

# **PROJECT: MARKETING CANADIAN ARCTIC™ DIAMONDS IN THE UNITED STATES**

## **FINAL REPORT**

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Below provides information regarding our target consumer. This information is based upon the analysis and synthesis of many different sources including the following:

- **Focus group sessions with U.S. consumers were conducted in Chicago (due to limited resources, only one city was executed) in late January 2002.** We spoke to four classes of consumers that included two groups of married or engaged women, one group of single, professional women, and one group of married or engaged men.
- **One-on-one telephone interviews were conducted during late February with eight U.S. retailers who sold diamonds and/or diamond jewelry.** All of the respondents were familiar with CANADIAN ARCTIC™ diamonds and either sold the diamonds in their stores currently or were planning to sell them in the near future.
- **Davenport & Company LLC Report - 'The Jewelry Industry Poised for Long-Term Growth', written by Kenneth Gassman.**
- **Unity Marketing Report - 'The 2001 Jewelry Report: The Market, The Industry, The Trends.'**
- **PRA Inc. consumer market study, April 2000.**
- **Other secondary sources e.g. Diamond Project files, Internet, trade journals, etc.**

## WHO IS OUR TARGET CONSUMER?

Our core target user is a woman, age 25-54 (Baby Boomer and Gen X'er generations). She is more educated (some college/college grad+) and affluent (\$50K+income). While she is definitely the core user, she is not always the core buyer. In many cases, she will receive the diamond or diamond jewelry as a gift, often from a male companion (core target buyer).

Within this broad target group, there are several consumer segments in priority order as described below.

### #1: Gifters

These consumers tend to be men, married or romantically involved, who are giving a diamond or diamond jewelry as a gift to their wives, fiancés or girlfriends for special occasions – e.g. engagement, anniversary, Christmas, special birthday, etc. In some cases, giving a diamond is expected as part of the occasion e.g. engagement. Although the women may not be the buyers, they still have strong influence over the purchase.

These men tend to be more educated (some college or college grad+) and more affluent (\$50K+ income).

This group is critical because they account for most diamond purchases, both volume and value. According to research, 84% of all jewelry is purchased as a gift. In addition, according to J. Walter Thompson (DeBeer's ad agency of record), consumers spend more on diamond jewelry gifts than on diamond purchases for themselves (\$431 average spent for self-purchase versus \$667 average spent for a gift).

In the Unity Marketing report, retailers reported that 57% of store sales are made through customers buying gifts for others while the balance (43%) is made through those buying pieces for themselves.

### #2: Self-gifters

These are women, predominantly single, who are working professionals. This consumer segment is increasingly becoming larger as more women are choosing to remain single or they are getting married much later in life. These consumers are moving up in business, social, and political circles and they tend to have more disposable income that they spend on themselves for clothing, jewelry, travel, etc. They tend to be more educated, sophisticated, affluent, and live in urban areas. They are independent and confident in themselves and in their abilities. They tend to purchase fine jewelry as a 'reward' for themselves – an indulgence that 'they deserve' and 'have earned'. Right-hand diamond rings, which usually consist of smaller, inlaid diamonds in white gold, or princess or square cuts in unusual bands, are becoming increasingly popular among this segment.

Within these consumer segments, there are some interesting insights as defined by key characteristics.

## **AGE**

**According to the Unity Marketing report, the average age of consumers of fine jewelry is 41 years, with the largest concentration of consumers in the 25-to-44 year age bracket.**

### **Baby Boomers (ages 37-55)**

Baby boomers represent a lucrative consumer segment. In the United States alone, there are 78 million baby boomers. These individuals were born between 1946 and 1964 and, today, they are between 37 and 55 years of age.

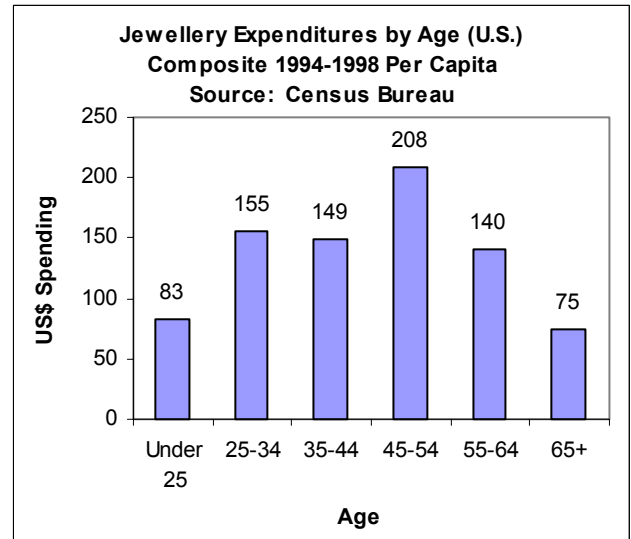
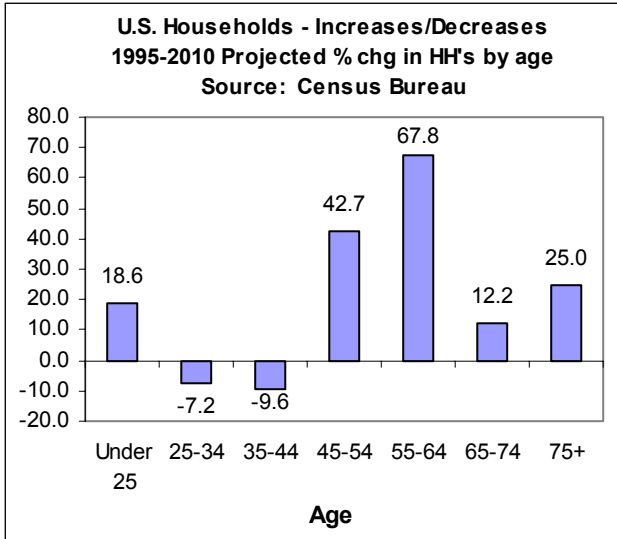
Baby Boomers have more free time and financial resources than any other age group. And, unlike their predecessors, who lived during the depression era, these individuals like to spend their money on themselves. They are poised to spend heavily on jewelry, provided they can be 'romanced.' As well-known consumer futurist Carol Farmer notes, 'when passion is the driver, price is no object. Baby Boomers may be the world's greatest rationalizers!'

