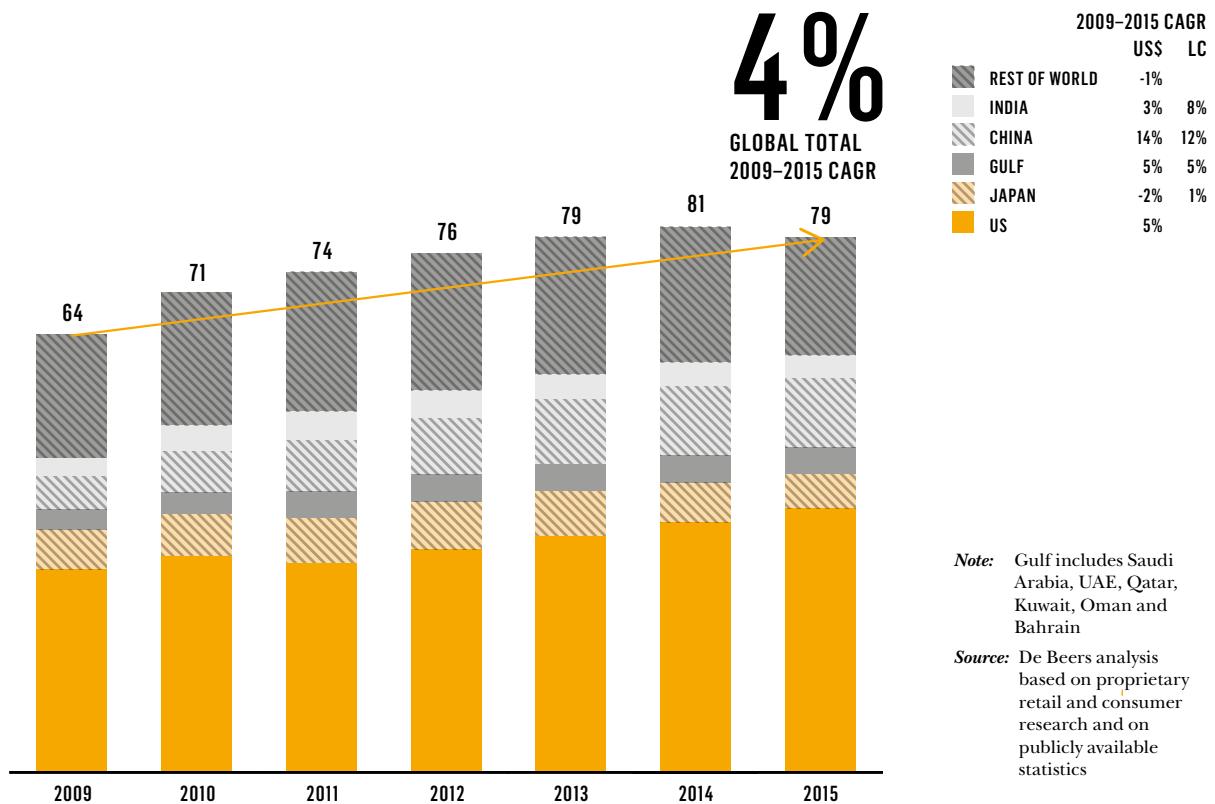
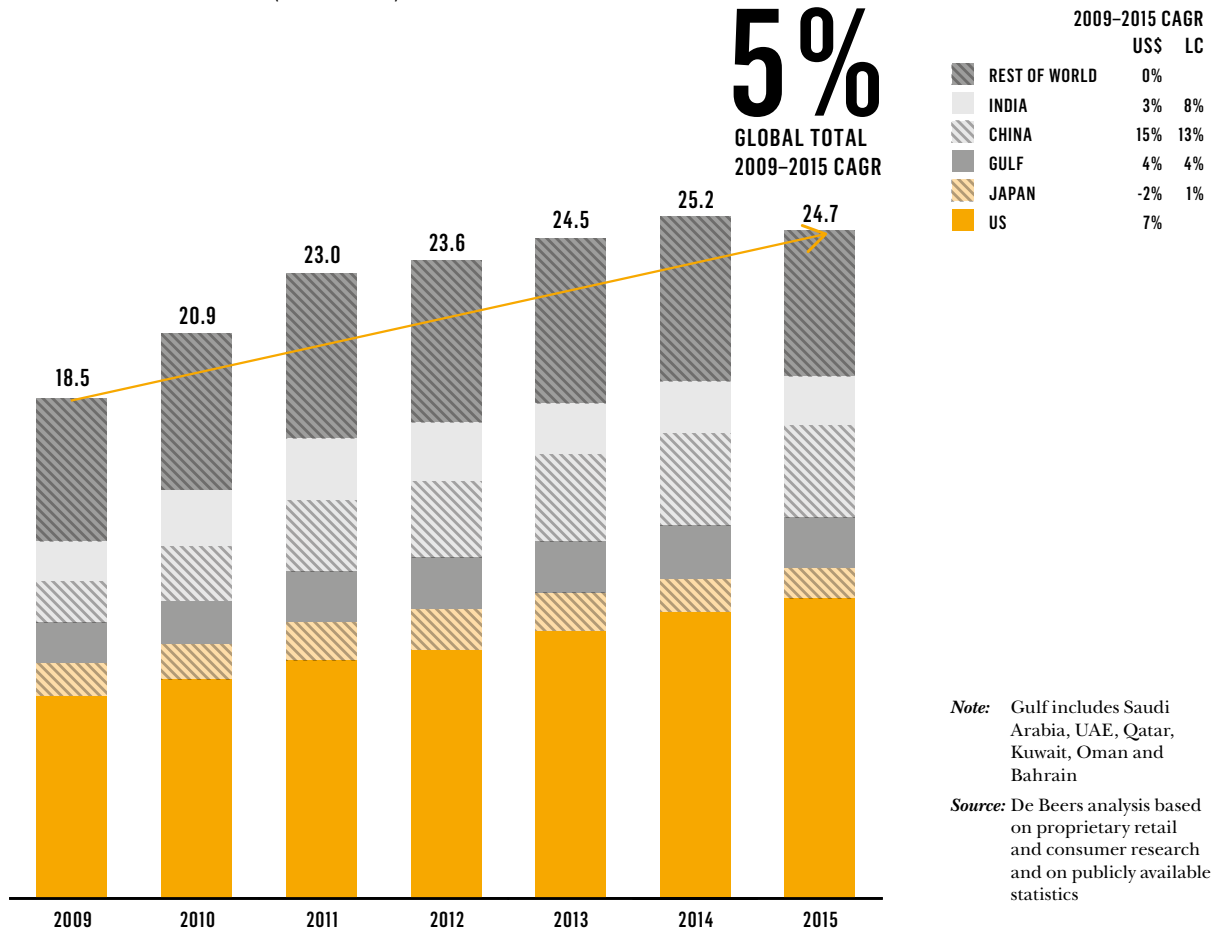


FIG. 5: POLISHED DIAMOND VALUE (POLISHED WHOLESALE PRICE): GLOBAL GROWTH BY MAIN GEOGRAPHY

US\$ BILLION (NOMINAL) AND GROWTH IN %



In terms of polished diamond content in jewellery sold to consumers,⁴ global value fell by two per cent in 2015 to US\$24.7 billion. That compares with growth of three per cent in 2014, at US\$25.2 billion (Fig. 5). The global figure masks some divergent trends within the main consumer geographies:

- In the US, polished diamond demand increased by five per cent (seven per cent in 2014) and surpassed US\$11 billion in value.
- Chinese consumers’ polished demand increased one per cent in US dollar terms (five per cent in 2014) to reach US\$3.4 billion.
- All other markets posted declines in the value of polished diamonds.

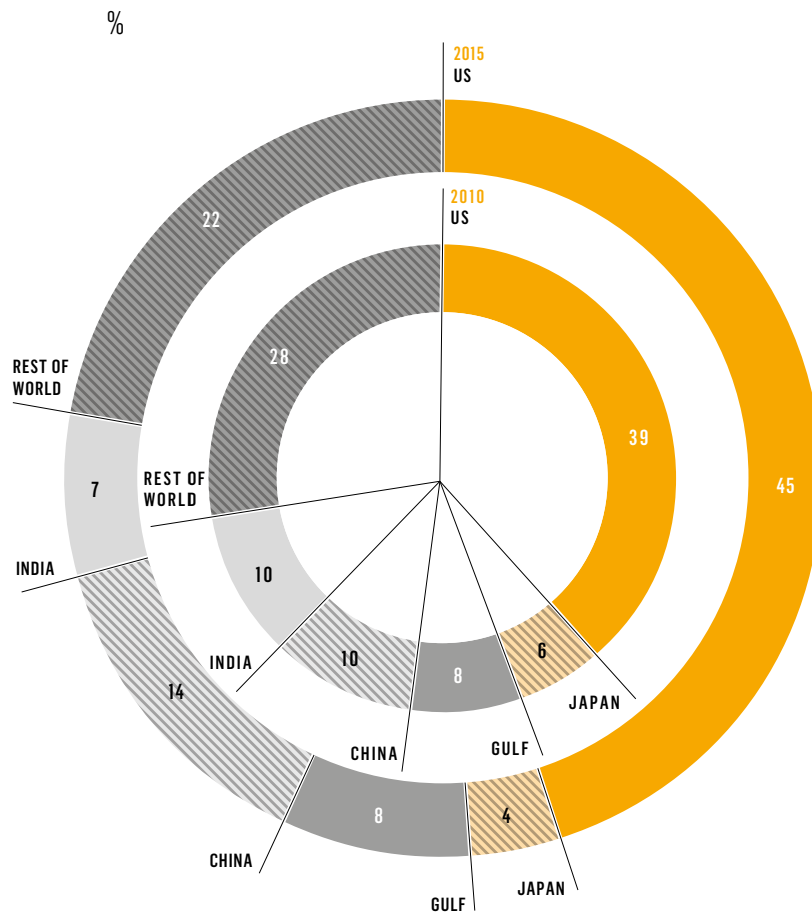
The last five years saw the gradual recovery of the US economy following the 2008–09 global financial crisis, and this market returned to the same share of the world’s polished demand that the country had last seen in 2004. In 2015, sales of polished diamonds to US consumers accounted for 45 per cent of global demand for polished diamonds, up from 39 per cent in 2010 (Fig. 6).

China has also gained relative share of sales since 2008–09. Mainland Chinese demand doubled its share from seven per cent share in 2008 to 14 per cent in 2015.

Changes in the share of polished diamond sales in 2015 were also affected by currency movements.

As approximately 45 per cent of global diamond jewellery sales take place in countries whose currencies are neither the US dollar, nor pegged to the US dollar, their share of demand in US dollars varies year-on-year depending on currency market trends. The sharp appreciation of the US dollar against almost all other currencies in 2015 helped countries with US dollar-linked sales gain relative market share.

FIG. 6: SHARE OF POLISHED DIAMOND DEMAND BY VALUE (POLISHED WHOLESALE PRICES IN US\$ TERMS): TOP FIVE GEOGRAPHIES AND REST OF WORLD



Note Gulf includes Saudi Arabia, UAE, Qatar, Kuwait, Oman and Bahrain

Source: De Beers analysis based on proprietary retail and consumer research and on publicly available statistics



LOOKING AHEAD

Macro-economic volatility has contributed to subdued global growth in consumer demand for diamond jewellery in the first half of 2016. The gradual adjustment of China’s economy away from investment-led growth to consumer-driven growth is still under way and volatility in Chinese demand can be expected in the short term. India’s path to more sustainable public finances will also involve initial adjustments to consumer spending. Japan and most

European countries are expected to continue to see subdued consumer demand growth, given the weakness in their macro trends.

By contrast, the US economy has continued to post strong growth in consumer spending and solid employment numbers. If the strength of the US economy leads the US Federal Reserve Bank to increase interest rates, more volatility in the currency markets could be the result.

With geopolitical risks perceived to be on the increase,⁵ in the short term industry participants will need to invest in resilience and potential growth areas to succeed.

In the medium to long term, demand for diamonds is expected to grow in real terms, provided the industry as a whole continues to invest to strengthen its competitiveness.

FOCUS ON THE US CONSUMER – A DYNAMIC MARKET WITH NEW SOURCES OF OPPORTUNITY

The bridal and married women gifting categories remain the backbone of the US diamond jewellery business, with 28 per cent and 37 per cent, respectively, of total demand value in 2015. But there are new growth opportunities as more women are buying diamond jewellery for themselves and younger consumers continue to show an increasing preference for brands.

As the largest (and consistently growing) diamond consumer market in the world, the importance of the US to the diamond industry cannot be overstated. A new, De Beers-commissioned survey of 18,000 US women aged 18–74⁶ shows how dynamic this market has been in the last two years.

A number of clear trends point to areas of opportunity for retailers, brands and other participants looking to capitalise on the strength of the American woman's love of diamonds. The top five trends and areas of opportunity are:

THE SINGLE WOMAN

01 While single women's acquisition levels increased slightly in 2015, their average spend soared by some 20 per cent compared with 2013 as they acquired more diamond-only earrings and necklaces and larger diamonds.

With the US marriage rate at historic lows⁷ and younger women delaying marriage,⁸ the rise in unmarried households⁹ has been well documented. The singles' demographic is thus expected to grow. The diamond jewellery industry must continue to engage with this segment, using a combination of relevant ideas for each age and income group to capitalise on its potential.

THE MARRIED WOMAN 'HEAVY OWNER'

02 Married women's diamond acquisition increased strongly in 2015 even though average prices remained flat. The married 35–54 age bracket increased its share of acquisition, as did those owning more than eight pieces of jewellery containing diamonds ('heavy owners').

The married woman 'heavy owner' continues to be the pillar of the non-bridal segment – she is happy to receive diamonds as a gift and to self-purchase. New ideas and designs will inspire her to return to diamonds again and again.

WOMEN'S SELF-PURCHASE

03 More women are buying diamond jewellery for themselves and, in particular, women in households with incomes above US\$75,000 per annum and 25–39 year olds. Diamond-only earrings and neckwear were more popular for those buying for themselves.

As women in the US continue to make gains in the labour force¹⁰ the self-purchase trend offers one of the clearest opportunities for future growth. Having a selection of diamond jewellery which appeals to the woman looking to celebrate a personal milestone, or to buy something special to reward herself, should become as much a focus for jewellers as bridal and other relationship milestone-related jewellery. This may require a degree of customisation, or a fresh focus on design.

