Swarovski Joins the Man-Made Diamond Market

• Launches its Exclusive DIAMA Brand
• Supply Negotiations with De Beers’ Element Six Unsuccessful

As is the case in virtually all major strategic corporate moves in the secretive Swarovski crystal empire, its entry into the synthetic gem-quality diamond business was planned and executed in utmost secrecy. Within the Swarovski family, the world’s leading producer of cut crystals, its former president and chairman, Helmut Swarovski, had endeavored for years to find an entry into the diamond business. Eventually, the scions of the legendary fifth generation, led by Helmut’s daughter, Nadja Swarovski, her cousin Markus Langes-Swarovski, and the three other family members of the company’s Executive Committee, made it happen. They are cautiously testing the waters in the man-made diamond jungle. The “Swarovski Created Diamonds” has made its debut.

Swarovski Marketing May Provide ‘Product Differentiation’

For the diamond market, Swarovski’s new brand represents a welcome game changer as the company can potentially provide the ethical, legal and moral leadership in the man-made diamond market. Currently, a handful of man-made diamond producers linger at the fringes of the market, trying to promote themselves through “delegitimizing” the natural diamond productions.

The market is also acutely aware of problems. These include undisclosed synthetic sales or “peppering-the-parcel,”
a practice in which a certain percentage of diamonds in a parcel or in a set diamond jewelry piece is replaced with man-made stones. Many of the current players in the market are out there to make “easy money” – as long as the margins between natural and synthetic diamonds are significant.

In sharp contrast to some of the other man-made diamond producers, Swarovski makes corporate decisions for generations. It will not try to quickly get a return on capital. It will slowly, consistently and cautiously develop a sustainable business for the future. It seems committed.

Says its promotional materials: “Swarovski’s continued exploration of innovative materials is a natural evolution in science. **Swarovski Created Diamonds** share the philosophy of Daniel Swarovski, founder of the company, a visionary, scientist and inventor, with an eye for beauty and a deep respect for nature. His ultimate vision was to make dream-filled jewels accessible to all women, of all ages, around the world, to inject glamour into women’s lives – to democratize luxury.”

Investigative journalists are intuitively suspicious of “secretive companies.” Says one insider in Swarovski’s business: “You think they are secretive? They reinvest their own money every year – they don’t ask banks and outside investors to come in so they can put their profits elsewhere, so they have the privilege to keep silent – they pay for it with their own money to retain absolute control over how they operate – clean, responsibly, ethically. Can you name a single diamond company about which you can say the same?”

### De Beers and Swarovski: The Perfect Symbiosis?

Swarovski conducted protracted negotiations with De Beers’ **Element Six**, which it has (correctly) identified as, potentially, its most reliable long-term gem-quality rough synthetics supplier. This should, by itself, give the market pause to reflect. However, earlier this year, these talks were suspended; apparently, the Swarovski marketing model wasn’t seen by De Beers as providing the optimum added value. As neither side has many other alternatives, the parties may come back to the table at some point.

De Beers’ long-awaited participation in the gem-quality synthetics market can no longer be far off. Informally, a source familiar with the dialogue remarked that, “irrespective of the results of these talks, this shows that these two giant companies are exploring ways to enhance their respective core businesses and are not focusing on harming each other.”

One of my sources close to Swarovski chided me that “natural diamond people have mistaken perception of the role of Element Six and De Beers in synthetic diamonds. The Chinese are not sleeping. At the end of the day, neither Swarovski nor Element Six can compete against the **Chinese**. Swarovski has an enormous advantage, it has a brand. An association between Element Six and Swarovski would be a burden on Swarovski as the high costs of Element Six would drive down the prospects of profits. It’s either China or go home in the not too distant future. This is not the world of natural diamonds with diamond mining companies setting prices. This is the real world.”