Baby boomers have enjoyed unprecedented opportunities in education and employment; they are the 'feel good' generation and often take good things in life for granted. Although each individual is different, below provides some characteristics that tend to exist within this group:

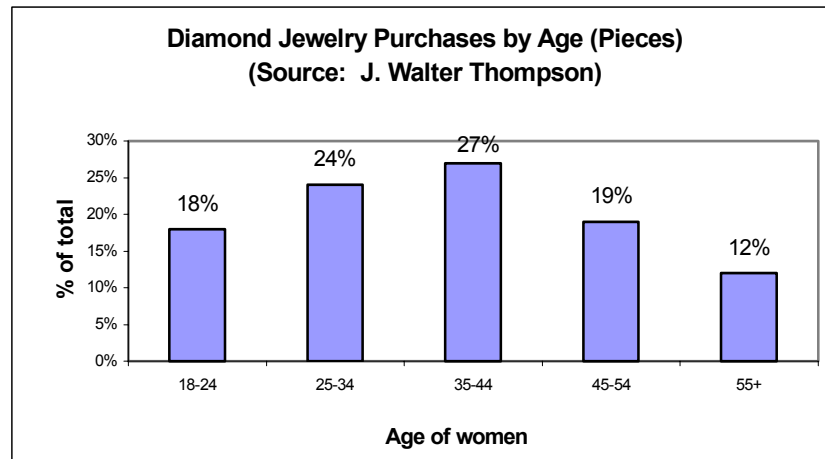
- Boomers are interested in bettering themselves. They often seek purpose and personal fulfillment in their lives. For many baby boomer women (ages 40+) self is regaining importance; many are thinking 'now it's time for me.'
- Boomers see themselves as forever young. Boomers have a strong desire to look, feel and act youthful regardless of their actual age. Boomers don't want to feel like they are getting older, just better and cooler.
- Boomers are not passive. They want some measure of control.
- Boomers think they are special. They are very demanding consumers. They like things that reinforce their feelings of specialness. They also want products designed to fit their individual needs, so customization or personalization, or the illusion of it, is important.
- Although baby boomers have money to spend, they are discriminating consumers – they demand service, information, and value.
- Boomers are looking for unique and different experiences and products.
- Boomers demand immediate gratification. They 'want it all, right now'.
- Boomers are time deprived. Letting someone else deal with all the details is very appealing. However, they tend to be more skeptical and less trusting. They are looking to the retailer to educate them.

- Boomers tend to be more informed and seasoned. They look for information to guide their purchases. They demand information about what they are buying and the Internet is the ideal place to give it to them.
- Boomers believe more is better and they tend to be more of a 'show-off' and prefer glitz.
- Boomers value and will pay more for luxury, expertise, quality, differentiation, and convenience.

**Baby boomers between ages 45-54 will be critical given that they will dominate this age range for the next ten years and they have the greatest propensity to spend on jewelry (Figures 1 and 2).**



However, the younger consumers (ages 25-44) should not be forgotten since diamond jewelry is more popular among these consumers.



### Gen X'ers (within our target, ages 25-36)

Also called 'Busters', these consumers were born between 1965 and 1980, and they are now between 21 and 36 years of age. There are fewer of them (busting the birth growth curve), yet at 45 million strong in the U.S., they comprise 17% of the population and hold a combined \$125 billion in annual spending power. Unlike the Baby Boomers who "want it all, right now", the Gen X'ers do not seem to want it all, nor are they in a hurry to spend money.

This generation has been exposed to a tremendous amount of change including changes to the definition of the nuclear family; over half of these consumers come from broken homes. These consumers tend to be more wary and uncertain about the future, and disillusioned with almost everything. They are often called the 'why me' generation and the 'whiners'.

These consumers tend to be more pessimistic, reactive and less trusting of others. They have lower expectations of the 'good life' and feel that their future lifestyles will be less than that enjoyed by their grandparents. They prefer living more simply and value quality to glitz. In addition, they are technologically sophisticated and market- and product-savvy.

Although currently not apart of the core target consumer group, **Gen Y'ers or Echo Boomers** represent another segment that will be critical in the future and thus worth noting. These consumers are the children of Baby Boomers and they have been heralded as the next big generation with over 71 million strong. They are usually defined as those born between the years 1977 and 1994; the youngest in this generation is 7 years old this year, the oldest 24 years old. Approximately 36 percent of this generation has reached adulthood; this year they will be between the ages of 18-24.

## **ETHNICITY**

**Jewelry buyers are found in all ethnicities, with the majority being White/Caucasian. However, there may be opportunity in targeting Hispanic and African-American consumers.**

According to the Unity Marketing Report, there seems to be higher purchasing incidence among Hispanic consumers. African American consumers seem to buy the greatest number of pieces on average.

<b>Ethnicity</b>	<b>Total Pop'n (millions)</b>	<b>% Bought in past year</b>	<b>Avg. Pieces in past year</b>
White/Caucasian	166.1	32%	1.9
Black/African-American	23.5	37%	3.2
Hispanic	8.6	44%	2.7

African-Americans show the highest expectations for more fine jewelry purchasing in the coming year. Nearly a third of African-Americans foresee buying more fine jewelry items, either for themselves or as a gift, in the coming year, versus what they purchased in the past year.

<b>Ethnicity</b>	<b>More Than</b>	<b>Same As</b>	<b>Less Than</b>
White/Caucasian	12%	43%	42%
Black/African-American	29%	45%	26%
Hispanic	26%	40%	33%

To effectively target these various ethnic segments, primary research should be conducted to better understand behavior, preferences, and attitudes. Currently, there is limited secondary information available.

## WHERE DOES OUR TARGET CONSUMER LIVE?

**The United States is a very important market given the enormous size (representing almost half of global sales) and the breadth of diamond product desired.**

According to the Unity Marketing report, the total U.S. population is 273 million persons and jewelry sales reached \$39.8 billion at retail in 2000. However, given the large size of the U.S. market and limited marketing funds, it will be critical to focus efforts against those consumers who have the greatest potential.

To focus geographically, there are several factors that can be considered – 1.) Market size, 2.) Market interest in NWT or Canada's Arctic, and 3.) Market importance placed on social and environmental concerns.

### 1.) Market size

The table below lists the largest states in terms of jewelry retail sales (based upon 1992 retail sales as detailed by Professional Jeweler magazine).

