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**THE WALL STREET JOURNAL.**

WSJ.com

BOSS TALK | JULY 7, 2008

## De Beers Polishes Its Image

*CEO Penny Refashions Business Model to Tackle Diamond Giant's Flaws*

By VANESSA O'CONNELL

When Gareth Penny became De Beers Group's chief executive in 2006, the world's biggest diamond producer was mired in some of the worst crises in its 120-year history.

Rapper Kanye West's "Diamonds From Sierra Leone" in 2005 and the movie "Blood Diamond" in 2006 were triggering a wave of negative publicity about buying "conflict diamonds," which were sold in the 1990s by African rebels to help pay for their wars. De Beers had already worked with the United Nations, governments, and human-rights groups to introduce the Kimberley Process, a voluntary certification program for rough diamonds that allows the origin of the gems to be traced, but the company was vulnerable to a consumer backlash nonetheless.

On its home turf in South Africa, De Beers was criticized for not pushing hard enough for black participation, both in diamond cutting and its own upper ranks. And, after years of sparring with antitrust regulators in the U.S. and Europe, it was trying to settle class-action suits in the U.S. alleging that its monopolistic practices had long kept the price of rough diamonds artificially high.

Today, De Beers is "in transition," says Mr. Penny, 45 years old. The company, whose sales slipped 2.8% last year to \$6.84 billion, has a new business model and is trying to polish its image. And Mr. Penny now casts himself as an unofficial ambassador for Africa who can help bring businesses and jobs to the continent. Excerpts from a recent interview:

**WSJ:** *When you took over, De Beers faced several crises. Which have you resolved? What remains?*

**Mr. Penny:** Over the last six or seven years we have dramatically refashioned the business that we are in, exiting third-party contracts and no longer trying to control supply. Our market share today is still significant, but it is 40% as opposed to 80% or 90% of the diamond business. It is now a very competitive business. We go head to head with all manner of major mining companies

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everywhere we do business and, on the retail side, with the Cartiers and the Tiffanys and the Bulgaris.

With regard to conflict diamonds, De Beers has worked with many governments around the world to form the Kimberley Process, which has been so successful in stemming diamonds used to fund conflict. One hundred percent of De Beers diamonds today are conflict free.

We have also completed a major black-empowerment deal so that 26% of our South African company is in the hands of a black investment vehicle. We have 50-50 partnerships with Botswana and Namibia. We are looking for ways in which to create opportunities for other businesses -- emerging businesses -- in Africa. Annually we are investing something like \$4.6 billion with partners into African economies.

And a judge has recently accepted the [\$295 million] settlement reached in the U.S. class action.

I am pleased to say we made significant progress.

**WSJ:** *What is the evidence of that progress?*

**Mr. Penny:** With conflict diamonds, the countries that the issues had been around -- Liberia, Sierra Leone, etc. -- are countries at peace. It is estimated that 99.8% of all diamonds in the world flow through the Kimberley Process, which is extraordinary.

If you look at the contribution that the diamond industry makes in a country like Botswana, 33% of gross domestic product is directly accountable to the diamond industry and to the mines that De Beers operates with its partners. And nearly two-thirds of foreign-exchange revenues are generated through the diamond business. I think all that points to the kind of contribution that we make. [Anglo American PLC owns 45% of De Beers, the Oppenheimer family owns 40% and the government of Botswana owns 15%.]

**WSJ:** *De Beers has a reputation for being very secretive. Why has it opened up and become more active publicly?*

**Mr. Penny:** The product we sell stands for the deepest of human emotions: love and commitment. So we have taken the view that we are enormously proud of what De Beers and its partners are doing today. We want people to know that with any diamond they buy, that product is not only deeply meaningful to them but, in terms of the contribution that it is making, to Africa. If we can tell our story across the world, it is positive for us, and the industry, and for Africa.

**WSJ:** *Have De Beers and the diamond industry embraced change quickly enough?*

**Mr. Penny:** It is fair to say that in the 20th century the industry probably didn't react as quickly as it needed to. It has been quickly catching up in terms of emerging major diamond brands and the significant positions they are occupying in the luxury-goods space. And if you look at huge growth markets

like India and China and you see the speed with which diamond acquisition and diamond gifting is becoming a part of everyday life, it is pretty dramatic.

**WSJ:** *There have not been any significant discoveries of diamond mines since 1990. Does that mean prices are going to shoot through the roof?*

**Mr. Penny:** Finding diamond mines isn't easy. We spend \$100 million a year looking for diamond mines around the world. If we are successful we may find one major discovery in a 10-year period. So there is an emerging supply-demand gap. Demand is driven both by the existing markets -- the American market is important -- but equally by the new emerging markets, most particularly, India and China. So you are seeing -- and you are going to see -- price rises. I wouldn't describe them as going through the roof, but I think they will be systematic and sustained. Our prices went up 8.5% in the earlier part of the year, and since then, there have been further price rises.

**WSJ:** *The U.S. dollar is weak world-wide and yet it continues to be used as a base for diamond trading. Why?*

**Mr. Penny:** Well, it is something we have looked at. We used to use pounds up until the '50s. But in the last 50 years we have traded in dollars. We are conscious of the fact that America represents 50% of our market. And there are other countries whose currencies are tied to the dollar -- which takes us up to something like two-thirds of the consumer market. So for the time being, we have no plans to change.

**WSJ:** *What are your plans for the De Beers retail business?*

**Mr. Penny:** Well, it is still in start-up phase, [but] it is expanding very rapidly. By the end of this year it should have just short of 50 stores, which puts it probably in the top five [jewelry] retailers in the world. We will have to see how the year pans out as a whole, but I am pleased with the progress.

**WSJ:** *Any thoughts on the U.S. economic slowdown?*

**Mr. Penny:** The jewelry market, like many other sectors of the economy, is going through a challenging period. Some retailers obviously will do well, even in difficult circumstances. And others may not. Longer term, we are optimistic about the American market. It has been a robust and growing and healthy market for decades. We would expect to revert to that pretty soon.

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