DESIGN INNOVATION

04 Love and commitment continue to be the most important motivations for acquisition, but there has been a small increase in the proportion of people acquiring diamonds simply because they like a particular design. Combined with trends of single women acquisition, self-purchase and the younger woman's desire for self-expression, design appeal is expected to become more important in attracting new and repeat customers to the category.

BRANDS

05 While branded acquisition did not increase its share overall, this was not the case for the younger age groups. Amongst 18–34 year olds, there was another rise in preference for branded diamond jewellery; within that age range, 25–34 year olds showed a particularly strong affinity for brands.

Younger consumers' preference for brands offers retailers the opportunity to create a virtuous circle of higher margins and future growth. The right branded offer helps retailers strengthen their proposition to the women who have clear preferences when dreaming about their diamond. The higher margins generated by brands then help support investment in innovation and marketing, which in turn will strengthen retailers' proposition to consumers.

While the appeal of diamonds remains strong across all segments of the US female population, in particular as gifts, the 2015 research shows the desirability of a diamond for self-purchase has slipped slightly overall from seventh to eighth most desired purchase.

Another important way of keeping diamonds aligned to evolving consumer values is by providing responsibly sourced products. Responsible sourcing of diamonds is of high importance to more than a fifth (21 per cent) of US diamond engagement ring acquirers in 2015. The relevance of responsible sourcing is higher among the US Millennial generation (aged 18–34), compared with older age cohorts – while only two per cent of consumers over the age of 35 stay away from diamonds because they do not trust that they have been responsibly sourced, that proportion rises to seven per cent among Millennials.

In summary, the bridal and married women gifting categories remain the backbone of the US diamond jewellery business, accounting for 65 per cent of all sales (by value) of women's diamond jewellery in 2015 (this was 70 per cent in 2013). New areas of growth are clearly emerging: self-purchase and singles looking for diamond-only, more design-driven and responsibly sourced pieces, and discovering brands and new channels in search of a more experiential acquisition process and an opportunity for self-expression.

This applies in particular to the next generation of diamond jewellery consumers, aka the Millennials. In the midst of profound socio-economic changes in the US and worldwide, this edition of the *Diamond Insight Report* offers an in-depth analysis of this consumer segment and suggests ways in which the industry can secure its future by understanding the aspirations of this new generation (see In Focus section: Millennials and the Future of Diamonds).

DIAMOND JEWELLERY RETAIL

A revolution is sweeping the world of retail and diamond jewellery retailers will need to evolve and adapt to compete effectively.

2015 SNAPSHOT

The global retail sector is undergoing fundamental change, driven by a confluence of digital trends, changes in consumer behaviour and new operating models. Traditional retailers are having to adapt and evolve in the way they engage with consumers, and jewellery retailers are not immune to the effects of this revolution.

E-commerce – and Amazon® in particular (Fig. 7) – has reshaped many retail sectors by reinventing all aspects of the retail value proposition. The use of data to identify individual consumer preferences, and predict consumer behaviour, looks set to continue to fuel the growth of Amazon® and other e-retailers.

A wave of consumer trends – many enabled by new smartphone applications – is continuing to alter the retail landscape:

01 Online sales of luxury goods are still a small proportion of total sales (six per cent in 2014) but ‘research online, purchase offline’ was estimated at 60 per cent of sales for international luxury brands. As such, the expectation is that this industry will fully integrate its online/offline experience by 2020, increasing its ability to reach consumer and achieve higher sales.¹¹

02 The rise of social media has made consumers’ engagement with retail brands a two-way interaction. Internet commentators vie for the attention of consumers with fast and interactive content in blogs or vlogs, at the expense of traditional media (eg The Sartorialist®, The Blonde Salad®) and many brands now use Instagram® accounts as shop windows (eg Barney’s® New York).

03 The growth of mobile commerce is expected to drive exponential sales growth from mobile devices in the coming years. This is the next phase of development in the multi-channel sales trend.¹²

04 Consumers are increasingly valuing experiences over products alone. As a result, vendors have started to incorporate ways to tell ‘brand stories’ and offer shoppers new experiences from in-store cafés and bars to more personalisation and customisation options.

05 As with all retail, there is evidence in the diamond industry that US consumers are increasingly turning to non-traditional retail channels (eg Net-A-Porter®).¹³

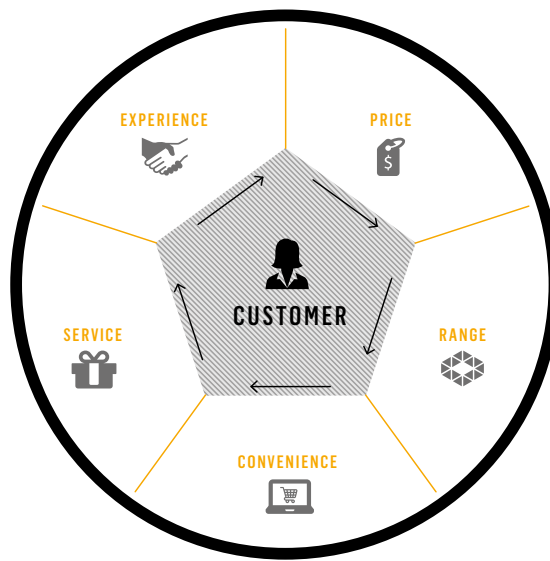
06 Consumer demand for branded diamond jewellery has been on the increase for a number of years, as consumers’ needs for individualisation and self-expression are better met by brands than generic products. For retailers, brands provide an opportunity for differentiating their propositions.

One example of a fast-growing, non-traditional channel is Net-A-Porter®, the online fashion retailer which launched its fine jewellery category¹⁴ in 2012. The company sells in 188 countries and caters to women purchasing jewellery for themselves.¹⁵ “It used to be that people only wore jewels to the opera or a gala dinner,” says Sophie Quy, fine jewellery buyer at Net-A-Porter. “It was taboo to buy for yourself, but today women are self-purchasing and wearing their spoils all day, every day.”

Net-A-Porter stocks 44 different jewellery brands with price tags ranging from US\$100 to upwards of US\$50,000; it uses its shoppers’ data to provide its (mostly niche) brands with insights into customer preferences so they can strengthen their offering. From its launch in February 2012 to March 2016, Net-A-Porter’s fine jewellery category has grown by “some 350 per cent”.¹⁶

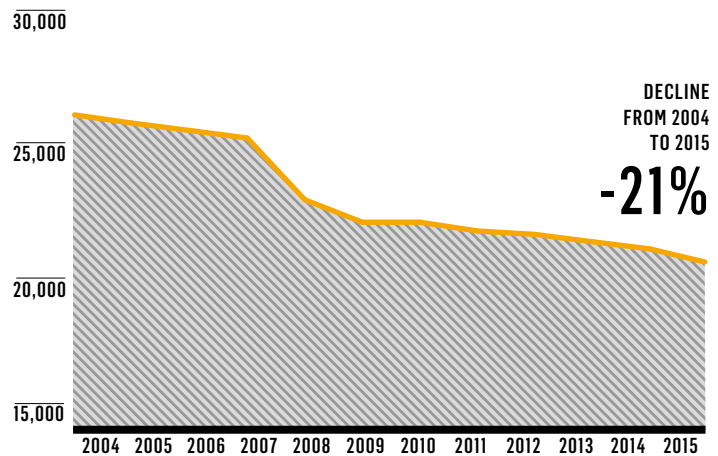
In summary, traditional jewellery retailers are having to face not only the challenges posed by fundamental changes to the retail and consumer landscape but also weaker growth and changing habits in China, India and other emerging markets. Alongside those changes, they have also had to deal with the effects of volatile foreign currency markets. For independent jewellers in developed markets, slow consolidation has continued (Fig. 8). The growth in new jewellery store openings in China and India has slowed in line with weaker demand growth, as reported in 2015’s *Diamond Insight Report*.

FIG. 7: AMAZON® RETAIL MODEL



Source: Eden McCallum

FIG. 8: NUMBER OF US JEWELLERY STORES



Source: US Bureau of Labor Statistics (BLS)



LOOKING AHEAD

Overall, jewellery retailers can take full advantage of the latest consumer trends:

- By defining their consumer targets and de-commoditising their offer through more branded and designed jewellery.
- By giving consumers access to a range of channels and brands, and allowing them to tell their own unique story through their diamond, via customisation and personalisation.

- By interacting with customers directly or through social media.
- By informing would-be buyers about the positive impact of diamonds on communities and countries where diamonds are mined and polished.

Retailers would also benefit from working more closely with their supply chain partners to improve the way they forecast demand, and to plan together sales programmes that will maximise returns,

minimise inventory imbalances and improve profitability.

The country-specific reports of the 2014 and 2015 *Diamond Insight Reports* (US, China, India), and the review of the US market and the global Millennial consumer in this edition of the *Diamond Insight Report* provide retailers and their suppliers with a wealth of insights to help them plan and focus on the most promising areas of growth for the industry.

MIDSTREAM

Following a challenging year in 2015, more normal trading conditions have returned to the diamond industry's midstream in the first half of 2016 as a result of the actions taken to address inventory indigestion.

Sustained success is likely to require ongoing efforts from midstream businesses to reduce their risk profiles, to enhance their use of technology, to strengthen their B2B brands and to develop their interactions with downstream customers.

2015 SNAPSHOT

While consumer demand for diamond jewellery remained relatively robust in 2015, the rough diamond trading environment was tougher, making it a much more difficult year for the diamond industry's midstream businesses.

These traders, cutters, wholesalers, polishers and jewellery manufacturers saw a number of interconnected issues lead to severe inventory indigestion in the industry pipeline (Fig. 9).

In light of the challenges relating to supply, demand and profitability, a number of responses helped to normalise trading conditions.

Upstream, the major diamond producers responded to the reduced demand for new rough diamond supply by either reducing production or selling less production.

They also provided customers with greater supply flexibility, enabling them to defer purchases that had been set out in buying plans without any impact on future supply levels. Cutting centres also played a key role in rebalancing midstream inventories by sharply reducing their manufacturing output during this period.

Meanwhile, downward adjustments to rough diamond prices, coupled with reduced rough diamond production, helped with midstream participants' profitability issues.

On the demand side, De Beers invested heavily in additional category marketing activities in the US and China. It also launched a new Forevermark campaign. Combined with the investments in diamond marketing from other major brands and retailers, these actions stimulated consumer demand for diamond jewellery strongly enough to trigger a significant increase in footfall and sales over the all-important holiday selling season.

As a result of these actions, the first half of 2016 has seen rough diamond demand improve, with midstream businesses replenishing inventories that were depleted by holiday season sales.

FIG.9: 2015 MIDSTREAM CHALLENGES

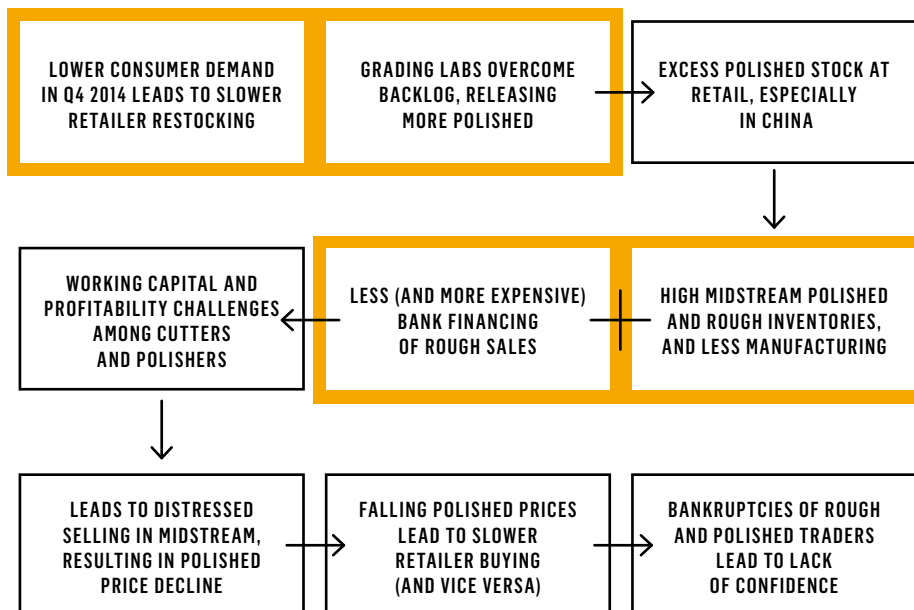


FIG. 10: KEY DEVELOPMENTS IN MIDSTREAM FINANCING

ASSET SECURITISATIONS

In addition to some existing programmes, new securitisation vehicles have been launched by midstream businesses in 2016 with receivables acting as the underlying assets for the securitisation.

PACKAGED FINANCE PROGRAMMES

A leading insurance firm is brokering its own packaged finance solutions for midstream players, placing an insurance 'wrapper' around conventional midstream assets (ie stock, receivables) and offering these as commercial paper to capital market investors. Another financing entity is exploring a similar solution for rough purchase finance.

NOTES ISSUES TO THE CAPITAL MARKETS

A notes issue to finance inventory has proven to be successful in raising significant funding. Meanwhile, working capital assets have also been successfully packaged into commercial paper.

SYNDICATION DEALS

A leading lender to the industry co-ordinated the issuing of a syndicated loan in 2015 for a major midstream business, which in turn attracted several new lenders into diamond financing.

BOND ISSUES

A recently reissued bond placed by a financial institution for a midstream business was fully subscribed.

Increasingly, midstream players are likely to draw their funding from hybrid models, including elements of traditional bank finance as well as participation in other more progressive options.

LOAN GUARANTEES

The Overseas Private Investment Corporation (OPIC), the US Government's development finance institution, signed a loan guarantee that will help Botswana develop its diamond manufacturing sector by making further financing available to businesses with cutting and polishing factories in the country.

**LOOKING AHEAD**

The events of 2015 crystallised many of the risks and pressures that midstream diamond businesses can face. The issues of finance, technology, reputation and differentiation look set to continue being of paramount importance in shaping the future of midstream participants.

CHANGES IN THE FINANCING LANDSCAPE

A host of new compliance pressures (from banks, regulators and rough diamond suppliers) require midstream diamond businesses to adopt international standards of financial transparency to maintain their business activities. This brings

with it a need for greater financial robustness, as banks and suppliers generally seek commercial relationships with the businesses that present them with the lowest risk.

Improved financial robustness would also position midstream operators more strongly in an environment where volatility is the new normal. Those with stronger balance sheets will be better able to ride out periods of depressed demand without the need to liquidate inventories cheaply, and will have greater ability to capture opportunities in a rising market.

The adoption of new forms of financing also appears set to change

the way the midstream operates (Fig. 10). If bank lending remains restricted, then businesses that can find alternative and competitively priced sources of funding will gain a strong competitive advantage.