	<b>US\$ sales (millions)</b>	<b># Establishments</b>
California	1,642,267	3224
New York	1,475,108	2262
Texas	984,764	1895
Florida	876,243	1981
Illinois	628,138	1111
Pennsylvania	582,682	1269
Ohio	534,118	1067

### 2.) Consumers who are already interested in the N.W.T. for travel

The U.S. makes up the greatest proportion of foreign visitors to the NWT. As expected, the states closest to the border remain the greatest source of U.S. tourists to Canada. The largest percentage of U.S. visitors to the NWT is as follows:

<b>State</b>	<b>% Of total NWT visitors</b>	<b>1992 US\$ jewelry sales</b>
California	13%	1,642,267
Washington	8%	232,966
Alaska	5%	36,393
Texas	5%	984,764
Minnesota	4%	204,256
Montana	4%	33,227
Michigan	4%	473,286
Colorado	4%	184,787

### 3.) Areas of the country where social and environmental concerns are more prevalent

Since this information is not readily available, there were some unorthodox methods used to assess this variable.

First, the state locations of the top 100 public companies that meet the highest social and environmental standards, as rated by Business Ethics magazine were noted.

State	1992 US\$ jewelry sales
1.) California	1,642,267
2.) New York	1,475,108
3.) Illinois	628,138
4.) Minnesota	204,256
5.) Massachusetts	416,504
6.) Texas	984,764
7.) Ohio	534,118
8.) Indiana	256,437
9.) Washington State	232,966
10.) Pennsylvania	582,682

Secondly, the locations of Whole Foods stores, a supermarket chain that caters to the more affluent and educated consumer who cares about the community and the environment, were considered; although Whole Foods stores are located in almost every state, the following states had the greatest number.

State	1992 US\$ jewelry sales
1.) California	1,642,267
2.) Massachusetts	416,504
3.) Texas	984,764
4.) Illinois	628,138
5.) Virginia	343,796
6.) Florida	876,243
7.) Pennsylvania	582,682

Lastly, the headquarters of social and environmental clubs, organizations or media were noted.

Sierra Club – San Francisco, CA  
Corpwatch.com – San Francisco, CA  
Environmental magazine – Norwalk, CT  
CSRwire – Brattleboro, VT  
Co-op America – Washington D.C.  
Conscious consumer – Seattle, WA

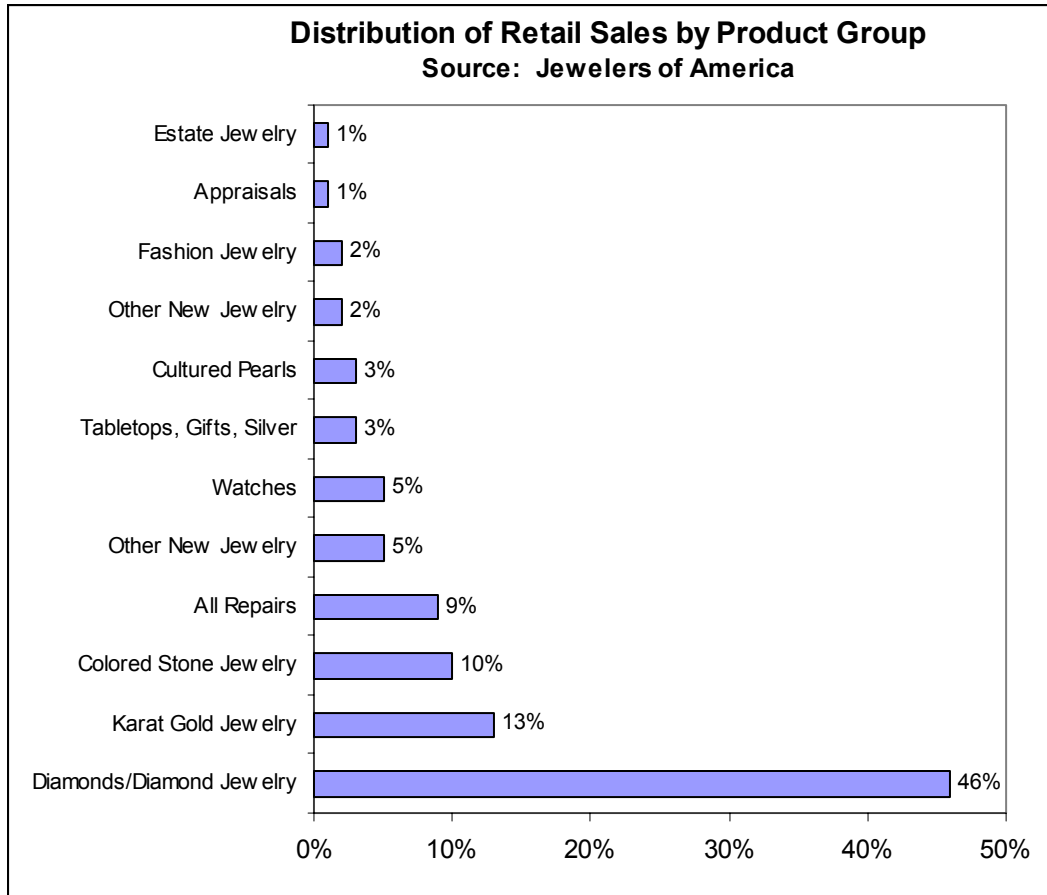
Of the three factors considered, market size is characterized as the most important. However, the other two variables were also factored in, albeit to a much lesser degree. In addition, according to the Unity Marketing report, the majority of jewelry consumers

live in a Metro region, either in the center city of a metropolitan area, outside the center city, inside the suburban county of a metropolitan area, or in a metropolitan area with no center city. As a result, there are several metropolitan areas that should receive priority focus as detailed below:

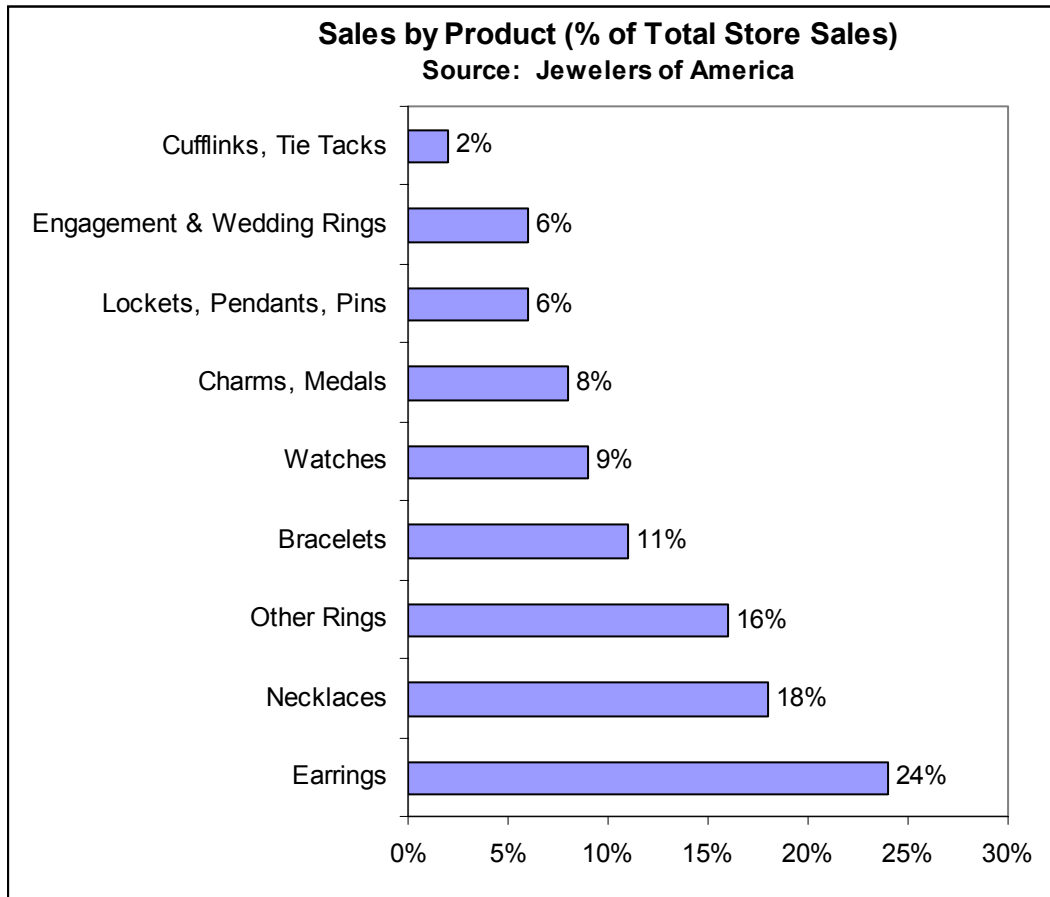
- **West Coast:** California (San Francisco, San Diego, Los Angeles)
- **Northeast:** Washington State (Seattle), Colorado (Denver)
- **East Coast:** New York (New York City, upstate N.Y. – Rochester, Buffalo, Albany), Massachusetts (Boston), Pennsylvania (Philadelphia, Pittsburgh), and Washington D.C.
- **Midwest:** Illinois (Chicago, Evanston), Minnesota (Minneapolis, St. Paul), Ohio (Cleveland)
- **South:** Texas (Austin, Dallas, Houston), Florida (Miami, Orlando, Tampa)

## WHAT ARE THESE CONSUMERS BUYING?

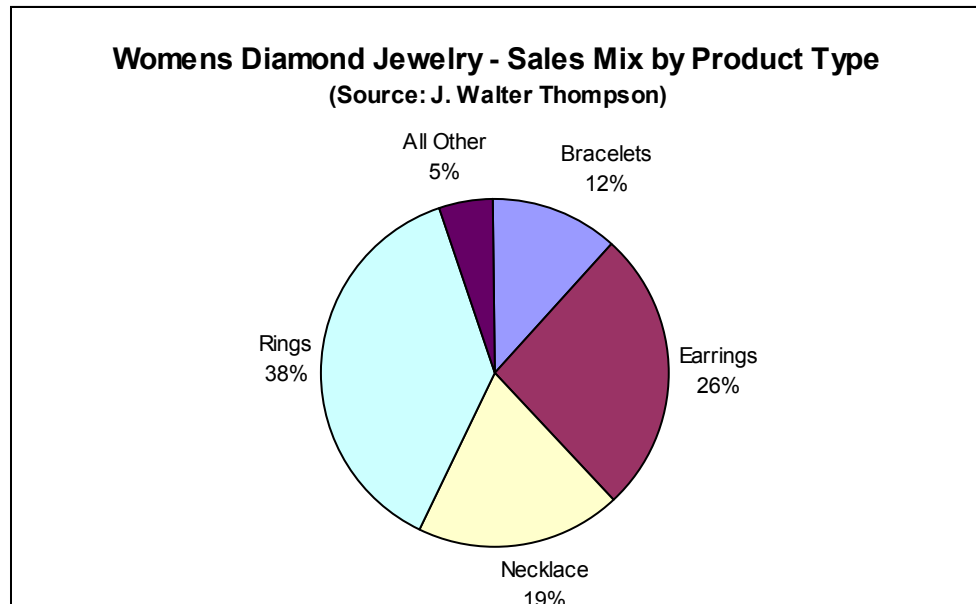
According to a recent Jewelers of America survey, loose diamonds and diamond jewelry represent the largest categories of sales for jewelers.



**Jewelry for the ears and neck are the most popular with U.S. consumers, according to the Jewelers of America.**



**Specifically for diamond jewelry, rings are by far the most popular, followed by earrings and necklaces.**



**Some recent trends within the U.S. market include the following:**

- Discounters are popularizing the inexpensive jewelry segment. This type of jewelry is especially popular among young people who are looking for items they can update often rather than keepsake pieces they envision wearing forever.
- A presentation of Fall 2000 jewelry trends was made in NYC. The following trends were identified by the Doneger Design Group, as reported in the Rapaport Report:
  - More is More - Maximalism is in style.
  - Ladies Who Lunch – The uptown woman wears lots of jewelry.
  - World Mix – Ethnic influences are being used to create fresh new looks.
  - Warming Trend – Color is becoming more popular. The #1 selling apparel color is pink.
  - Artful Expression – Craftsmanship and design of the jewelry pieces are becoming more important.
  - Return of the Brooch – Brooches are making their way back onto the runway as seen on belts, shoulders, hips, back of the dress, and at the waist.

## HOW ARE THESE CONSUMERS SHOPPING?

### **Most consumers buy diamonds from a retail or wholesale jeweler.**

According to the PRA survey, most respondents would purchase diamond jewelry from a specialty store – three-quarters reported they would make such a purchase from a retail or wholesale jewelry store. They are much less likely to buy from a diamond specialist (6%) or a department store (3%). Almost no one surveyed would use the Shopping Channel or the Internet to make a final purchase.

In the Unity Marketing study, 53% of all adults who purchased fine jewelry, made the final purchase at a jewelry store. Regardless of age, income, education levels, household size or composition, jewelry stores remain the preferred source for fine jewelry.