Nevertheless, talks between Swarovski and De Beers did take place. When we submitted a draft of our story to De
Beers, its eloquent spokeswoman, Lynette Gould, crafted a masterpiece response: “Element Six is the leading producer of synthetic diamonds for industrial applications. It is not involved in the gem business.” [Partly in jest, I responded to Lynette “I love your word choice: As the talks didn’t result in an agreement, you are not involved.” To which Lynette responded: “I have no further comment!”] Officially, Swarovski and De Beers are neither denying nor confirming the negotiations. Said one Swarovski insider: “That ship never left the docks...”

Unique Management Structure Provides Stability and Continuity

Certainly, there are many potential synergies and size similarities between Swarovski and De Beers. The privately held D. Swarovski KG has over 25,000 employees. According to a (2015) Financial Times story, its annual revenues are around $4.6 billion, 80% of which are derived from jewelry sales. The great competitive advantage of Swarovski is its advanced cutting technologies. While the company has always specialized in crystals, it is proven that its technology can be also be applied to diamonds.

Cutting technology represented the special strength of the company’s founder Daniel Swarovski (whose former name was Daniel Swartz), the son of a glass cutter in Bohemia, in what is now the Czech Republic. In 1892 – some 125 years ago – Daniel patented a revolutionary electric cutting machine that facilitated the production of crystal glass. This led to the establishment of the company in 1895. (De Beers was founded in 1888.)

The world of Swarovski encompasses the production and marketing of a wide range of high-quality products and services for businesses and consumers. Swarovski is a global leader in the fashion jewelry segment. Through its own retail network, it operates 1,335 of the world’s 2,560 Swarovski-branded stores, with its partners operating the remaining 1,225.

The success of Swarovski’s jewelry business is generally attributed to Nadja Swarovski, though one must realize that all major decisions — including the launch of the Swarovski Created Diamond business — are made by consensus of the three Daniel Swarovski-descendent families. There are currently five family members on the Executive Board, representing some 20 shareholder family members in total. There is no chief executive, though Markus Langes-Swarovski is considered to act as the Board’s Spokesman.

Swarovski has nine production locations (Austria, Liechtenstein, Czech Republic, Serbia, China, India, USA and Vietnam), and its products are sold in more than 170 countries in 2,560 mono-brand stores worldwide. For its man-made diamond jewelry lines, the sky is literally the limit — although, for the
time being, Swarovski’s challenges remain on the rough supply side. More about that later.

In 1977, Swarovski entered the jewelry business and created considerable nervousness at De Beers. In the mid-1980s, attempts were made by De Beers to acquire Swarovski, but the approach collapsed when it was discovered that, in fact, De Beers wanted to acquire the company only to close it down.

The company has been extraordinarily successful: its formula for making and cutting crystals has been imitated, but never matched or exceeded. As a private company, it is not required to disclose financial information. It doesn’t seem to have any thoughts to go public – at least not at this time.

Introducing the Man-Made Jewelry DIAMA Branch

In what is seen as a quiet “soft-launch,” the Swarovski Created Diamonds’ very first business is the test-marketing of its exclusive DIAMA brand of man-made diamonds.

In response to our query, Swarovski’s Head of Group PR & Corporate Affairs Andrea Durnthaler confirmed that “Swarovski is interested in expanding its brand portfolio, and capitalizing on our company’s strength to add sparkle to people’s everyday lives by creating products that are desired and purchased by the fashion conscious woman. DIAMA is a European Fine Jewelry Brand Featuring Swarovski Created Diamonds that was established and exclusively launched in the USA in selected independent fine jewelry retail stores in 2016.”

Andrea further explained that “the DIAMA collection blends 18K gold with round, all-white created diamonds.”

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Nadja Swarovski:

In Charge of Corporate Branding and Communications

Nadja Swarovski, the brilliant architect and driving force behind the company’s jewelry and fashion brands, is well known in the diamond industry. [I recall her presentation to the Antwerp Diamond Conference in 2003.] Nadja Swarovski is the daughter of Helmut Swarovski, the legendary president and chairman of the board of directors of D. Swarovski & Co. Born in Germany, raised in Austria and educated in Europe (Germany, France, Spain and Italy) and the United States, she is the fifth generation of the Swarovski’s to work for the family business.