A sharper focus on financial efficiency could also play a significant role in shaping the future of the cutting centres. Over-generous credit terms have often been the norm in the middle of the diamond value chain, but, in an environment where funding is under pressure and 'cash is king', businesses may see that the benefit of a more efficient cash cycle can outweigh the perceived advantage of competing for custom on the basis of extended credit terms.

FIG. 11: HOW TECHNOLOGY DEVELOPMENTS MAY BENEFIT MIDSTREAM BUSINESSES

AUTOMATED CUTTING AND SHAPING TECHNOLOGY

This has the potential to boost efficiency and consistency in the manufacturing process.

It also provides an opportunity to reduce the lag between the purchase of rough diamonds and the sale of the resultant polished stones.

It will likely be especially useful for businesses with factories in diamond producing countries where there is a focus on improving productivity.

This could become increasingly important as the momentum for cutting and polishing operations moving to producer countries appears set to continue in the coming years. De Beers' recent Sales Agreement with the Government of the Republic of Namibia, as well as its Enterprise Development Project for Diamond Beneficiators (in partnership with the South African government and the South African diamond cutting industry), also highlights this trend.

SYSTEMS THAT ENABLE BETTER INTEGRATION BETWEEN SUPPLIERS' AND RETAILERS' INVENTORIES

These have the potential to deliver significant benefits to midstream players' ability to forecast demand.

They could also enable more efficient inventory management, thereby reducing the risk of a repeat of the indigestion seen in 2015.

FIG. 12: HOW MIDSTREAM BUSINESSES MAY ENHANCE THEIR BRAND TO DOWNSTREAM PARTICIPANTS

Strong brand propositions will be especially important for midstream players when working with downstream operators to prevent the commoditisation of diamonds at retail. This has been a growing problem due to increased online price transparency, more focus on grading reports and a dearth of compelling brand stories.

Midstream businesses that can offer retailers the opportunity to purchase products that are accompanied

by a narrative that makes them stand out for something other than price (such as design innovation, traceability of product through the pipeline, or extraordinary craftsmanship) will have a substantial advantage over those providing undifferentiated offerings.

Offering retailers support on co-brand building and global category trends may also make midstream players more valuable to downstream partners. Many smaller

retailers value their midstream suppliers' support with store design, explaining product stories and industry insights.

These kinds of collaborative approaches also offer midstream businesses the opportunity to establish more sustainable supplier-customer relationships, which can be challenging to achieve due to midstream fragmentation and the highly competitive landscape.

THE GROWING IMPORTANCE OF TECHNOLOGY

The wide range of technological developments in the diamond sector means there is a great degree of potential for midstream firms in this area: there could be increased commercial opportunity, for example, for businesses that focus on new technology in areas such as automated cutting and shaping and online inventory systems (Fig. 11).

Technologies focusing on the detection of synthetic diamond material, and on 3D printing in the diamond jewellery manufacturing process, are also likely to be significant areas of interest. Additionally, businesses that can effectively use technology to gather

and analyse relevant data to gain insight on customer needs, consumer trends and business performance will be strongly placed.

REPUTATION AND DIFFERENTIATION: THE ROLE OF THE B2B BRAND

With growing pressure from industry stakeholders (including consumers, banks, rough diamond suppliers and retailers), midstream participants will increasingly need to consider their reputations as a vital element of their B2B brand.

Higher ethical and professional standards (and the ability to provide evidence of them) are becoming more of an expectation than a 'nice-to-have' extra. The increased attention on the

risk of undisclosed synthetics is also likely to continue, so businesses that can demonstrate their brand's focus on product integrity stand to benefit.

The development of strong B2B brand equity is also likely to be important in other ways: a firm's ability to differentiate its offering will be increasingly important in a fragmented, competitive part of the value chain. Some midstream businesses are likely to have continued success by selling to other midstream players, and differentiating themselves on the basis of a technical offering (such as product specialisation or tailored assortment). Others will see more success by supporting the ability of their retailer customers to tell compelling brand stories (Fig. 12).

FIG 13: INDUSTRY ANALYST INTERVIEW



PANMURE GORDON & CO

*Kieron Hodgson, Commodity
and Mining Analyst*

Q WHAT IS YOUR VIEW ON THE ACTIONS THE INDUSTRY TOOK IN 2015 TO ADDRESS THE INVENTORY ISSUE?

Our view on the actions taken by the major producers last year was a rare example of industry participants realising that something had to be done. At the time, inventory levels were too high, with fear and despondency dictating sentiment and transactions. Looking back, the actions were successful to a point; however, as inventory levels creep up again, should they reach the levels as before, would similar actions be taken? We hope so.

Q WHAT SHOULD MIDSTREAM BUSINESSES FOCUS ON IN THE NEAR FUTURE?

Without wanting to dictate to those who are perfectly able to manage their own businesses, we feel the risk to the availability of reasonable commercial lending facilities remains a major risk to growth. However, within this argument, manageable leverage ratios and higher equity investments tend to reduce the risks inherent to cyclical businesses. We also feel that increased consolidation throughout the midstream may in turn strengthen the negotiating hand when considering the relative margins at the midstream level, versus those at the industry's book-ends, producers and retail.

Q WHAT IS YOUR VIEW ON THE FUTURE OF INDUSTRY FINANCING?

While ADB and Standard Chartered reducing their exposure to the diamond industry is undeniably concerning for many, it does clearly point to one conclusion: returns are not high enough for the risks taken. For lenders to increase their willingness to provide capital, at least one of two outcomes will be required: higher returns or lower risk. We therefore believe the industry will need to reduce its risk profile and, while this can be done through a myriad of processes, most likely this would be delivered by increasing financial transparency, reducing long term average inventory levels, continuing to close non-economic enterprises and decreasing overall debt ratios, most probably through lower leverage ratios and higher equity contributions.

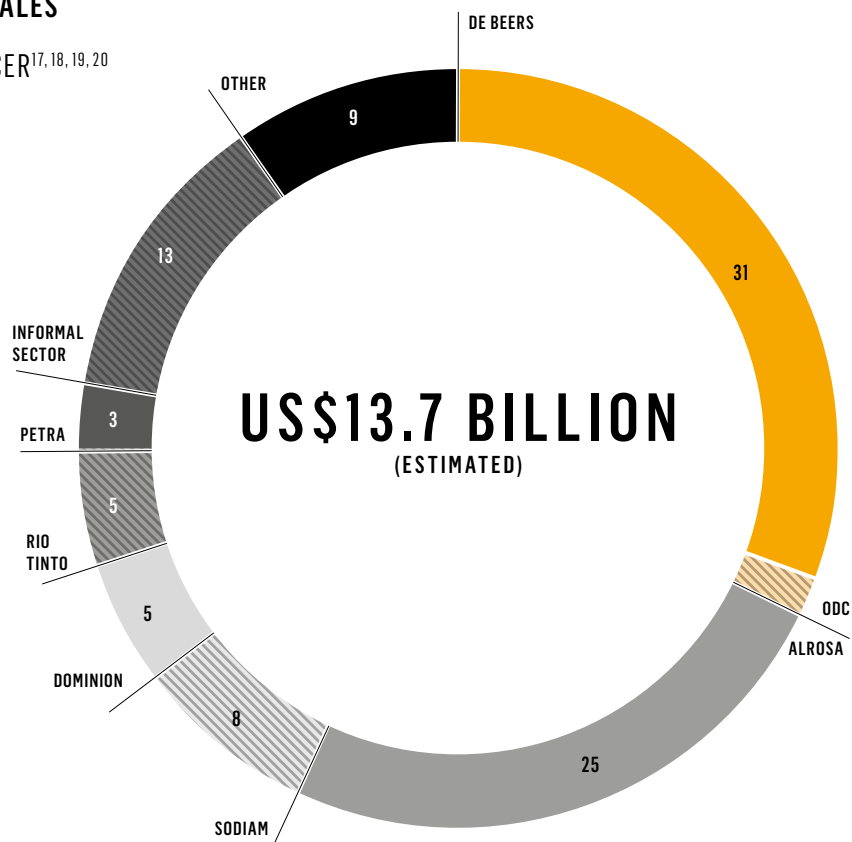
Q DO YOU THINK THERE HAS BEEN A FUNDAMENTAL CHANGE IN HOW INVENTORY IS MANAGED ACROSS THE VALUE CHAIN?

Inventory (and how it is managed) is likely to be a key determinant of the prosperity of the industry for the next generation. And, put simply, the midstream cannot be relied upon to warehouse the output from producers and be there to satisfy the needs and wants of the retailers who are in turn ensuring their balance sheets are as efficient as possible. The possible outcome of a lower, more just-in-time approach to inventory is a significant increase in price volatility and possibly speculation on future category shortages.

UPSTREAM

Rough diamond sales declined in 2015 with some producers reacting to weakened demand by reducing production over 2014 levels. However, investments made in the past 10 years should see production increase in the short to medium term before stabilising.

FIG. 14: **ROUGH DIAMOND SALES**
% VALUE BY PRODUCER^{17, 18, 19, 20}



Source: Company Reports and De Beers' estimates

ROUGH DIAMOND SALES

Global rough diamond sales to cutting centres fell by some 30 per cent between 2014 and 2015, to an estimated US\$13.7 billion. De Beers remained the largest supplier of rough diamonds by value, albeit with a reduced share of sales of 31 per cent (from 35 per cent in 2014). This includes the approximately two per cent of global rough diamond sales made by Diamond Trading Company Botswana (a joint venture between De Beers and the Government of the

Republic of Botswana) to Okavango Diamond Company, the Government's diamond trading company.

ALROSA was the second-largest supplier of rough diamonds, with 25 per cent market share by value (compared with 26 per cent in 2014). Other major suppliers were SODIAM (which sells Angola's total rough diamond output) with an eight per cent share (2014: seven per cent), Rio Tinto, with a five per cent share (as in 2014), Dominion Diamond

Corporation, also with an unchanged five per cent share and Petra Diamonds with three per cent (the same as 2014) (Fig. 14).

MORE ROUGH DIAMONDS ARE BEING SOLD LOCALLY

The trend toward more in-country beneficiation continued during the past year, with the signing of a milestone, 10-year agreement between the Government of the Republic of Namibia and De Beers for the sorting, valuing and sales of production from Namdeb Holdings.

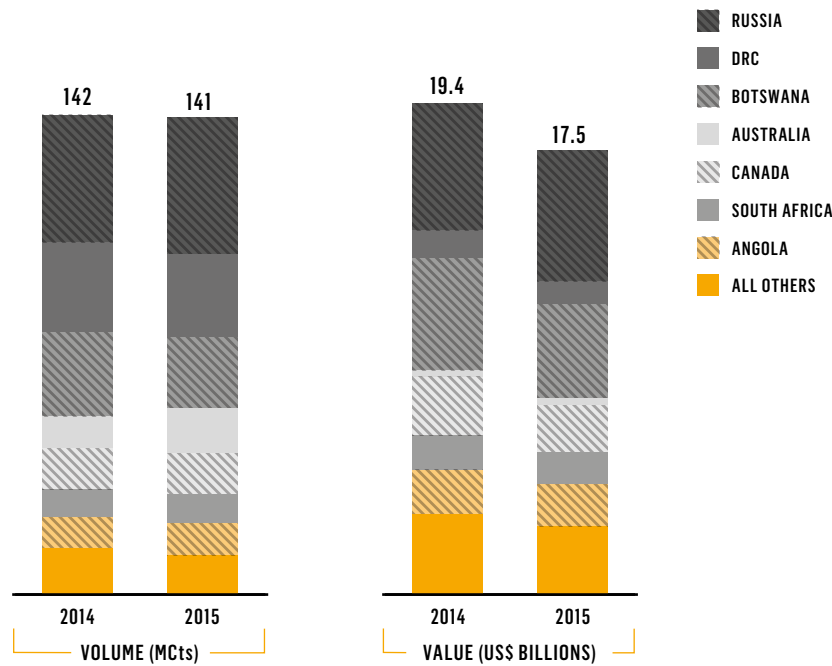
This deal will see Namibia benefit from more rough diamonds being made available for domestic beneficiation, with US\$430 million of rough diamonds being offered annually to Namibia Diamond Trading Company customers. All Namdeb Holdings' special stones will be made available for sale in Namibia.

In addition, 15 per cent of Namdeb Holdings' run-of-mine production will be made available for sale by an independent, government-owned sales company called Namib Desert Diamonds Pty Ltd.

Rough diamond producers have continued to support local beneficiation. In South Africa, for example, De Beers launched the

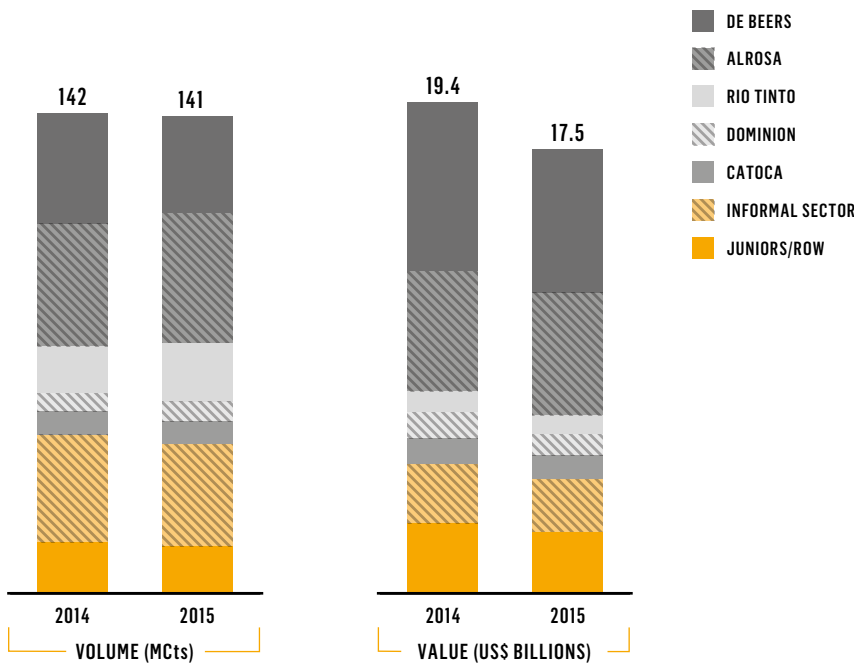
Enterprise Development Project for Diamond Beneficiators, which aims to help grow and transform the diamond cutting and polishing sector. The programme also sees De Beers offer rough diamond assortments to participants while they are part of the development scheme. On completion, they may be able to apply to become Accredited Buyers of De Beers before ultimately being able to apply for Sightholder status, enabling them to compete with leading diamond companies around the world.