### **Wealthier consumers are less likely to comparison shop than middle class consumers. However, it seems that many consumers visit several stores to become more educated about the product and their purchase.**

A recent JCK poll found that high-income shoppers who have an appetite for luxury goods are less likely to comparison shop. The poll found that over 52% of consumers with incomes over \$100,000 purchased jewelry at the first jewelry store they visited. Among consumers with incomes between \$50 - \$99K there was a significantly higher tendency to comparison shop with only 15% of the respondents making a jewelry purchase at the first store they visited.

Within the focus groups, most of the consumers visited several stores in order to become more knowledgeable about the product and thus increase their comfort level at purchase.

### **Brand names have little meaning for most consumers. Aside from Tiffany, Cartier, and De Beers, brand recognition in the jewelry industry tends to be very low.**

Source: JCK Magazine	<b><u>Brand Familiarity</u></b>
Tiffany	41.5%
Cartier	35.5%
De Beers	20.6%
Van Cleef & Arpels	16.4%
Henry Dunay	4.8%
David Yurman	4.3%
Lagos	4.1%
Roberto Coin	4.1%
Le Vian	1.6%
Seidengang	1.4%
John Hardy	1.0%

Although, in a survey conducted by PRA Inc., when consumers were asked to choose among several existing brands and the CANADIAN ARCTIC™ diamond name, existing brands like De Beers dominated.

<b>Brands shown</b>	<b>Total</b>	<b>American consumers surveyed</b>	<b>Canadian Consumers surveyed</b>
De Beers	55%	61%	42%
CANADIAN ARCTIC™	10%	4%	25%
Hearts on Fire	7%	7%	9%
North American Arctic	7%	8%	6%
Hearts & Arrows	2%	2%	1%
Do not know	18%	18%	18%

During the focus group sessions, the women seemed to place greater importance on brand name and image (such as Tiffany’s or a specific retailer name) than the men. However, brand loyalty was non-existent. Stronger loyalty existed for a specific jeweler with whom the consumer had built a relationship over time. Men believed that since no one else could see the difference (one diamond from another) then it had little/no value or importance.

**Many consumers conduct research online before purchasing. They tend to be more educated and sophisticated; they are self-reliant and seek information and knowledge in order to make informed decisions.**

Consumer surveys indicate that 70% of consumers conduct online research prior to purchase and as many as 12% change their minds based on the information they receive. Many of the focus group participants conducted research on the Internet prior to visiting the retail store.

Interviewed retailers mentioned that the collection of information on diamonds from the Internet or from visiting multiple stores is especially important if the consumer was not referred to the store or salesperson by anyone they trusted.

## WHEN ARE THESE CONSUMERS BUYING?

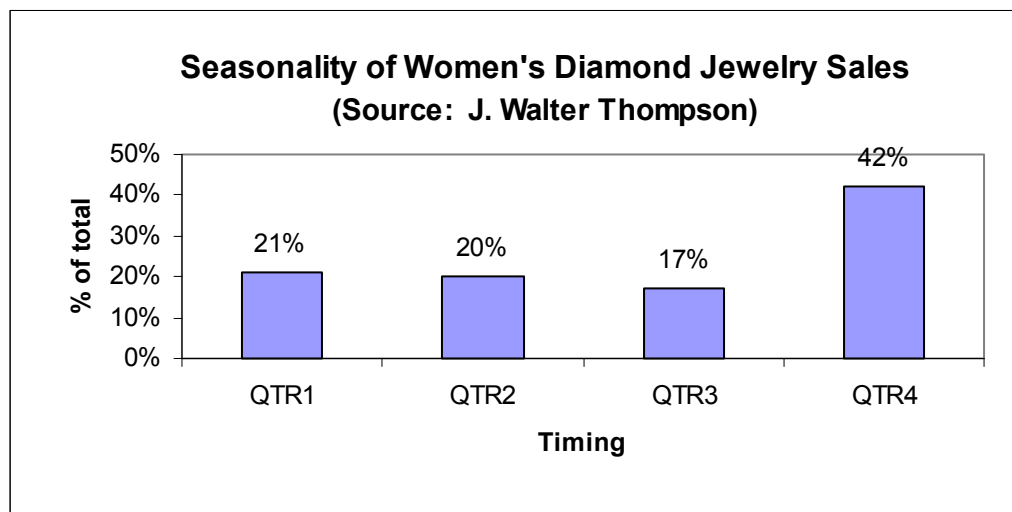
**Jewelry purchases are primarily a planned purchase.**

According to JCK Magazine, about 2/3rds of all jewelry buyers plan their purchase in advance. The purchase is typically related to some key life cycle milestone. Only 1/3 of all jewelry purchases are made on impulse.

**Three key calendar events fuel jewelry sales – Holiday/Christmas, Mother’s Day, and Valentine’s Day**

These three events call for gifts of jewelry by tradition. Holiday/Christmas is by far the most important selling period of the year. Other minor events that create demand include Father’s Day and Graduation Day as well as on-going events such as engagements and weddings.

Specifically for diamond jewelry, the holiday/Christmas season is strongest.



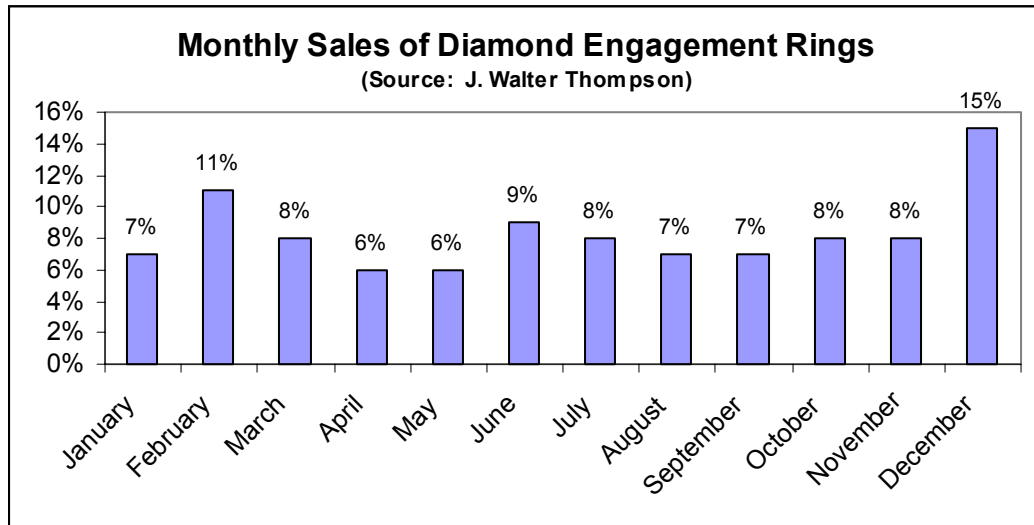
**Another important event that fuels strong diamond purchases are anniversaries, especially by value.**

<u>Occasion</u>	<u>By Unit</u>	<u>By Value</u>	<u>Average Price</u>
Anniversary	12%	23%	\$1,111
Birthday	14%	14%	\$583
Christmas	28%	23%	\$503
Other Special Occasion	21%	18%	\$538
No Special Occasion	25%	22%	\$542

**Engagement and wedding jewelry is also a very important product segment.**

Wedding demand is rather stable year-to-year. Since about 1980, the number of couples marrying in the U.S. has remained steady at around 2.3-2.4 million annually.