In 1997, working from New York, she concentrated on publicity for the company’s “components/fashion” division and set up Swarovski’s first international Creative Service Center, redirecting the company into the fashion industry. She forged the relationships with the fashion and jewelry industries, teamed with a new marketing communications strategy for Swarovski crystals, brought the name to the forefront of fashion.

Of the many partnerships, one of the exciting may well be the almost 40 years of creative collaborations with master spy 007 James Bond, where in all movies Swarovski crystals are invariably worn by the successive glamorous Bond-ladies – “dressed to thrill.” Will the next movie show Swarovski Created Diamonds? We’ll have to remain in suspense until the next release...

[Picture comes from the 2003 presentation at the Antwerp Diamond Conference.]

In Charge of Corporate Branding and Communications

DIB was able to establish that, organizationally, DIAMA is “housed” in a Cranston, Rhode Island, USA-headquartered company called Chamilia LLC. Chamilia is a well-known brand of charms and jewelry “designed for women to accessorize with meaning.” It was acquired by Swarovski in 2013.
As already mentioned by Andrea Durnthaler, DIAMA was developed in Europe. There, it is marketed through Chamillia’s European subsidiary, the UK-based Chamillia Europe Limited (CEL). It operates as a sales and marketing office of customizable jewelry to fine quality retailers throughout the world. Its annual turnover is £10.2 million (in 2014). There is nothing, absolutely nothing, in the DIAMA brand promotional materials, including in its breathtakingly stunning promotional movie, that links the man-made diamond brand to Chamillia.

Before contacting Swarovski, we discovered the Swarovski man-made diamond marketing initiative through the cyberspace, where people can’t resist spreading all the news about themselves on social media. Here Peter Englehart comes in.

Recruited away from Tiffany & Co. in 2013, Peter Englehart was appointed in early 2016 to “establish the strategic distribution for DIAMA,” he tells the world through his LinkedIn profile. DIAMA is “an extraordinary new fine jewelry brand from Swarovski Gemstones. Test launch in very select U.S. fine jewelers in 2016,” he writes enthusiastically. Individuals interviewed for a position at DIAMA in the past year, were not aware that it was about synthetic diamonds. We wonder whether Englehart himself knew….

**Key Jewelers Partnering in DIAMA Marketing**

The U.S. test launch has started. These early marketing efforts seem to center largely on online sales, but not only. The main player is Ross-Simons, a thriving multi-channel online jeweler. In addition to its cyberspace presence, it mails more than 50 million catalogs annually across the globe. It operates an outlet store in Wrentham (MA) and a “flagship store” in Warwick (RI). In August 2013, Sidney Thomas Jewelers opened nine high-end stores in the spaces previously branded as Ross-Simons Jewelers.

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Currently, these freshly rebranded Sidney Thomas Jewelers in Newark (DE) and in Boston (MA) offer the largest DIAMA brand jewelry collections. Other retailers include Hannoush Jewelers, in Holyoke (MA), and Lenox Jewelers, Fairfield (CT).

According to records of the World Intellectual Property Organization (WIPO), the DIAMA trademark was filed only in June 2015. It did not specifically refer to synthetic diamonds. What is more telling, however, is that Swarovski has registered its various trademarks in virtually every country in the world, including its “Crystals from Swarovski” emblem. At WIPO, we found 325 listings! One, however, was missing: “Swarovski Created Diamonds.” Was this an omission? Impossible. It’s probably just another indication of the extreme secrecy surrounding the launch.

WIPO’s Global Brand database, which contains over 25,150,000 records relating to internationally protected trademarks, also lists 23 entries for Chamillia, also protecting its slogan “Chamilia Your Life, Your Style.” (Notably, DIAMA is not registered in Chamillia’s name – it belongs directly to Swarovski.)