FIG. 15: ROUGH DIAMOND PRODUCTION BY PRODUCING COUNTRY



Source: Company Reports and De Beers' estimates. Production value is measured by reference to De Beers' analysis

FIG. 16: ROUGH DIAMOND PRODUCTION BY PRODUCER



Source: Company Reports and De Beers' estimates. Production value is measured by reference to De Beers' analysis

ROUGH DIAMOND PRODUCTION

De Beers estimates total global rough diamond production was worth US\$17.5 billion in 2015, 10 per cent lower than in 2014 (Fig. 15). However, in carat terms, global rough diamond production declined by less than one per cent to 141 million carats.

The largest-producing countries in volume terms were Russia with a 29 per cent share (which compares with 27 per cent in 2014); the Democratic Republic of Congo with 17 per cent (19 per cent in 2014); Botswana with 15 per cent (18 per cent in 2014); Australia with 10 per cent (seven per cent in 2014), and Canada with nine per cent (unchanged since 2014).

Russia also remained the largest-producing country in value terms, with a 29 per cent share of the total value produced in 2015 (slightly above the 26 per cent it had in 2014). Botswana was the second-largest producer in terms of value, with 21 per cent (in 2014 it was 23 per cent), followed by Canada, with 10 per cent (12 per cent in 2014). Angola, with an unchanged nine per cent, and South Africa with seven per cent, also the same share as in 2014, completed the list of top-producing countries by value.

De Beers and ALROSA were again the two largest-producing groups in both volume and value terms. De Beers' share of production volume was 20 per cent in 2015 (down from 23 per cent in 2014), second to ALROSA, which had 27 per cent (up from 26 per cent in 2014).

Rio Tinto was the third-biggest producer by volume, with a 12 per cent share (10 per cent in 2014) followed by Catoca with five per cent (the same as in 2014); and Dominion Diamond Corporation with four per cent, also unchanged from 2014.

In value terms, De Beers remained the largest producer with a 32 per cent share of value in 2015, compared with 34 per cent the previous year. ALROSA was the second-largest with 28 per cent, up from 25 per cent in 2014. Catoca was the third-biggest producer by value with a five per cent share (unchanged from 2014) followed by Dominion Diamond Corporation, also with five per cent (no change from 2014) and Rio Tinto with four per cent (also unchanged from 2014) (Fig. 16).

FIG. 17: **GREENFIELD PROJECT PIPELINE**
(INDICATIVE – PER COMPANY REPORTS)

| DEPOSIT NAME | OWNER(S) | DISCOVERER AND YEAR OF DISCOVERY | COUNTRY | STATUS | ESTIMATED FIRST PRODUCTION | ESTIMATED AVG. ANNUAL PRODUCTION (MCTS) |
|--------------------------------|--|--|---------|-----------------------|----------------------------|---|
| GAHCHO KUÉ | DE BEERS 51%/ MOUNTAIN PROVINCE 49% | INUKSHUK CAPITAL CORP/MOUNTAIN PROVINCE 1995 | CANADA | RAMP-UP | 2016 | 4.5 |
| RENARD | STORNOWAY | ASHTON MINING/ SOQUEM INC 2001 | CANADA | RAMP-UP | 2016 | 1.6 |
| LIQHOBONG MAIN TREATMENT PLANT | FIRESTONE | BASUTOLAND DIAMONDS LIMITED 1957 | LESOTHO | CONSTRUCTION | 2016 | 1.0 |
| DALNAYA PIPE | ALROSA | ALROSA 1955 | RUSSIA | PRE-FEASIBILITY STUDY | 2017+ | 0.3 |
| VERKHNE-MUNSKOYE | ALROSA | ALROSA 1956 | RUSSIA | FEASIBILITY STUDY | 2018 | 2.0 |
| ZARYA PIPE | ALROSA | ALROSA 1973 | RUSSIA | FEASIBILITY STUDY | 2020+ | 0.2 |
| STAR-ORION SOUTH | SHORE GOLD INC. 82%/ NEWMONT CANADA 18% | URANERZ 1988 | CANADA | FEASIBILITY STUDY | 2020+ | 1.7 |
| BUNDER | TBD | RIO TINTO 2004 | INDIA | CURRENTLY CLOSED | 2020+ | 2.0 |
| CHIDLIAK | PEREGRINE DIAMONDS | PEREGRINE 2008 | CANADA | PRE-FEASIBILITY STUDY | 2020+ | 1.2 |

Source: Company Reports and De Beers' estimates of timing of first production



LOOKING AHEAD

2016 sees two new diamond producers commence production: Mountain Province Diamonds with the Gahcho Kué mine, in partnership with De Beers, in the Northwest Territories of Canada, and Stornoway Diamonds with the Renard mine in Quebec, Canada.

De Beers announced the commissioning of the Gahcho Kué plant in August 2016. The mine is expected to produce an average of 4.5 million carats per year once fully operational. Renard began production in the third quarter of 2016; annual production is expected to average 1.6 million carats. These two projects are expected to contribute to an

increase in rough diamond production in the medium term.

However, beyond the three new mines in 2016 (Gahcho Kué, Renard and Lihobong Main Treatment Plant), the greenfield pipeline is limited (Fig. 17).

Despite a sparse greenfield project pipeline, there are a number of brownfield expansion projects under construction, with production set to start in the medium term. Dominion Diamond Corporation announced earlier this year that it will proceed with the development of the Sable and Jay pipes at the Ekati mine in Canada, extending the life of production at the mine until 2033.

Rio Tinto and Dominion Diamond Corporation are developing the A-21 pipe at Diavik, also in Canada, which is expected to begin producing in 2018 and extend production life at the mine to 2023.

De Beers is also extending the life of some of its major assets. The Cut-8 project at the Jwaneng mine in Botswana will begin producing diamonds in 2017, while the development of the Venetia underground project in South Africa is expected to extend production life at that mine beyond 2040.

IN FOCUS

MILLENNIALS AND THE FUTURE OF DIAMONDS

Globally, Millennials are the largest consumer market for diamond jewellery – a generation which will soon reach its maximum earning potential.



A POPULOUS GENERATION ON ITS WAY TO REACHING ITS TOP-SPENDING CAPACITY

INTRODUCING THE MILLENNIALS

Everyone is talking about the Millennials because of the considerable size of this age cohort and the fact that this generation is due to reach its most affluent life stage in about 10 years' time (Fig. 18).

This report is a unique in-depth exploration of the Millennial generation, from a diamond-specific perspective. It draws on original research commissioned by De Beers in the top four diamond markets in the world – US, China, India and Japan – where more than 75,000 women were interviewed over the past three years to find out more about their desire for diamonds, their diamond acquisition behaviour and the drivers behind it.

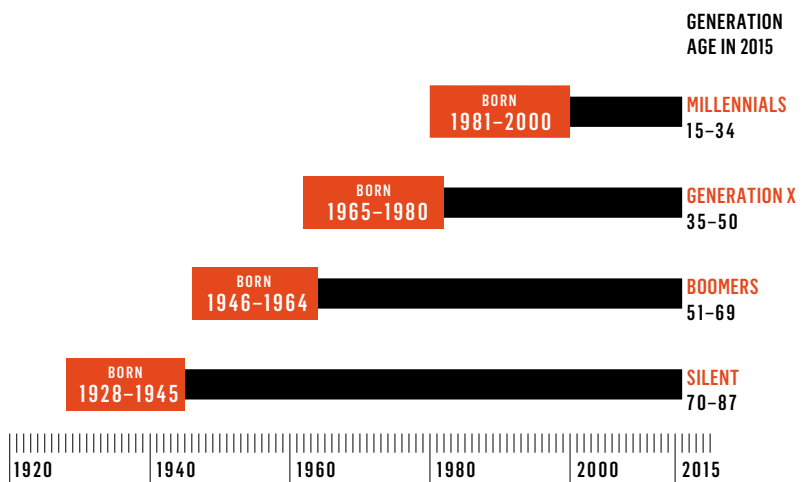
This report compares Millennials' relationship with diamonds with insights gained from consumers of the same age group in the 1990s, to build a long-term picture.²¹

In the top four diamond markets of the US, China, India and Japan, which account for 73 per cent of global diamond jewellery demand, the number of Millennials (men and women) approach one billion. Of this number, more than 220 million²² have the level of affluence allowing them to be actual consumers of diamond jewellery.

While Millennials in these four very different countries display their own national and cultural characteristics, they also share values and contribute to the same consumer trends across geographies.

This chapter examines Millennials' attitudes and aspirations and considers how these translate into desirability and demand for diamonds in the US, China, India and Japan.

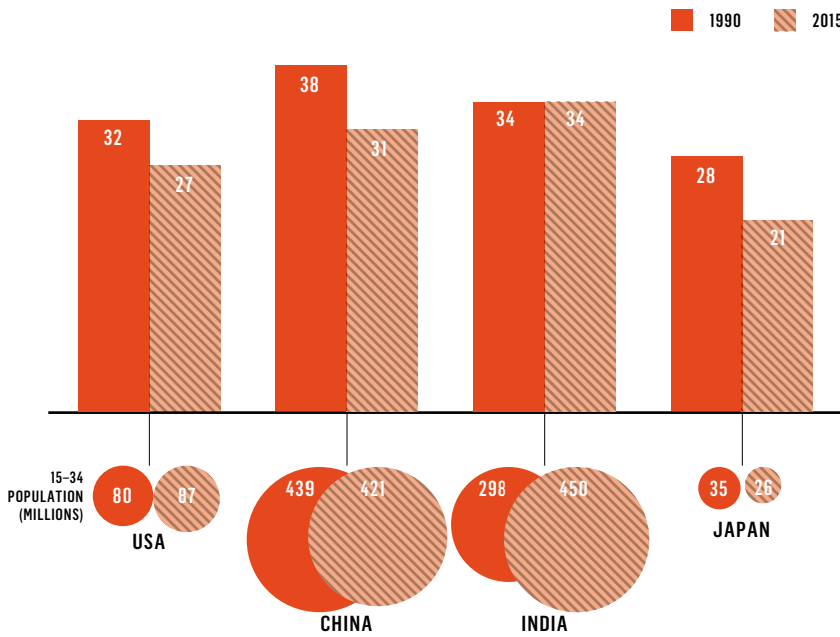
FIG. 18: GENERATIONS DEFINED



THREE MYTHS ABOUT MILLENNIALS' RELATIONSHIP WITH DIAMONDS

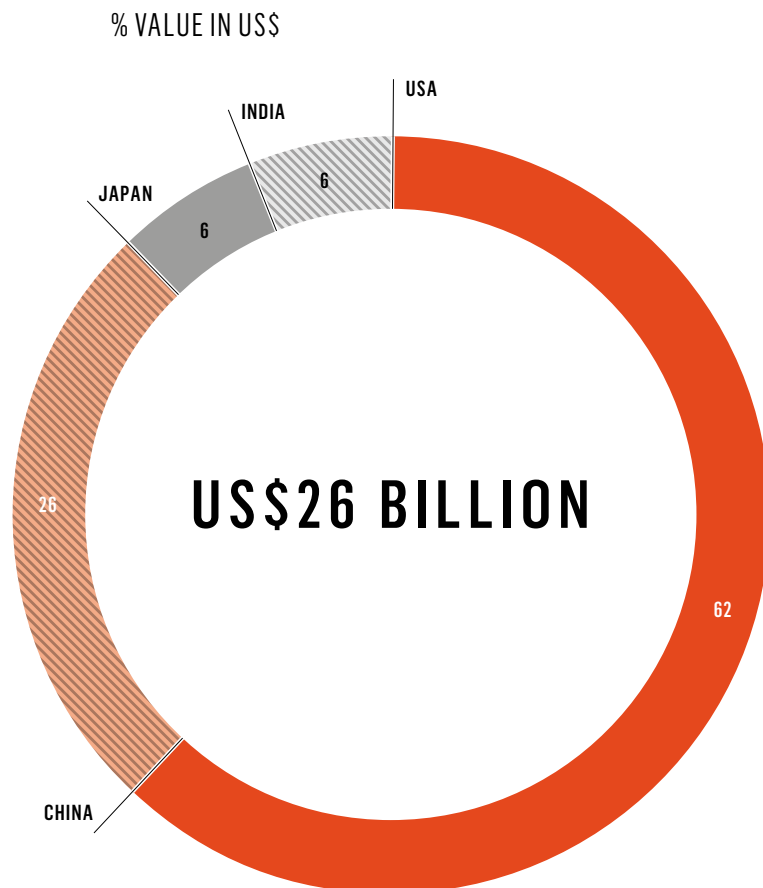
| MYTH | REALITY |
|---|---|
| Millennials are not interested in diamonds. | Diamonds are high on the Millennials' wish list to receive as gifts. As the Millennial age cohort is a declining proportion of the population and is yet to mature financially, it has a less obvious presence in the diamond sector. |
| Millennials in the US are less interested in diamonds than their parents and grandparents. | US Millennial age group's share of diamond demand in volume and value has remained stable since the late 1990s. |
| Millennials are very different from older generations when it comes to romance and the romantic significance of diamonds. | Millennials share many of the same views and attitudes to life, love, marriage and family, and lifetime values as older generations , but these manifest themselves later in their lives, as they reach financial maturity later. |

FIG. 19: SHARE OF 15–34 YEAR OLDS IN THE POPULATION IN THE TOP FOUR DIAMOND MARKETS 1990, VS. 2015



Source: Oxford Economics

FIG. 20: SPLIT OF TOTAL VALUE OF DIAMOND JEWELLERY ACQUIRED BY MILLENNIALS IN THE TOP FOUR MARKETS, 2015



Source: De Beers-commissioned consumer research

MILLENNIALS AND THE SCALE OF OPPORTUNITY FOR DIAMONDS

The ageing population is a significant demographic trend – in all major diamond markets, except India, the proportion of people aged over 34 in the overall population has increased, while the 15–34 age group has lost share over time.

Across the top four diamond markets combined, Millennials made up 34 per cent of the total population in 2015, compared with 40 per cent back in 1990 (Fig. 19).