The average engagement period is 14 months; the demand for diamond engagement rings is strongest in December followed by February. Otherwise, demand is relatively stable every month of the year.



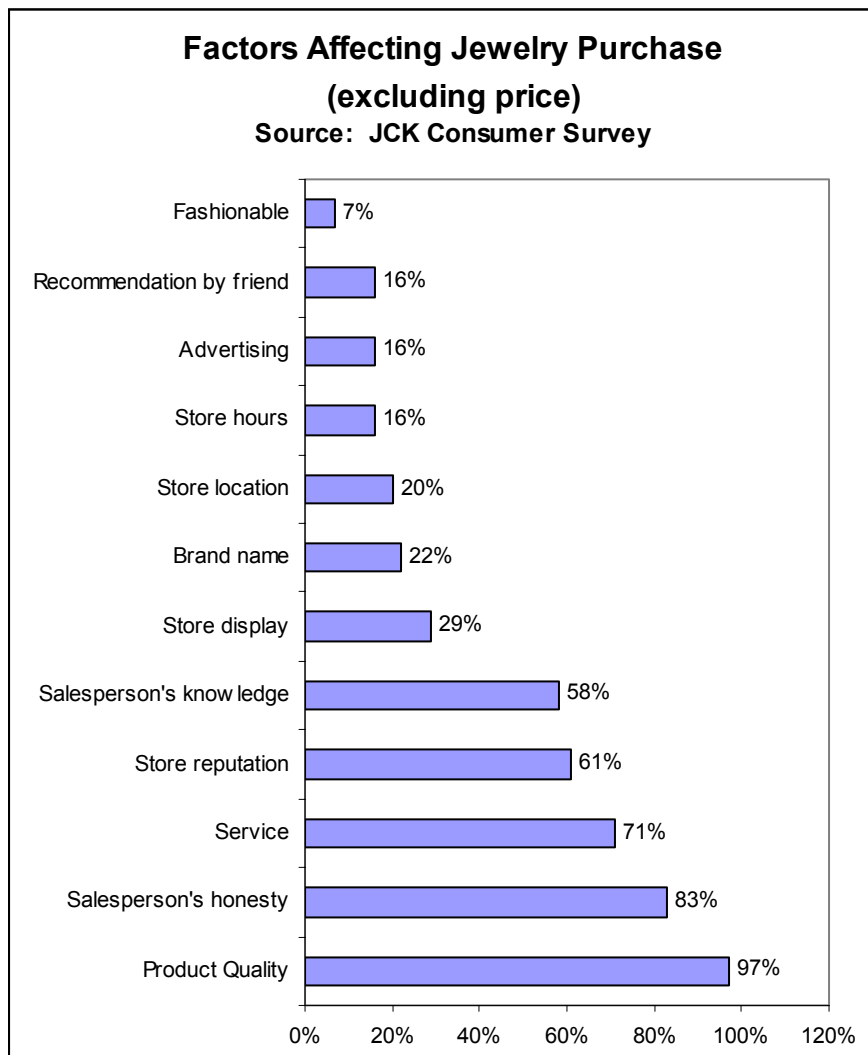
Also, in recent years, weddings have become a year-round business. However, the strongest months for weddings are June, July, August, and September. The median age of first-marriage brides and grooms is rising from 20-23 years in 1960 to 25-27 years in 1998. Given the increase in age, typically these consumers can spend more on their wedding and wedding related jewelry.

## WHAT IS MOST IMPORTANT?

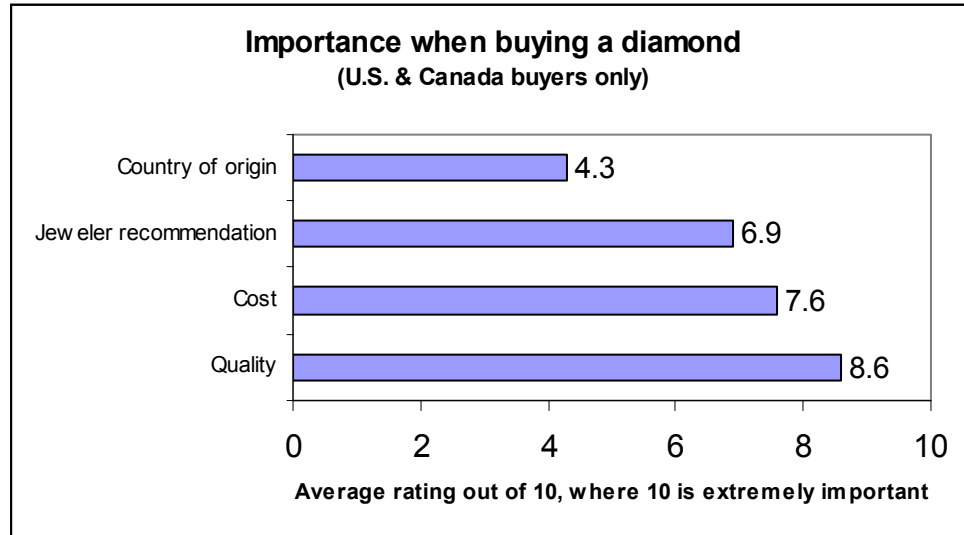
**Aside from price, quality is the most important attribute to the consumer.**

In both the trade and consumer research, the quality of the diamond was very important. In many cases, the consumer considers it a minimum requirement or a 'given'. The diamond(s) must be of good quality or the consumer will not even consider purchase of the jewelry. For many consumers, the 4 C's defined the quality of the diamond. Most consumers want to maximize the 4 C's for a pre-determined amount of money they are willing to spend.

This finding was supported by a JCK consumer survey that found product quality to be most important.



In addition, in the study done by PRA Inc., 80% of respondents rated quality of the diamond as very important (in fact, almost 50% rated it extremely important).