Clearly, the synthetic diamond marketing strategies are in their infancy – and still evolving.
Competing Against Other Synthetic and Natural Producers

We have no clarity on the marketing approach used by Nadja Swarovski, Markus Langes-Swarovski and their team for the man-made diamond jewelry market. If the company chooses to enter the market with its Swarovski Created Diamond branch through the existing Swarovski proprietary store network, it can quickly establish itself as the trusted source for gem-quality diamond synthetics. There would be no mixing with naturals – as there are no natural diamonds (yet) in these stores. It would not compete with natural diamond jewelry since the Swarovski stores don’t offer that choice.

Theoretically, man-made diamonds could gradually be recognized by the market as a Swarovski product, thus creating the product differentiation that the natural producers strive for (but so far have dismally failed to achieve). Thus, the classic, old-fashioned High-Street jeweler would remain the trusted address for natural diamonds.

At least in this early stage of testing the waters, the preferred sales channel for DIAMA Jewelry seems to be jewelers – online and in stores. The brand hasn’t yet been launched officially and not all participating retail partners have publicized their participation and jewelry lines. Additionally, Swarovski seems to be avoiding marketing their new product in a way that could harm their crystal business, but will have its synthetic diamond brand compete with natural diamond brands. It counts on incremental growth from new clients, rather than providing an economic substitute to their crystal jewelry customers.

Living up to Ethical and Legal Compliance Obligations

Swarovski is a private company. In terms of its legal and ethical compliance standards, they endeavor to exceed by far what is required from publicly listed companies. That sets them apart from virtually all other diamond and jewelry pipeline players, who all adhere to various best practice principles, supply chain protocols, etc., all to please consumers – but are rather “pragmatic” in their implementation. Swarovski is different, and this may become problematic as there may be synthetic producers that may not pass these higher thresholds.

While researching this story, we had received information that the Swarovski man-made diamonds originated from the Jatin Mehta-controlled IIa Technologies in Singapore. Without getting into the background details about the potential reputational fallout of such association, we intuitively felt that it would be an unlikely source for a globally operating company like Swarovski. No other concrete supply source has been mentioned to us. But the diamonds must come from somewhere...

The jewelry specific AML/CFT due diligence requirements (KYC/KYS) in the United States specifically exclude synthetics, but in other countries synthetic diamonds are covered by the laws. We posed the question to Swarovski whether the company had truly done the required supplier due diligence for all jurisdictions in which DIAMA is marketed.

Responds Andrea Dunthaler: “In general we would like to state that we always abide by our commitment to act as a responsible corporate citizen, and this has been embedded in the way we do business since Daniel Swarovski founded our company in 1895. This is a tradition that has always been an integral part of our company philosophy, has been built up over generations and is maintained to this day. Our commitment to ethical business practices is not only very important to us as a company; it is at the core of everything we do.”

Being specific, she adds: “for example, two of our business units became a member of Responsible Jewellery Council (RJC) at the end of 2014 and were granted certification at the beginning of October 2015. This was obtained only after a thorough and independent audit of all of our production, sales and administration facilities. It provides assurance to our stakeholders that responsible business practices are being followed in all sections of our operations.”

Swarovski would be well advised to disclose its sources of rough supply in its annual sustainability report. It is a sensitive issue in the diamond market.
Swarovski is Betting on Long-Term Chinese Gem-Synthetics Supplies

Swarovski is also a company that wishes to control its own destiny. It has always been the assumption that, at some point, it would develop its own synthetic diamond-growing machines. That still may be the strategy, but it has decided not to wait. In the past few years, Swarovski has been “shopping for rough supply sources.” It has held meetings with virtually all known synthetic producers.

Recalls a SCIO insider: “We had in 2013/14 serious discussions with Swarovski. SCIO Board Chairman Edward Adams, son-in-law of founder Robert Linares, and Board Member Michael Monahan had been in contact with them in 2008-2009, which resulted in a discussion to deliver $10 million of diamonds in a test phase because they wanted to test the market. In case of success, a 3 or 5-year contract would be signed to deliver a minimum of $70 million in diamonds.” But this is clearly old news.