THE OVERALL NUMBER OF PEOPLE AGED UNDER 34 IN THE MAIN DIAMOND MARKETS IS GROWING BUT THEIR SHARE OF THE TOTAL POPULATION IS IN DECLINE – THIS RESULTS IN A MISLEADING PERCEPTION THAT THE MILLENNIAL GENERATION IS STAYING AWAY FROM DIAMONDS

In 2015, the Millennial generation spent nearly US\$26 billion on diamond jewellery in the US, China, Japan and India combined. This represents 45 per cent of the total retail value of new diamond jewellery acquired in these four markets. Millennials’ share of the total diamond jewellery value was particularly high in China at 68 per cent; in India it was 47 per cent, in the US 41 per cent and it was the lowest in Japan at 29 per cent. This highlights that Millennials in these markets contributed a greater share of sales value than the share of population that they represent.

Millennials in the US alone account for over 60 per cent of this generation’s diamond jewellery purchases in the top four markets (Fig. 20).

The US Millennials’ disproportionate share of demand for diamond jewellery comes alongside claims from some industry analysts and media²³ that this generation is ‘losing touch’ with jewellery and diamonds. So what’s the truth?

Despite being better educated, Millennials today are facing more employment and financial challenges than their parents' generation – this delays their journey through the traditional life events of marriage, home and children.

The belief that younger generations are turning away from diamond jewellery stems from the fact that, despite being on average better-educated than people of the same age were in previous decades, lower

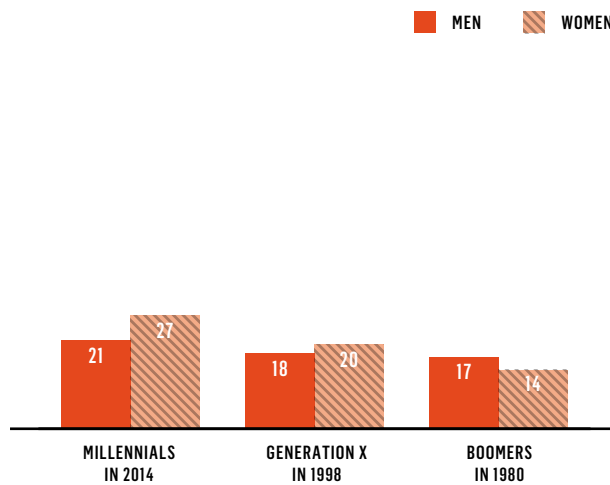
proportions of Millennials find themselves employed. Overall, their real income level is lower than Generation X's was in 1998. As a result, US Millennials have progressed more slowly along the traditional life path of college, job, marriage and children. In 2014 only 28 per cent of Millennials were married, a figure which is more than 40 per cent lower than it was for the Baby Boomer generation (Fig. 21).

DESPITE BEING BETTER EDUCATED, MILLENNIALS TODAY ARE FACING MORE EMPLOYMENT AND FINANCIAL CHALLENGES THAN THEIR PARENTS' GENERATION

FIG. 21: US MILLENNIALS' SOCIO-ECONOMIC POSITION

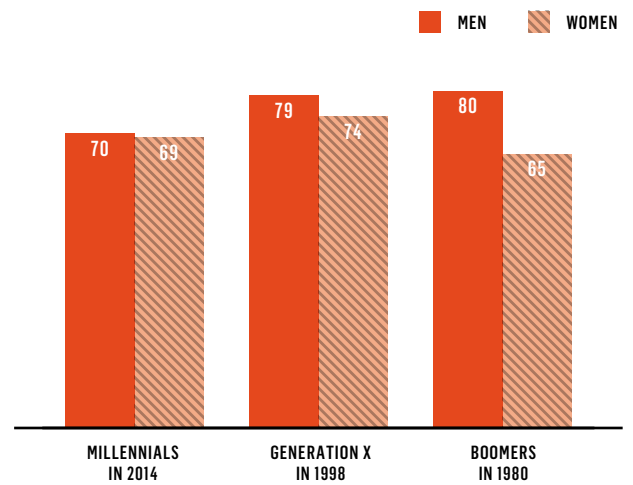
BACHELOR'S DEGREE OR HIGHER WHEN AGED 18–33

% OF GROUP



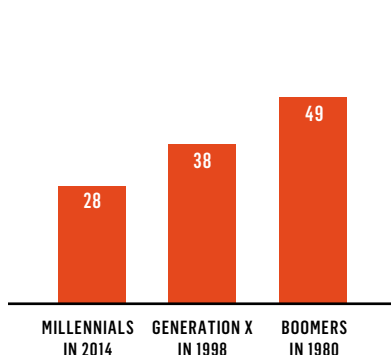
IN EMPLOYMENT WHEN AGED 18–33

% OF GROUP



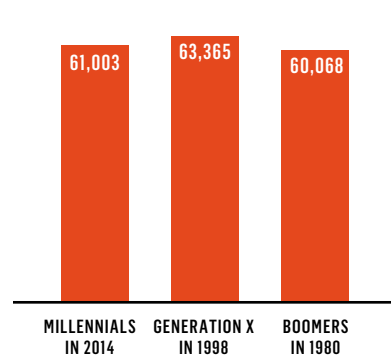
MARRIED WHEN AGED 18–33

% OF GROUP



MEDIAN HOUSEHOLD INCOME WHEN AGED 18–33

2013 US\$

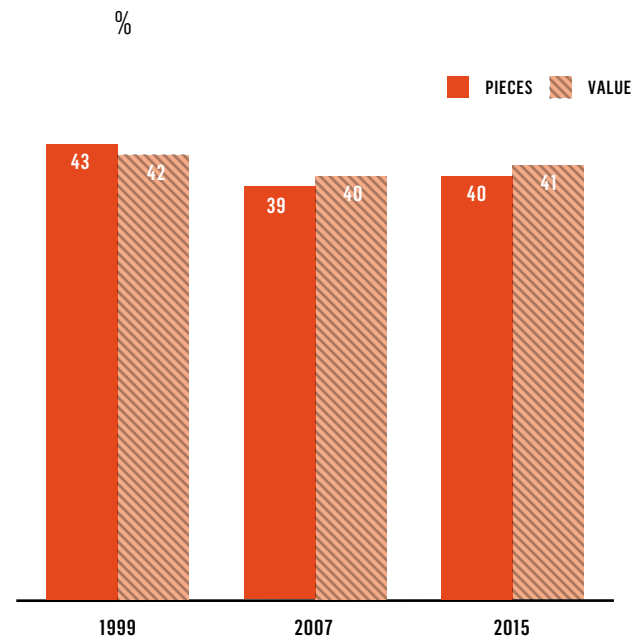


Source: Comparing Millennials to Other Generations, Pew Research Center

PEOPLE AGED 18–34 HAVE MAINTAINED A RELATIVELY STABLE SHARE OF DIAMOND JEWELLERY DEMAND SINCE THE LATE 1990S

While Millennials do not consume traditional luxury products in the same way as their counterparts of 20 or 30 years ago, research shows that when they reach demographic and financial maturity, they display strong demand for diamonds, just as previous generations have done. In fact, US Millennials' nominal demand for diamond jewellery rose from US\$10 billion in 1999 to US\$16 billion in 2015. Despite the overall population ageing and the financial challenges facing the young, 18–34 year olds have maintained a relatively stable share of volume and value of diamond jewellery demand since the late 1990s (Fig. 22).

FIG. 22: US MARKET: SHARE OF 18–34 AGE GROUP IN DIAMOND JEWELLERY ACQUISITION



Source: De Beers-commissioned consumer research

MILLENNIALS' CONNECTION WITH DIAMONDS REMAINS STRONG: FIVE KEY INSIGHTS

1. MILLENNIALS PLACE DIAMONDS IN THE TOP FOUR MOST DESIRED HIGH VALUE GIFTS

The stability in share of demand for the 18–34 age group in the US over the past couple of decades is grounded in the undiminishing desire this age group holds for diamonds as a gift.

Diamonds rank high on the list of most-desired gifts, with only overseas holidays, weekend getaways and personal electronics being more valued. Foreign travel has always held the greatest allure for US consumers, with overseas trips ranked first back in 2003. In the intervening 13 years, short holidays and personal electronics have become more desirable for Millennials, who prioritise experiences over material goods, but still desire smart electronic devices due to their need for interconnectedness.

In Japan, diamonds are more desirable as gifts to Millennials than they are to the older generations. Fine jewellery ranks as their top gift preference and, when questioned further about their most-desired type of jewellery, 34 per cent of Millennials choose diamonds over any other type of jewellery, compared with older generations who stated a 30 per cent preference.

Among Chinese Millennials, diamond jewellery is the most desired fine jewellery item to own, with 52 per cent placing it at number one, compared with 43 per cent for older generations.

Fine jewellery in India far outweighs other luxury or experiential categories in terms of desirability: 63 per cent of Millennials wish to buy it for themselves and 46 per cent hope to receive it as a gift. Traditionally in

India's jewellery-buying and gifting tradition, gold has been and remains the favourite choice, due to its function as a liquid asset. Among socio-economic classes A/B (excluding the Elites) 55 per cent of Indian Millennials pick gold first, with 23 per cent preferring diamonds (for older age groups this is 58 per cent and 22 per cent respectively).

It is notable though, that among all ages in the Elite segment, 75 per cent of women place diamonds as their first preference in fine jewellery, with only six per cent preferring gold. This is especially positive, given the aspirational nature of diamonds in this market and the likelihood that the other affluent consumers will follow in the footsteps of the most affluent when their income levels rise.

2. MILLENNIALS GROW INTO THE DIAMOND CATEGORY

Introducing young people to diamonds early in their lives is a strong driver of Millennial long-term engagement with the category.

Diamond jewellery ownership among Millennials is high in the US, with 62 per cent owning at least one piece of diamond jewellery (Fig. 23). That figure jumps from 48 per cent of 18–24 year olds to 72 per cent of 25–34 year olds, comparing favourably with the 76 per cent seen among older consumers, and suggesting that diamonds are maintaining relevance for the young who grow into the category. On average, US Millennials who own diamond jewellery own 5.3 pieces, while 15 per cent of them own eight pieces or more. De Beers’ analysis has shown that high levels of diamond ownership in later years highly correlates with early first acquisition of diamonds – so US Millennials are well positioned, as a fifth of America’s Millennial diamond-owners acquired their first piece before their sixteenth birthday. Among those older than 35, only 15 per cent acquired at this age. This points to a considerable opportunity for diamond gifting to Millennials by older generations. This is discussed further in this section.

Diamond ownership levels in the other main markets are lower than in the US, but in India (10 per cent) this is in line with ownership among the older generations, and in China (20 per cent among all Millennials) it peaks among the 25–34 year olds (29 per cent). Japan is the only market where Millennial ownership is considerably lower (31 per cent) than older consumers’ ownership (66 per cent).

3. MILLENNIALS ACQUIRE DIAMONDS MORE THAN THE OLDER GENERATIONS

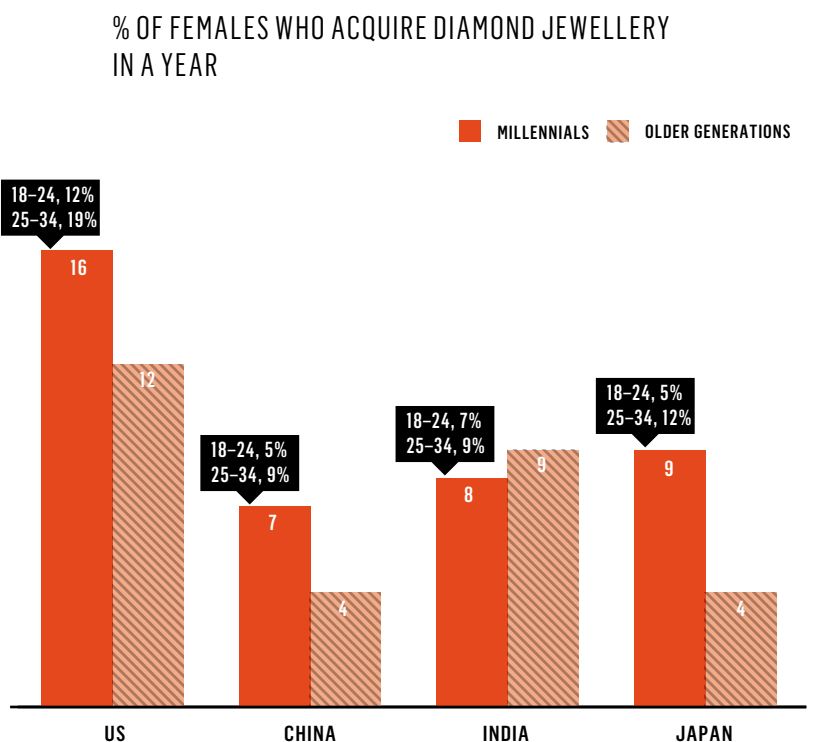
The proportions of diamond jewellery-buyers among Millennials, with the exception of India, are significantly higher than among those aged older than 35, with the 25–34 age group most active of all (Fig. 24). This can be explained by the fact that a very high proportion of bridal acquisitions fall within the Millennial segment, as discussed in more detail later in this chapter.

FIG. 23: DIAMOND JEWELLERY OWNERSHIP



Source: De Beers-commissioned consumer research

FIG. 24: DIAMOND JEWELLERY ACQUISITION



Source: De Beers-commissioned consumer research

4. SELF-PURCHASING OF DIAMOND JEWELLERY IS AN IMPORTANT AND GROWING ACQUISITION ROUTE AMONG MILLENNIALS

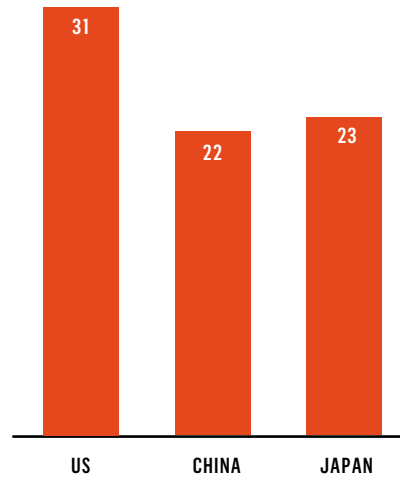
While the Bridal category has provided stability in markets where there is an established and growing diamond engagement ring tradition, non-bridal acquisition delivers the greatest growth opportunity for Millennials. Self-purchase of diamond jewellery among 18–34 year olds has increased to deliver a sizeable proportion of non-bridal diamond jewellery retail volumes in the US (Fig. 25) and India.²⁴

Self-purchasing in the US has increased more among Millennials than older consumers recently, growing from a quarter of all non-bridal pieces acquired in 2013 to 31 per cent in 2015. Those same figures are 34 per cent and 37 per cent respectively for older consumers.