### *How does a consumer define quality?*

Most consumers are not looking for the best quality or the 'perfect' diamond. Focus group participants defined good quality as being beautiful (brilliant, with lots of sparkle) and flawless to the naked eye. A quality diamond will sparkle a lot and will not be yellow or cloudy. For these consumers, as long as the diamond looks beautiful to the naked eye it is often considered to be of good quality and worthy of purchase.

According to the trade interviews, the consumer seems to define quality by the 4 C's with specific importance placed upon clarity and cut.

### **The appearance of the diamond to the naked eye is critical to the consumer. Consumers are looking to maximize the brilliance and fire of the diamond.**

Consumers want to maximize the brilliance and fire of the diamond. However, it seems that many consumers are not sure which 'C' actually has the greatest impact on the sparkle of the diamond. Most focus group participants believed that clarity and color of the diamond determine how much the diamond sparkles, not cut. However, from the trade research, consumers who are more educated and sophisticated believe cut to be the strongest driver of sparkle and brilliance. In most cases, the consumer needs to be educated about the importance of cut. Many of the retailers interviewed believed cut to be the most important and used it as a key selling feature of the diamond.

### **Value or the quality of the diamond for the price is also very important.**

According to the focus group sessions, most consumers want to feel like they are receiving a good deal – getting the best quality for the price. In many cases, the consumer has a specific price range in mind before even entering a store. Their goal is to optimize the quality or 4 C's for this pre-determined price.

**According to the consumer research, setting and style of the diamond jewelry also seems to play a key role for the consumer.**

Setting and style includes type of metal, the number and type of stones, the shape of the stones and the setting. It should be noted that when the focus group participants spoke of their jewelry, most talked immediately about the uniqueness or their strong likeness for the setting and/or style. Some consumers also discussed the importance of the shape of their diamond (e.g. round vs. oval vs. square vs. princess, etc.); they described the shape as being the cut of the diamond. The setting and style seemed to determine the uniqueness or specialness of the jewelry piece.

**For many consumers it is important to have something unique or special to them.**

According to trade and consumer research, consumers are often looking for something special or unique. Many consumers in the focus groups discussed how they preferred a piece of jewelry that was unique and different. Currently, the setting seems to be the primary driver of this uniqueness. In addition, several consumers (in particular, the men) mentioned the importance of having a 'story' behind the purchase of a large, expensive purchase.

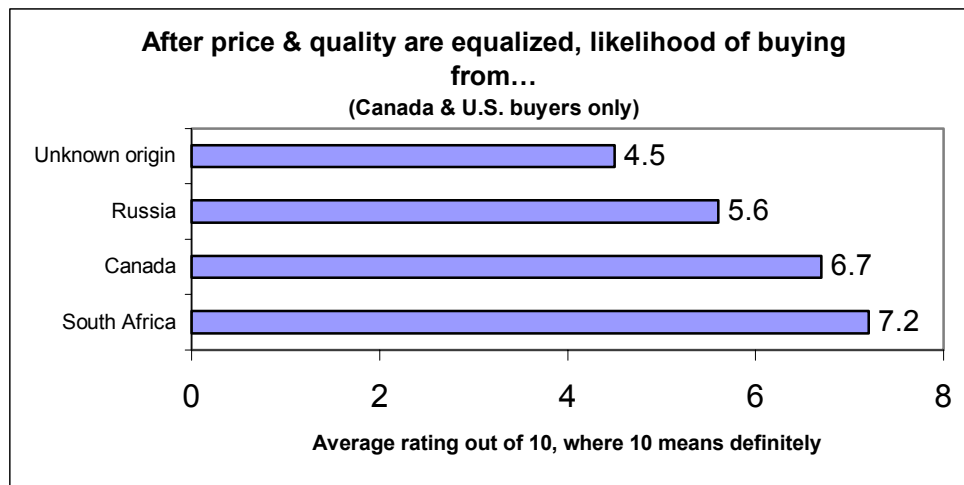
**The size of the diamond does not seem to be as important.**

According to the focus group respondents, size was not the primary characteristic. In fact, several mentioned that they didn't want anything too big. Many preferred something that they would feel comfortable wearing everyday. Most participants preferred better quality of the diamond versus size. However, there were some focus group participants that did have a minimum size requirement that was communicated to the person making the final purchase.

**Country of origin does not seem to hold much value for the consumer.**

According to the trade and consumer research, the origin of the diamond does not seem to be particularly important to consumers. Consumers did not care where the diamond came from as long as it met their needs or had the characteristics they were looking for. In a study conducted by MVI Marketing Inc., the country of origin was not a purchase consideration for most consumers. Only 9% of survey respondents cited country of origin as important to them.

This finding can be confirmed by the PRA Inc. study where fewer than 1 in 5 (18%) rated origin as very important. Although, once quality and price were equal, country of origin became a factor in the purchase decision. South Africa and Canada fared best in terms of preferred origin.



Some trade interview respondents did mention that there are a select number of consumers for whom country of origin may be very important. These 'select' consumers (one retailer believed that this segment represented about 5% of the consumer base in his market) are aware of conflict diamonds and may be willing to pay extra for a diamond that is guaranteed 'conflict-free'. These consumers tend to be more socially aware and affluent.

*The irrelevance of origin to consumers may be driven by low consumer awareness of conflict diamonds.*

There was only one consumer in the focus group sessions that mentioned conflict involved with diamonds and his understanding was that diamonds were being used to finance the Taliban. Trade interview respondents stated that few if any of their consumers are aware of conflict diamonds. Lastly, despite the considerable media coverage (e.g. 60 minutes, Dateline) and political activity on conflict diamonds, according to a MVI Marketing Study, only 9% of US consumers have even heard of 'conflict diamonds'.

*However, for those U.S. retailers interviewed, the origin seemed to provide another selling point to use with consumers.*

As one trade respondent stated, 'the origin gives you another angle or selling tool to work with. It offers you something tangible to talk about and sell.'

**The salesperson or retail jeweler is a very important influence on the final purchase decision.**

In the focus group sessions, most consumers were very trusting of the retailer, salesperson or jeweler, especially if they had a good reputation, were knowledgeable, and friendly. Most of these consumers seemed to be confident when purchasing a diamond or diamond jewelry.

Most of the retailers interviewed noted that consumer trust in the salesperson and/or retail store is critical to the final purchase decision. Most consumers want to feel comfortable and feel like they are receiving a good value; they often get this 'feeling' or trust from the salesperson they are working with.