SCIO and some of the other non-Chinese producers are increasingly dismissed by a Swarovski strategist as really relevant for the future. “Talk to your audience [readers] about the possible effects man-made diamonds will have on the natural diamond business. They are not waking up to the fact that this might be the most significant disruption in the jewelry industry in its history. They are not seriously considering how to benefit from it. Disruptions are happening all around us today and to grow new business disruption seems to be a key element. If the jewelry industry has no disruption[s] like every other industry it may be left dead by the roadside.”

DIB has reported in previous issues that jewelers in the United States have become receptive to man-made diamonds. Today they are available through [Matt] Stuller to tens of thousands of independent retailers. Most chain operations are considering it. Today, gem-quality man-made diamonds can’t be made fast enough.

Swarovski seems to be betting on Chinese supplies. It is expected that the Chinese will compete in man-made diamond production amongst themselves, driving prices down to a bare minimum and being satisfied with a mere 5% profit – after many years of building up supply. This should be good news for all in the middle and downstream parts of the pipeline and great news for consumers.

It must also not be forgotten that the Chinese, as the man-made gem supply and demand curve develops, will be introducing new technology all the time in order to get an edge on competition, thereby, pushing prices potentially even lower. In the end, the diamond industry gets a breath of fresh air due to lower prices for the pipeline and consumers. Consumers will react favorably to lower prices and, as the Chinese know, lower prices mean a larger market. These huge new markets in China and India will develop well, especially with more affordable product, suggests an independent industry source.

From a natural diamond industry perspective, it seems that the importance of the Element Six talks with Swarovski is not its outcome, but rather the fact that it took place.

Looking to the Future:
For Generations to Come

When researching this story, one couldn’t help...
but admire the Executive Team of Swarovski and also wonder whether they fully appreciate their risks versus their opportunities. **Man-made gem diamonds are now “profitable” because their selling price is linked to natural diamond price lists.** In a few years down the road, when the production costs have come down and the entry threshold has been lowered – essentially anyone with money can acquire the technology to create them. It will then become a very competitive market.

Swarovski wants to control its destiny. Can it rely on outside support sources? Must it develop its own productive capacity? Will its man-made diamonds become generic – or will there be a market in which different non-brands and brands compete? There are many conceivable scenarios and directions for this business to grow.

Looking at it strictly from a diamond industry perspective, it would be a win-win if, indeed, Swarovski and De Beers would team up. Swarovski has the financial means and marketing experience to position its synthetic brand as the most prestigious one – and other producers may want to come under its umbrella. In any scenario, Swarovski would also source from China. That’s clear.

Swarovski would consolidate the business and become the dominant player sourcing rough from several sources. Trust and confidence in man-made diamonds would be created, without causing an erosion in confidence in the natural product. Again, it would be a win-win. So far, the outreach has not borne fruits. Let’s take comfort knowing that there will also be a tomorrow – and, if not forever, then certainly for generations to come.

**Irrespective of this:** the launch of the Swarovski Created Diamond is a game changer. The industry must take notice.

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**UPDATE (From DIB 868): De Beers versus IIa Technologies**

When announcing the start of legal proceedings in a Singapore court, De Beers expressed the belief “that certain of its patents for proprietary synthetic diamond products and their method of manufacture have been infringed by IIa Technologies. It is therefore taking this [court] action to defend its intellectual property rights and business interests.” IIa Technologies responded with a blanket denial.

These court cases tend to last for years. It is moving ever so slowly. DIB could ascertain that, so far, a Statement of Claims has been filed by De Beers, to which IIa Technologies has filed a Preliminary Defense (denying everything). De Beers has filed its detailed response to this. In this ping pong, it is currently waiting for the response by IIa Technologies.

In situations like this, any potential party considering a supply relationship must do a risk analysis. If IIa Technologies wins in court, all will be in order. **However, if De Beers is victorious, it might demand a global recall of all diamonds the courts might have found to have been illegally produced and illegally sold by IIa Technologies.** And that may still be one of the less drastic actions it might contemplate. It would seem to be in the interest of both sides to this litigation to have it solved or concluded earlier rather than later. That doesn’t seem to be happening.