5. GIFTING FROM PARENTS AND GRANDPARENTS TO MILLENNIALS IS A POWERFUL OPPORTUNITY FOR THE DIAMOND INDUSTRY

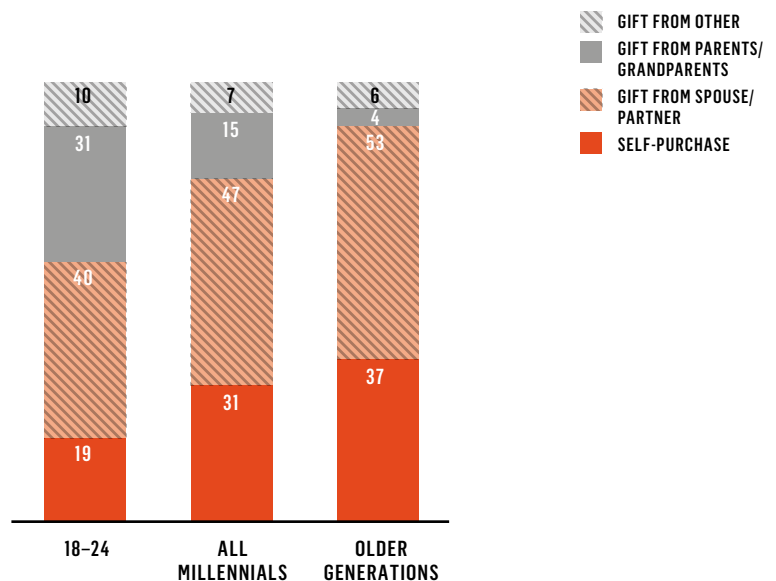
Another important acquisition route for Millennials is gifting from relatives other than partner or spouse. In the US, a diamond gift from parents and grandparents accounts for 15 per cent of non-bridal acquisitions by Millennials, but in the youngest age group of 18–24 it is as high as 31 per cent (Fig. 26).

FIG. 25: SELF-PURCHASING SHARE OF NON-BRIDAL MILLENNIAL DIAMOND JEWELLERY ACQUISITIONS
 % OF DIAMOND JEWELLERY PIECES ACQUIRED BY MILLENNIALS IN A YEAR



Source: De Beers-commissioned consumer research

FIG. 26: US MEANS OF NON-BRIDAL DIAMOND JEWELLERY ACQUISITION, 2015
 % OF DIAMOND JEWELLERY PIECES ACQUIRED IN A YEAR



Source: De Beers-commissioned consumer research

THE POSITION OF DIAMONDS WITHIN MILLENNIALS' VALUE SYSTEM

The unique combination of circumstances in which Millennials came to adulthood has created a different set of priorities and benchmarks for success than those of previous generations. Millennials in advanced economies generally enjoyed a protected, even pampered childhood, as the affluence of their parents was at a peak in the late 1990s and early 2000s. Similarly,

in emerging economies, their adolescence period was characterised by robust economic growth and optimism for the future.

By contrast, the late 2000s saw severe global recession set in, making consumers reconsider their priorities and change their shopping behaviour.

It was in this context that the Millennial generation formed its needs for:

- Strong friendship networks and relationships.
- Self-expression and individuality.
- High interconnectivity and technological proficiency.

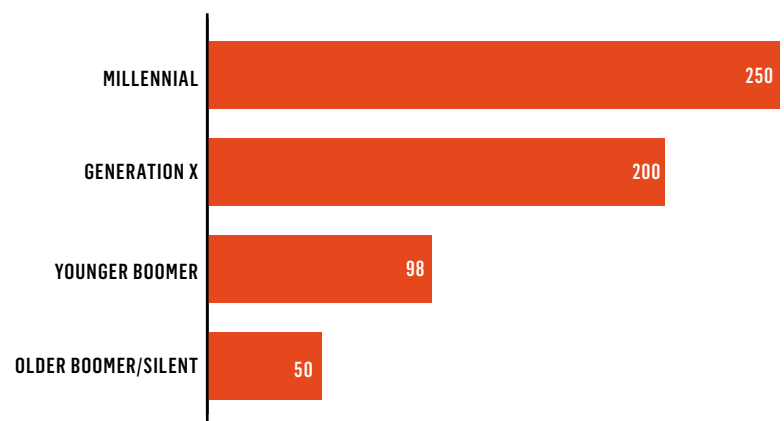
MILLENNIAL TREND 1 FRIENDSHIPS, RELATIONSHIPS AND LOVE

MILLENNIALS LIVE IN LARGE FRIENDSHIP NETWORKS BUT VALUE DEEPER RELATIONSHIPS AND MARRIAGE AS MUCH AS THE OLDER GENERATIONS

The Millennial generation has to pursue its goals in a complex, ever-changing world which requires tough choices. In this environment, the support of friendship networks and deeper relationships is vital.

Millennials have the largest networks of friends among all generations (Fig. 27), in part due to their proficiency in using social media and desire to stay connected.

FIG. 27: NUMBER OF FACEBOOK FRIENDS IN THE US (MEDIAN)



Note: Based on Facebook users, n=960 in 2013; Younger Boomers aged 49–57; Older Boomers aged 58–67

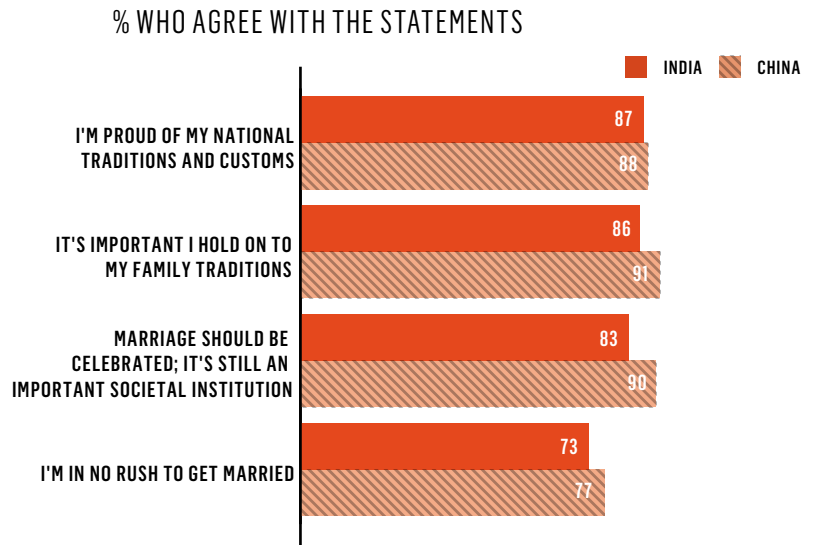
Source: Pew Research Center's Internet Project Survey, 2013

It is not just quantity over quality, however: for Millennials, deeper relationships are cherished as they provide an anchor in a challenging world. Marriage and raising children in a family are as important to Millennials as they are to older generations in the US.²⁵

In China and India, while Millennials are not rushing down the aisle either, they still respect traditions and the institution of marriage (Fig. 28). In India, while the number of arranged marriages is declining slowly,²⁶ it was still as high as 92 per cent of all marriages in 2013. A notable exception was in the most-affluent social strata, the Elites, who reported only 50 per cent of arranged marriages. In the future, it is likely that an increasing proportion of the wider more affluent population will follow in the footsteps of the Elites and love marriages will continue to grow.

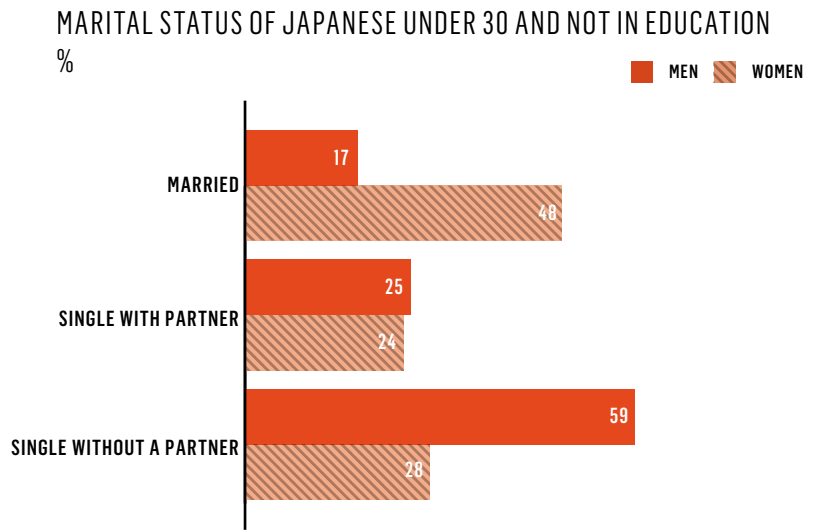
In Japan, about a third (32 per cent) of young people under age 30 and not in education are married. For men this proportion is only 17 per cent, but this delayed romantic maturity is due mainly to lack of financial resources, their reluctance to reduce their disposable income or unwillingness to lose free time²⁷ (Fig. 29).

FIG. 28: ATTITUDES TO MARRIAGE AMONG MILLENNIALS IN INDIA AND CHINA

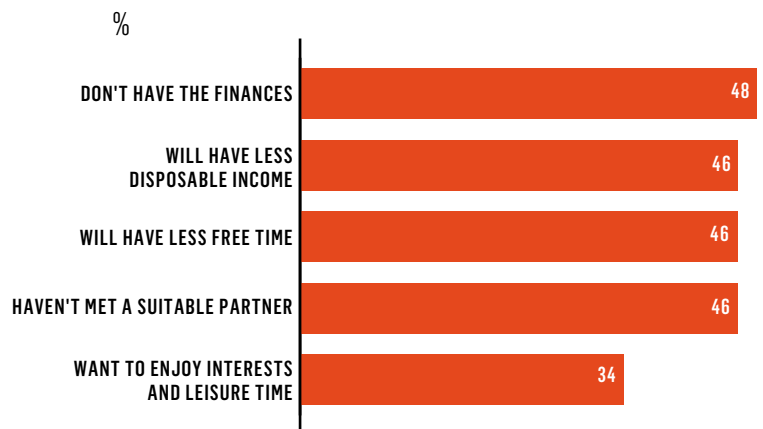


Source: JWT Intelligence, Meet the BRIC Millennials, 2013

FIG. 29: JAPANESE MILLENNIALS AND MARRIAGE



MAIN REASONS FOR NOT WANTING TO MARRY – JAPANESE MEN UNDER 30 AND NOT IN EDUCATION



Source: Macromill, Japan Survey of Young People's Attitudes, Jan 2015

Most marriages in the main diamond markets occur within the age range of the Millennial generation.

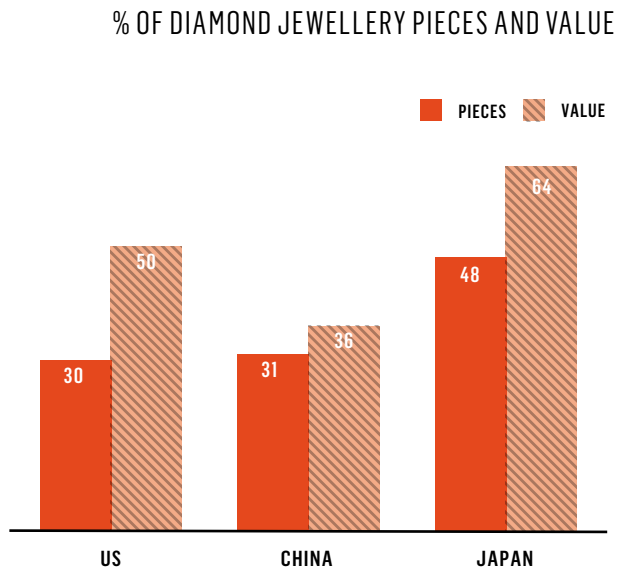
MILLENNIALS ARE THE CORE GENERATION FOR BRIDAL DIAMOND JEWELLERY – THE SEGMENT MOST RESILIENT TO ECONOMIC VOLATILITY

Bridal diamond jewellery – ie diamond engagement rings and diamond wedding bands – still comprise a large proportion of the diamond jewellery acquired by Millennials in the US, China and Japan (Fig. 30), delivering over US\$11.5 billion in value, or just under half of the combined US, Chinese and Japanese Millennial diamond jewellery demand in value terms.

It is a slightly different picture in India. Rather than the American, Japanese and Chinese bride’s typical solitaire engagement ring with a sizeable diamond, in India a bride’s jewels mainly consist of large gold pieces with numerous small diamonds. Since the Indian tradition sees most bridal jewellery gifts stemming from the bride and groom’s families, rather than between the newly-weds themselves, the bridal segment in India generates only four per cent of total diamond jewellery demand among Indian women in the highest socio-economic classes A/B.

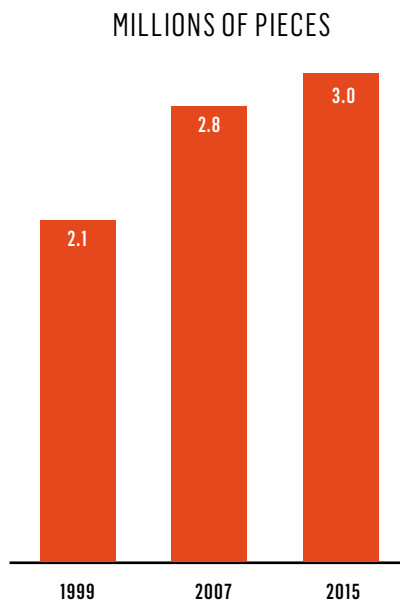
One of the most striking characteristics of the bridal jewellery category, particularly in the US where the diamond engagement ring tradition is firmly established, is its ability to weather economic recessions better than other diamond jewellery categories. Thus, US Millennial bridal diamond jewellery has maintained growth since the late 1990s, irrespective of economic crises. That has, in part, been thanks to the increasing affluence of newly-weds, as more marriages occur later in life²⁸ when people are better established and have higher incomes (Fig. 31).