**Another important influence in the final purchase decision is family and friends.**

In the focus group sessions, many consumers relied upon referrals from family members, friends or colleagues. According to a study conducted by MVI Marketing Inc., the retailer and family and friends' recommendations were found to be most important when making a diamond jewelry decision. Only 2% of respondents cited magazines, newspaper, or other advertising as sources of pre-purchase information. A majority of consumers (53%) rely on their families', friends', or the retailers' expressed opinions when making a diamond jewelry purchase decision.

**A certificate of authenticity seems to be of value to many consumers.**

In the PRA survey, consumers seem to highly value a certificate of authenticity -- 83% of respondents to the PRA survey said that it was very important to have the certificate of authenticity. A certificate for country of origin is not as highly valued as the certificate of authenticity; only 24% of consumers deemed it very important, although another 27% thought it to be important.

In another study conducted by MVI Marketing Inc., the authenticity of the stone was found to be the second most important factor after price. Given the increasing numbers of synthetic stones and treated diamonds in the marketplace (see November 2001 report for more detail), many consumers are less confident and trusting, especially those who are not as familiar with the retailer or salesperson.

## WHY DO CONSUMERS BUY?

From the earliest civilizations in Mesopotamia and Egypt where jewelry making had its roots in 5000 B.C. to today's consumers, jewelry has been a prized possession of both women and men.

There are many complex psychological reasons why consumers want to own diamonds and diamond jewelry. Below provides the most popular reasons:

**To celebrate an event.** There are natural life cycle events which fuel demand for jewelry – purchasing a diamond for the event can be custom-based or it is expected (e.g. engagement, wedding, anniversary ring). These events include birthdays, engagements, weddings, anniversaries, and other special events that can be immortalized by a gift of jewelry. According to research, 84% of all jewelry is purchased as a gift. If diamonds are involved, consumers tend to spend more on gifts than on diamond purchases for themselves. According to J. Walter Thompson, the average price for diamond jewelry given as a gift is \$667 versus \$431 for jewelry purchases for oneself.

**To show commitment and/or love.** A diamond is a rather large investment, which for some people means commitment. Also, a diamond will last forever and this can symbolize or demonstrate the love and commitment one feels for another. Buying a diamond can be a highly emotional event especially if it is an engagement or wedding ring.

**To feel special or show how special one is.** Diamonds are rare and unique, thus adding to the specialness of the product. The experience of buying and wearing a diamond makes people feel good about themselves and about each other.

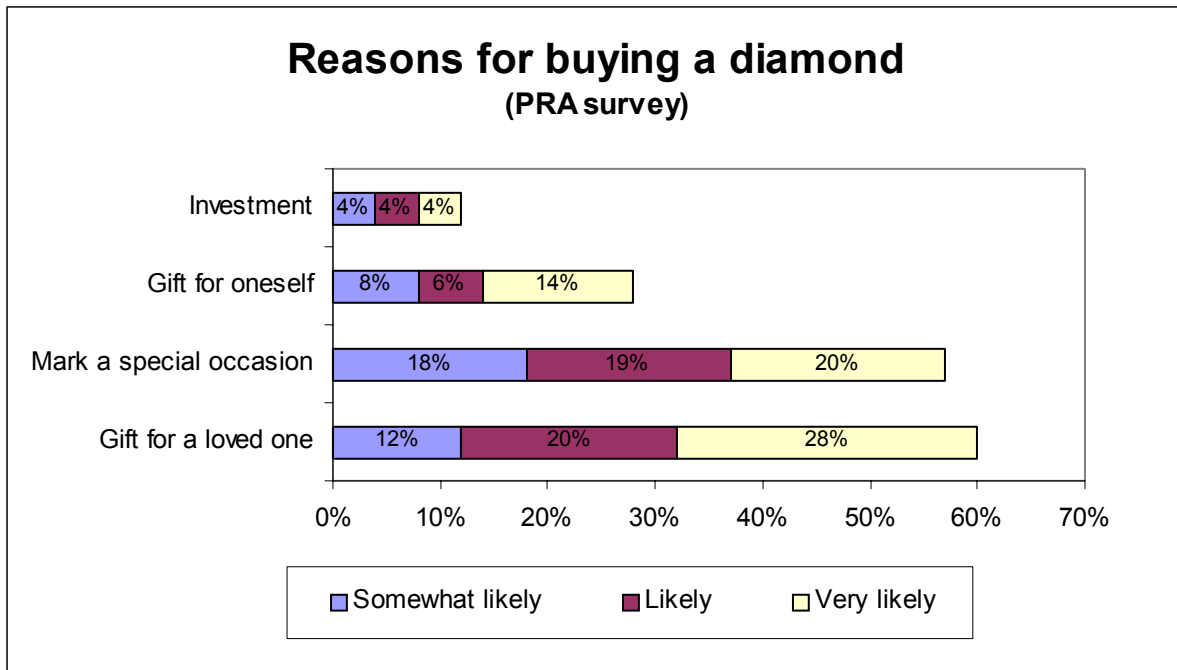
**To demonstrate one's wealth. Diamonds are a symbol of success.** Jewelry often equates to wealth. Some consumers purchase diamonds to make a statement – 'Look at me. I am rich.' They tend to be more status-conscious; they want to be perceived as being successful and diamonds can help them portray this image. Also, according to a Jewelers of America survey, many consumers purchase diamonds because they can now afford to.

**To differentiate oneself.** Jewelry and diamonds are another way people can differentiate themselves or make themselves unique and special.

**For its perceived investment value.** Diamonds are perceived by many to be a reliable investment (probably driven by De Beer's price stabilization practices). In the past, at some low points in history, people converted their wealth, specifically real estate, money, and other assets into precious stones and metals to make it more easily transportable.

**Of these reasons, it seems that the most important reason for buying diamond jewelry is to give as a gift marking a special occasion, as demonstrated in both quantitative and qualitative (focus group) studies.**

According to the PRA report, diamond jewelry is likely to be purchased as a gift for a loved one on a special occasion. Fewer buy it as a gift for themselves, and even less buy it as an investment. Men (76%) were more likely than women (48%) to buy diamond jewelry as a gift for a loved one, while women (37%) were more likely than men (9%) to buy diamonds as gifts for themselves.



Most focus group participants had purchased or received a diamond and/or diamond jewelry for a special occasion such as birthday, anniversary, engagement, etc.

Some consumers, in particular the single women, purchased the jewelry on impulse and not to mark a specific occasion or event. Their purchase was considered a ‘treat’ or something that they deserved.

No consumer in the focus group sessions mentioned buying diamonds and/or diamond jewelry as an investment.