FIG. 30: SHARE OF BRIDAL MARKET IN TOTAL MILLENNIAL DIAMOND JEWELLERY MARKET



Source: De Beers-commissioned consumer research

FIG. 31: US BRIDAL DIAMOND JEWELLERY ACQUISITIONS BY 18–34 YEAR OLDS



Source: De Beers-commissioned consumer research

LOVE AS MOTIVATION FOR DIAMOND ACQUISITION GOES BEYOND THE BRIDAL OCCASION AND THE POSITIONING OF DIAMONDS SHOULD BE TAILORED ACCORDING TO EACH LIFE-STAGE OF THE MILLENNIAL COHORT

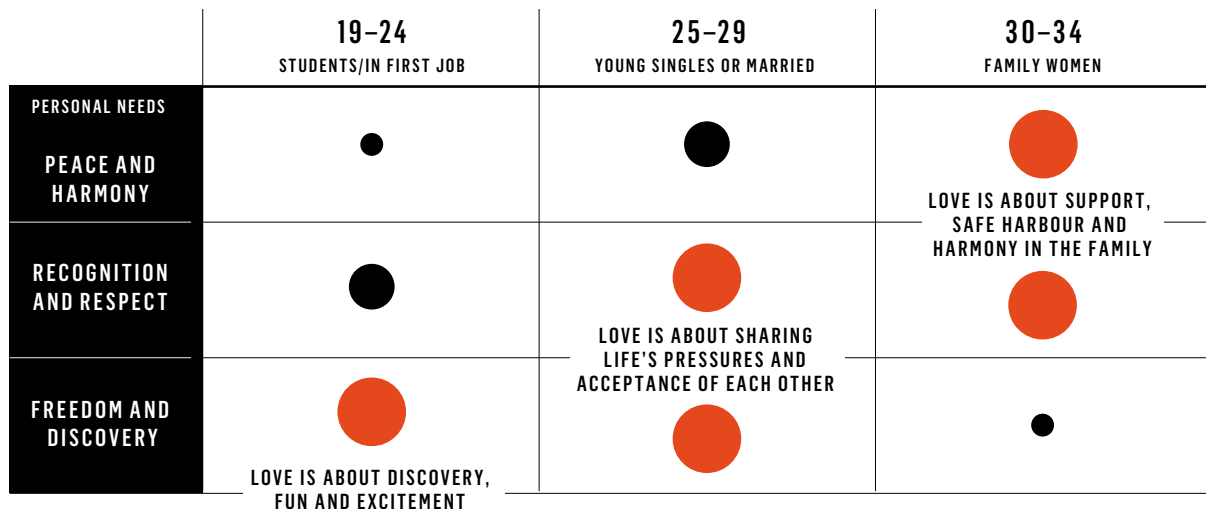
The diamond engagement ring remains a cultural imperative in the US: 26 per cent of US Millennial brides claim to have dreamt about their future ring as many as four and a half years *before* beginning a relationship. And a further 38 per cent start to think about their dream engagement ring after beginning a relationship but before contemplating a wedding.

Research into Chinese women’s mega-trends, values and relationship with diamond jewellery,²⁹ commissioned by De Beers, revealed that the love positioning of diamonds for young women has to be tailored to their specific needs at each life stage. The youngest Millennials (19–24 years old) start by challenging and often rebelling against the “old ways”; at this stage they need the freedom to discover their own paths, so love and

diamonds are about fun and excitement. Later (aged 25–29) they become increasingly focused on gaining recognition and respect through their knowledge, achievements, wealth and status. At this stage, diamond jewellery as an expression of love symbolises sharing and personal acceptance. Finally, the oldest Millennials (aged 30–34 years, and most-likely married and with family) desire security, dependability and order in their lives, and diamonds become a symbol of the safe harbour and harmony in the family (Fig. 32).

This variety of Millennial love needs, which are relevant in all markets, present rich opportunities for jewellers to use different types and designs of diamond jewellery, as well as different brand stories, for each Millennial life stage to capture the diamond category’s potential fully.

FIG. 32: THE ROLE OF LOVE AT DIFFERENT MILLENNIAL LIFE STAGES



Source: De Beers-commissioned Lens into China, Exploratory research, 2011

MILLENNIAL TREND 2

SELF-EXPRESSION AND INDIVIDUALITY

THE SYMBOLS OF SUCCESS FOR MILLENNIALS ARE NO LONGER FOCUSED ON CONSPICUOUS WEALTH, BUT ON EXPERIENCES AND PRODUCTS THAT REFLECT THEIR INDIVIDUALITY

Millennials in advanced economies, such as the US and Japan, typically no longer strive for wealth and material prosperity as markers of success the way their parents did. Instead, they are driven by a desire for personal achievement and self-expression.

In Japan, Millennial men live in the shadows of their parents, whose level of affluence appears unattainable.

“MY STATUS IS THE INITIALS AFTER MY NAME (FOR EXAMPLE M.D., PHD). I DON’T NEED STATUS SYMBOLS.”

“AT MY LAW OFFICE, THE STATUS SYMBOL WATCH ISN’T A ROLEX THAT SAYS I SPENT A LOT OF MONEY. IT IS AN IRONMAN TRIATHLON WATCH THAT SAYS ‘I DO THIS. I AM A TRIATHLETE.’”

Source: Quotes from respondents in a focus group conducted by Unity Marketing, Unity Marketing Trend Report: Marketing Jewelry to Millennials, 2014

“IF YOU COMPARE [ASIAN EMERGING ECONOMIES,] MOST OF THOSE KIDS...KNOW IT’S GETTING BETTER, THEY KNOW THEY ARE PROBABLY GOING TO [SURPASS] THEIR PARENTS’ INCOME. NO-ONE IN JAPAN FEELS THAT WAY.”

Source: Anita Rani, Presenter on BBC This World, The Japanese men who prefer virtual girlfriends to sex, BBC Magazine, October 2013

Millennials in the emerging markets of India and China, who have come of age in a more dynamic economic environment, generally aspire to greater wealth and traditional status symbols. However, for them too, self-expression and achievement are important life values: the vast majority believe that the best measure of achievement is having an enjoyable job (84 per cent and 90 per cent agreement in India and China, respectively).³⁰

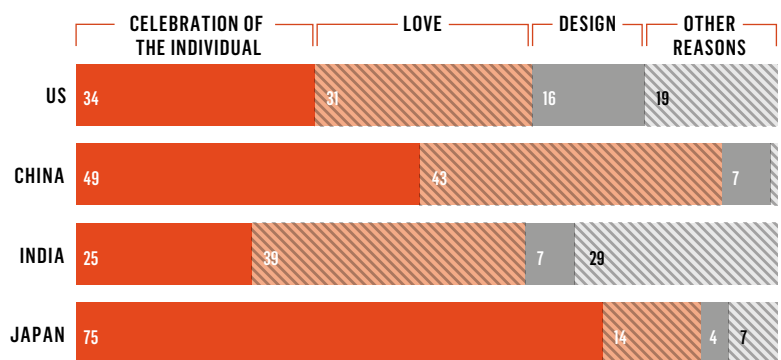
The diamond sector may therefore benefit from tying personal achievement and self-expression to its symbolism more closely. This could be achieved through individualisation of designs, branding and appropriate shopping experiences to fit the occasions and motivations for diamond acquisition.

THE MOST IMPORTANT NON-BRIDAL MOTIVATION FOR DIAMOND ACQUISITION INCLUDES VARIOUS FORMS OF CELEBRATING THE INDIVIDUAL

For Millennials who are not getting engaged or married, diamond jewellery pieces are most frequently bought to celebrate or commemorate a personal milestone, as a treat, or to cheer oneself up at a difficult time. Millennials are more likely to acquire diamonds for these reasons than the older generations. The non-bridal acquisitions that celebrate the individual now outnumber love and relationship celebration in the US, China and Japan (Fig. 33).

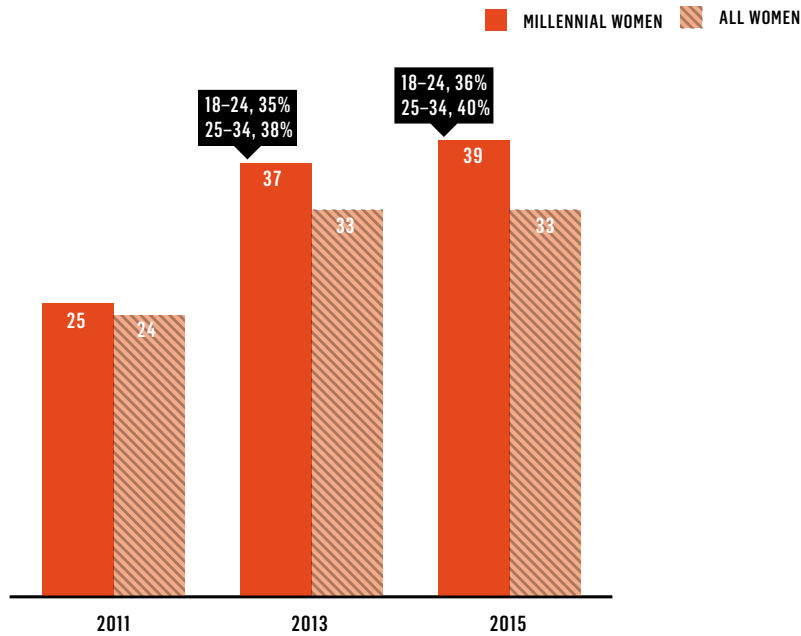
FIG. 33: MOTIVATION FOR MILLENNIALS’ NON-BRIDAL DIAMOND ACQUISITIONS

% OF DIAMOND JEWELLERY PIECES ACQUIRED IN A YEAR:
US 2015, CHINA 2014, INDIA AND JAPAN 2013



Source: De Beers-commissioned consumer research

FIG. 34: US ACQUISITION OF BRANDED DIAMOND JEWELLERY
 % OF ACQUIRERS OPTING FOR BRANDS



Source: De Beers-commissioned consumer research

BRANDS' CONSIDERABLE POPULARITY GROWS FASTER AMONG MILLENNIALS THAN AMONG OLDER GENERATIONS

As in other luxury categories, brands are important for Millennials. In the US, branded diamond jewellery acquisition among Millennials is higher than among all female consumers (Fig. 34) – a trend that is particularly pronounced among the older Millennials aged 25–34. It is a similar story in China, where a higher proportion of Millennials (33 per cent) buy brands than older consumers (for whom that figure is 29 per cent). In Japan, where brands have traditionally been strong, 61 per cent of diamond jewellery pieces acquired by Millennials are branded, compared with 48 per cent among the over 35s. This stronger desire from Millennials highlights a growing opportunity for the sale of branded diamond jewellery products in these markets.

MILLENNIAL TREND 3 HIGH INTERCONNECTIVITY

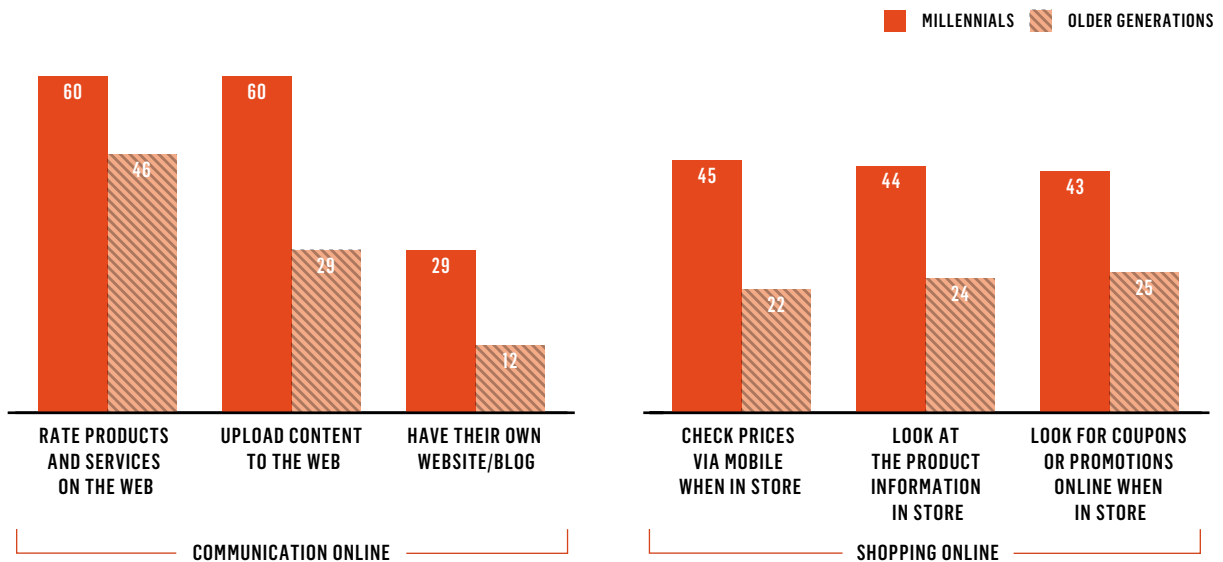
DIGITAL MEDIA IS MILLENNIALS' KEY CHANNEL FOR COMMUNICATION, INFORMATION GATHERING AND SHOPPING AROUND AND THE CENTREPIECE OF OMNICHANNEL SHOPPING BEHAVIOUR

Digital media is the essential channel through which young people share information and influence each other. In the US, 43 per cent of Millennials contribute to web forums or user groups, 39 per cent write reviews or rate products they have bought and 38 per cent share links to products and services they like.³¹

Affluent Millennials have an even stronger affinity to digital media³² with 60 per cent rating products and services on the Internet and uploading content online, and 29 per cent running their own websites or blogs. These levels of digital interaction are much higher than among the older age groups.

When it comes to shopping, Millennials use online methods alongside visiting traditional brick-and-mortar stores. They will often compare prices online, search for product information and look for discount coupons and promotions online (Fig. 35). Omnichannel shopping experiences are now the norm for younger consumers. Retailers who are not equipped for this will lose out among this client base.

FIG. 35: LUXURY CONSUMERS' USE OF DIGITAL MEDIA FOR SOCIAL INTERACTIONS AND SHOPPING
% OF RESPONDENTS



Source: Antonio Achile, Partner and Managing Director BCG, True-Luxury Global Consumer Insight, 2016

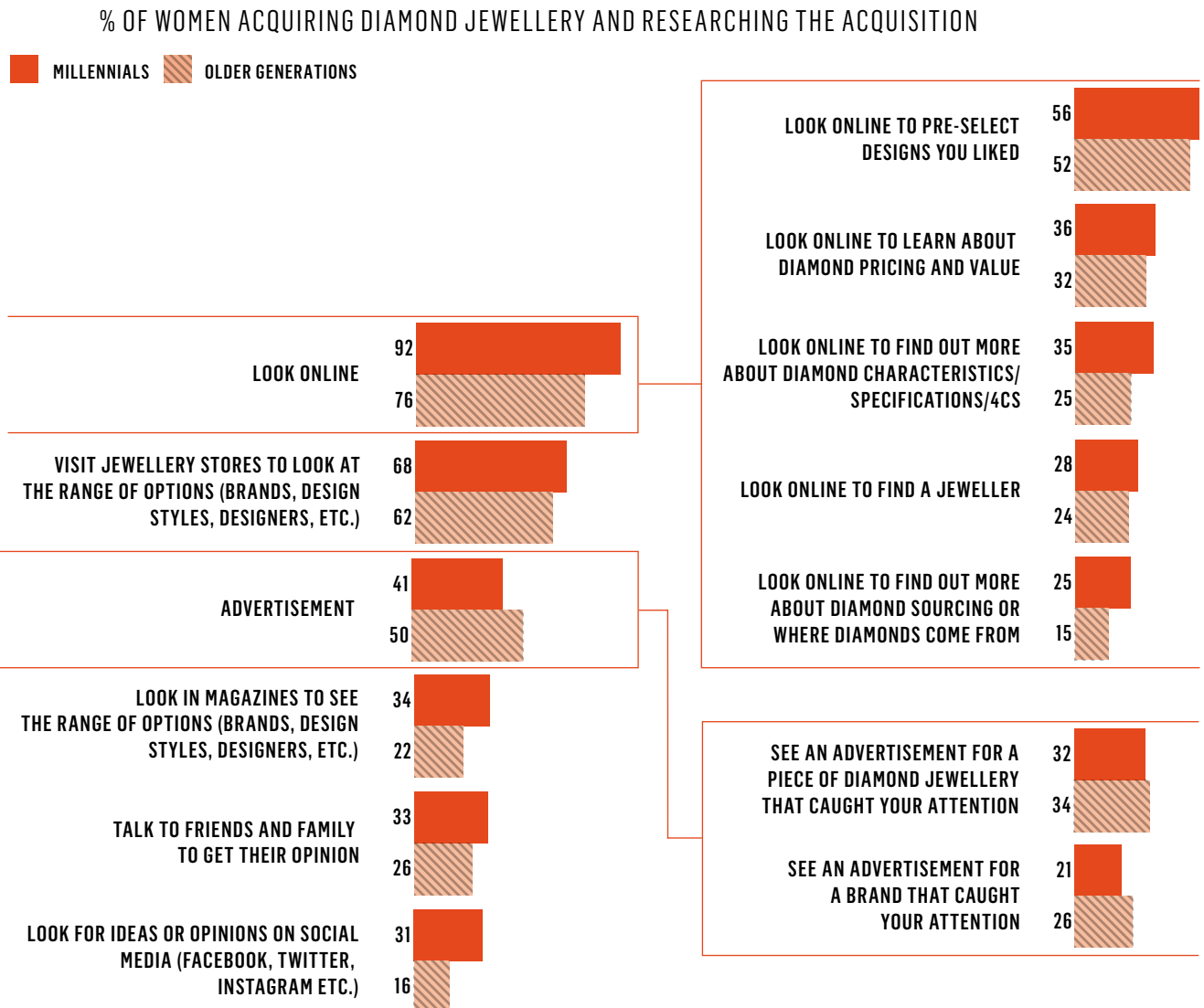
Millennials use their personal networks as well as online resources and traditional offline media to research diamond jewellery purchases. In the US, compared with older consumers, Millennials

use the Internet considerably more frequently to research quality, designs and brands (Fig. 36).

Chinese Millennials also use the Internet for research in about

a quarter of acquisitions, but traditional channels play a much more important role in the preparation for purchase (Fig. 37).

FIG. 36: US INFORMATION SOURCES USED IN PREPARATION FOR DIAMOND ACQUISITION



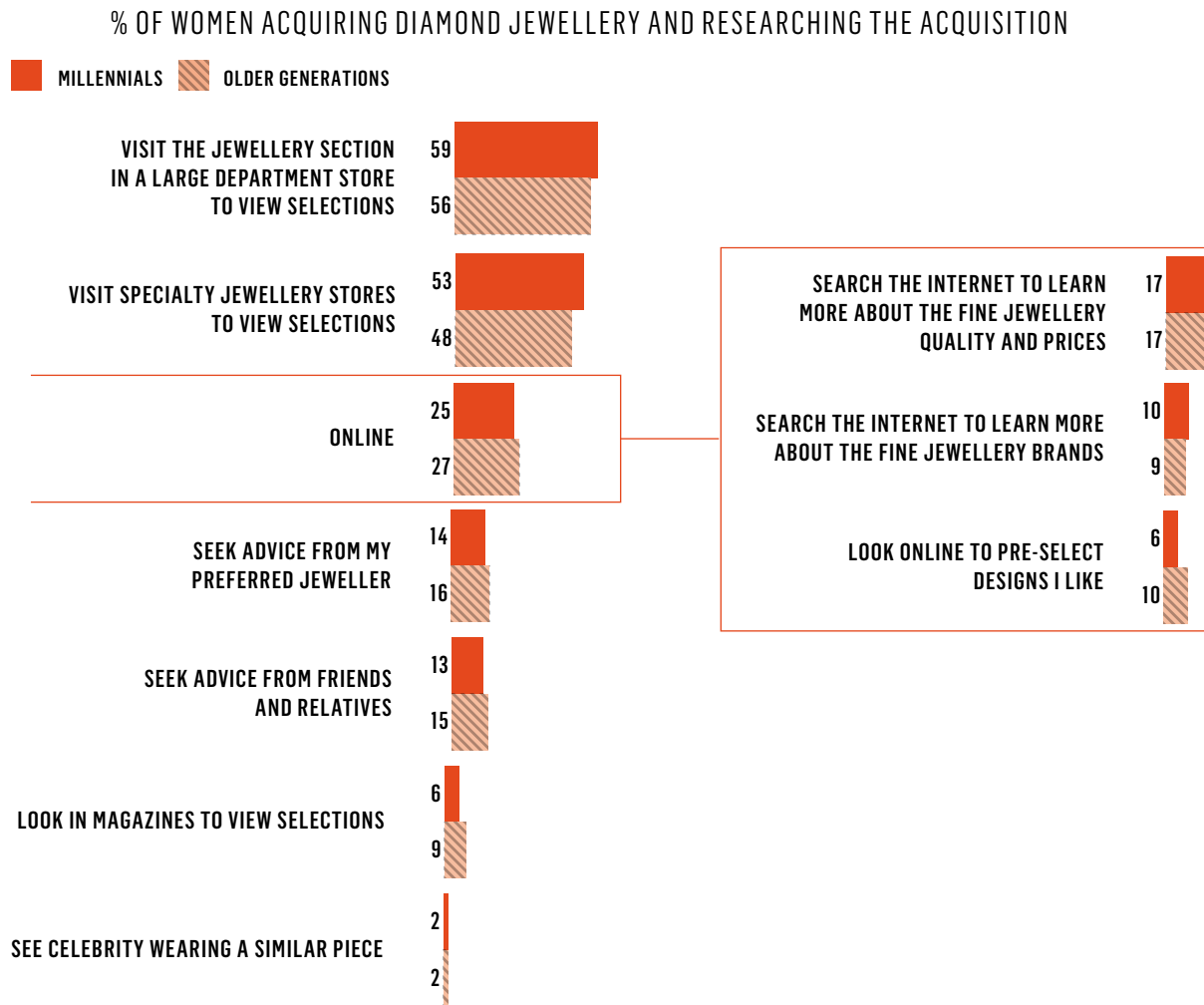
Source: De Beers-commissioned consumer research

Millennials' high degree of connectivity with peers and other groups finds an expression in heightened social concerns, such as balancing inequalities around the world and making the world a better place through joint efforts of all of society.³³ In relation to diamonds, these concerns take on the form of raised awareness and preference for responsibly sourced diamonds.

In research, when asked about the features of diamond engagement rings on which they are least willing to compromise, 36 per cent of single US Millennials in 2015 selected responsible sourcing. This compared with 27 per cent among older single consumers. In the Downstream chapter of this report we discussed Millennials' higher propensity to stay away from diamond acquisition for lack of trust in the responsible

sourcing of diamonds. These observations point to the need for coordinated actions across the diamond industry to ensure full visibility of diamond provenance, traceability and reassurance regarding origin, so that all consumers are aware of the good that diamonds do and can be confident that their own diamond has been responsibly sourced.

FIG. 37: CHINA INFORMATION SOURCES USED IN PREPARATION FOR DIAMOND ACQUISITION



Source: De Beers-commissioned consumer research

CONCLUSION

Millennial consumers are a large and important cohort for the diamond industry despite the strong headwinds they still experience in terms of financial constraints in mature markets, the overwhelming noise of competition for their discretionary spend and a declining share of population in many markets. Millennials deliver volume and value growth underpinned by stable bridal consumption and potent desire for diamonds as gifts.

There are powerful opportunities among this generation to expand the non-bridal diamond acquisition. Self-purchase, acquiring for celebration of the individual and familial gifting are growing ways in which Millennials are accessing the market. In order to unlock this potential, diamond marketers need to understand the specifics of the lifetime values and preferences of this consumer cohort and find appropriate ways to engage Millennials' strong inherent desire for diamonds by tailoring

their offering for the various occasions and differentiating their proposition through branding and innovative designs.

While Millennials dream about diamonds, more needs to be done to make diamond jewellery a top of mind category and nurture a deeper emotional connection, so that diamonds become more relevant day to day, and that Millennials will, in turn, seed the love affair for future generations.

END NOTES

- 1 “GDP Growth (annual per cent).” The World Bank. The World Bank Group, n.d. Web.
- 2 “Shifting tides: Global economic scenarios for 2015–25.” McKinsey Global Institute. January 2016 update.
- 3 “Global Diamonds Metals & Mining,” Bank of America Merrill Lynch, June 2016; “The PIPE – diamond intel,” Morgan Stanley, March 2016; “Why we’re less bullish than the street,” Morgan Stanley, April 2016.
- 4 All growth figures for polished diamond content in diamond jewellery are for new diamonds and exclude recycled diamonds.
- 5 McKinsey Geostrategic risks on the rise report, June 2016.
- 6 The survey sample was 18,129 women aged 18 to 74, representative of 114 million women split by age, marital status and income and included a ‘booster’ sample of bridal respondents, i.e. married and/or engaged in 2015.
- 7 Demographic Intelligence U.S. Wedding Forecast 2015, cited in <http://www.chicagotribune.com/news/ct-millennial-marriage-rate-20150517-story.html>
- 8 The average age of first marriage in the United States in 2012 was 27 for women and 29 for men, up from 23 for women and 26 for men in 1990 and 20 and 22 in 1960. Source: <http://twentysomethingmarriage.org/i-do-but-later/>
- 9 For statistics on this population segment see: <http://www.unmarried.org/statistics/>
- 10 https://www.whitehouse.gov/sites/default/files/docs/equal_pay_issue_brief_final.pdf
- 11 Contactlab/Exane BNP Paribas report, *Luxury Goods Digital Frontier: The New Luxury World of 2020*.
- 12 <http://www.statista.com>
- 13 <http://blog.euromonitor.com/2014/09/why-the-consumer-preference-for-things-local.html>
- 14 Fine Jewellery category is defined by Net-A-Porter as ‘anything bearing a gold hallmark’. Source: Vanity Fair On Jewellery, August 2016, page 59.
- 15 Vanity Fair On Jewellery, August 2016, page 59.
- 16 Vanity Fair On Jewellery, August 2016, page 59.
- 17 Okavango Diamond Company sales are accounted for in the De Beers market share estimate as sale from Diamond Trading Company Botswana.
- 18 SODIAM sales from Angola Ministry of Geology and Mining.
- 19 Informal sector sales are De Beers estimates. De Beers has lower confidence in estimates of informal production than other sources. Informal sales values are measured at De Beers’ Standard Selling Value.
- 20 Other sales are from company reports, including Gem Diamonds, Lucara Diamond Corp, Kimberley Diamonds, Lukoil, Rockwell Diamonds, Trans Hex and estimates for other smaller producers.
- 21 The Millennial generation is defined as people born between 1981–2000, or aged 15–34 in 2015 (Fig. 1). This report uses the 15–34 range but, where there are references to De Beers-commissioned research, which focuses on adult consumers, the Millennial range has been narrowed to 18–34 year olds. When comparisons are made over time, the same age group at the respective moment in time has been analysed. The historical period of 1990 to 2015 has been used to compare generational data, as it was deemed to be sufficiently long to reliably identify intergenerational trends.
- 22 Overall, in the top four diamond markets there were a total of 985 million Millennials (men and women) in 2015. That’s a little over a third of the total population, excluding babies and the under 4s – and is a sizeable market for consumer goods. In the US and Japan, the size of the potential market for diamonds includes the whole of the Millennial cohort, but in the emerging economies of India and China it is restricted to certain higher socio-economic groups. In India, for example, only the top two socio-economic segments A and B and the more affluent ‘Elites’ societal segment are part of the diamond target population. In China, the definition of the target population is limited to the most-developed 126 cities in Tiers 1–3. In total, this brings the potential
- Millennial market for diamonds across the US, Japan, India and China to 223 million people. That considerable figure is the Millennial population covered by De Beers-commissioned research in this report.
- 23 CNBC, Jeff Daniels, Blame Millennials: Diamond jewelry business in a rough spot, <http://www.cnbc.com/2016/06/16/blame-millennials-diamond-jewelry-business-in-a-rough-spot.html>
- 24 In India the survey focused on purchasers, as this best reflects the decision making process in this market (decision made by the woman, while finance often is provided by a man in the family). Of all Millennial buyers 72 per cent bought for themselves, compared to 57 per cent among the older generations
- 25 Pew Research Center, Millennials in Adulthood, March 2014
- 26 De Beers-commissioned India Consumer Survey 2014
- 27 Macromill, Japan Survey of Young People’s Attitudes, January 2015.
- 28 Currently the average age of first marriage in Japan is 29.7 (Statistics Bureau, Ministry of Internal Affairs and Communications, Japan. “Statistical Handbook of Japan 2014”, p. 18, Table 2.8 “Mean Age of First Marriage”), in the US it is 29 for men and 27 for women (Lydia Anderson & Krista K. Payne, National Center for Family & Marriage Research, Bowling Green State University, Median age at first marriage, 2014), in China it is 24.9 (2010 Population Censorship, Table 5–4, Chapter 5, Part 1) and in India it is 24.1 (Average age at Marriage – India, MedIndia, 2011).
- 29 De Beers commissioned Lens into China, Exploratory research, 2011.
- 30 JWT Intelligence, Meet the BRIC Millennials, 2013.
- 31 The Millennial Consumer Index from Bite Group and Redshift, 2013
- 32 Antonio Achile, BCG, True-Luxury Consumer Insight, 2016
- 33 JWT Intelligence, Meet the BRIC Millennials, 2013

GLOSSARY

Definitions for terms and abbreviations used within this report can be found on our website www.debeersgroup.com/glossary

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