



JEWELERS OF AMERICA

**CONSUMER CONFIDENCE AND THE KIMBERLEY
PROCESS: SOME U.S. INDUSTRY
OBSERVATIONS**

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US DOMESTIC ENVIRONMENT

- Confidence in business and government at all time low
- Confidence in NGOs higher than in either business or government and at all time highs
- Consumers indicating they now hold evidencing of transparent and honest practices and other indicators of trust as top tier elements upon which to base their trust in business alongside the quality of products and services
- Consumers reporting that they are rewarding companies that they perceive do good and punishing those that they perceive do not
- Jewelers in various sectors of the market reporting high consumer awareness, sustained questioning, and expressed desire to shift traditional diamond buying preferences

CONSUMER CONFIDENCE: DEFINITION

- Edelman Research
 - A leading independent global PR firm
 - Annual Trust Barometer Study
 - Tenth annual study (2010)
 - 4,875 people in 22 countries
 - Ages 25-64
 - College-educated
 - In top 25% of household income per age group in each country
 - Report significant media consumption and engagement in business news and public policy
 - Opinion leaders

CONSUMER CONFIDENCE: A MEASUREMENT

- Source: Edelman Trust Barometer 2009, 2010
 - US consumers have lost trust in businesses/companies - 2009 in US was at all-time low of 38% - a 20 point decline from previous year
 - Globally distrust of business declined most in US in this period
 - Many contributing factors
 - Some improvement in 2010 but US still lags other countries in this regard
 - Lack of trust triggers call for greater public regulation

RISE OF NGO INFLUENCE OVER LAST TEN YEARS

- Trust in NGOs started very low in both China and the US at start of the last decade
- By contrast today trust in NGOs is higher in most major western economies (especially in the US) than either trust in government or business
- In 2010 trust in NGOs in India and China approaching point of trust parity with government and business
- World has moved from shareholder to stakeholder society – all stakeholders are equally important (52%): public at-large, customers, employees, investors/shareholders, governments

TRUST: THE NEW OPPORTUNITY?

- Source: Edelman Trust Barometer (2009)
 - US consumers:
 - Through Personal action trust hits the bottom line
 - 91% bought products from companies they trust
 - 77% refused to buy from distrusted companies
 - 55% paid a premium price from a trusted company

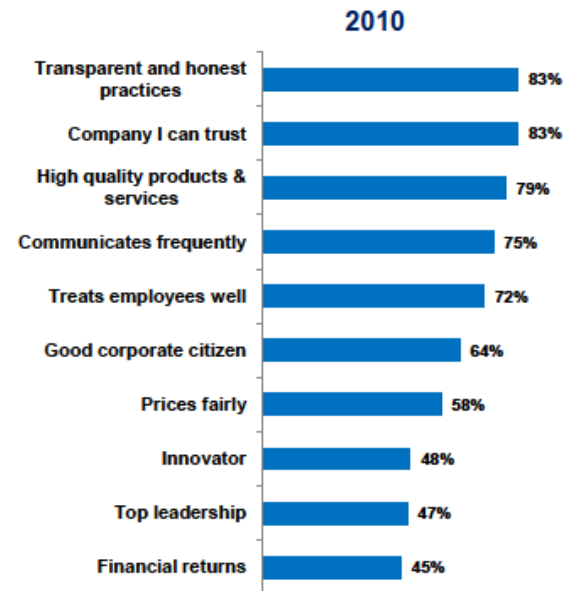
TRUST WILL CHANGE DIAMOND JEWELRY MARKETING

Trust will change jewellery marketing



Q: What shapes your trust in a company?

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Q: How important are these factors to corporate reputation?

Source: Edelman Trust Barometer 2010

RETAIL JEWELERS' EYEWITNESS ACCOUNTS

- “Customers come into our stores every day asking us to explain the basis for the trust we ask them to place in our stores and our products” – very large mid-market chain
- “Customers are routinely asking us for an alternative to a diamond for an engagement ring” – high end independent store in a major East Coast city
- “Younger customers are very well informed and routinely ask penetrating questions about the sources of our diamonds and our diamond and gold jewelry” – independent store in a mid-Western college town
- “Starting to see our customers ask questions not only in connection with DER purchases but also fashion diamond jewelry” – small chain in Pacific Northwest

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KP: RECONSIDERED

- The Kimberley Process was and is essential
 - “Was essential”: in order to address highly publicized situations in Sierra Leone, Angola and DRC among others in the late 90’s where rebels terrorized populations to secure control of diamond fields in order to secure weapons perpetuating a cycle of violence;
 - “Is essential”: in order to address current and future situations where diamonds as an accessible source of wealth provide both the incentive and the means by which to terrorize populations

TRUST AND THE KP BRAND

- The Kimberley Process Value Proposition
 - Facilitates international trade
 - Enables transparency
 - Institutes mirrored internal controls
 - Provides for peer review
 - Provides multi-stakeholder engagement
 - Encourages capacity building and continuous improvement
 - Provides systemic legitimacy
- For US retailers the key element is KP's systemic re-assurance – that all diamonds traded through the KPCS are equally trustworthy on the basis that some diamonds have been kept out of the supply stream because they are not worthy
- The basis for trust this global system provides contributes very significantly to maintaining consumer confidence in diamonds

IMPERFECTIONS

- The Kimberley Process has flaws
 - Definition of conflict diamonds is very narrow: there is no provision for protection of human rights in connection with diamond mining
 - Decisions are possible only by consensus (unanimity) among all Participants
 - There is no dedicated administrative support: it's nobody's "day job"
 - One year term of chairmanship: limited long term memory
 - Peer review process needs compliance assessment and monitoring that is independent and avoids commercial and political conflicts of interest
 - Lack of financial resources
 - Limited transparency

ORGANIZATIONAL CHANGE

- The Kimberley Process must evolve to remain relevant, credible and meaningful
 - Provision for protecting human rights in diamond mining
 - Modified approach to decision-making
 - Professional services
 - Resources
 - Enhanced transparency
 - Peer review

STAKEHOLDER ACCOUNTABILITIES

- Governments . . .
- Civil society organizations . . .
- Industry organizations . . .
- Individual businesses . . .
- But . . . priorities differ among stakeholders

NOT A PANACEA

- The Kimberley Process is not and likely will not be a panacea for all the situations in the diamond and jewelry supply chain that pose a challenge to continued consumer confidence in our industry and its products
- If KP can't manage to achieve consensus on the broadening of its scope industry will still need to find another way to address outstanding issues that pose challenge to continued consumer confidence
- As individual businesses and industry organizations we retain responsibility for the conduct of our affairs . . . We can't just wring our hands and lament KP's challenges

STRATEGIC CHALLENGE

- Most pressing challenge at present: how do we address situations where there is apparent state-supported violence and human rights abuses in connection with diamond mining and possibly other dimensions of the diamond supply chain as well?
- Difficult for some governments, essential for civil society and vexing for a hybrid initiative like KP which does not possess mandate, authority or resources at present to undertake

NEXT STEPS

- Industry, civil society and governments to continue to work together to build consensus on a series of evolutionary steps for KP
- Industry, civil society, governments and the KP to engage other international institutions to address problems beyond KP's current and likely future capacity
- Individual businesses to engage with existing trade organizations to address related conditions

THE NEED TO PRESS ON

- The jewelry industry's reputation
 - Damaged by blood/conflict diamonds, dirty gold
 - High profile with NGOs and media
 - But little measurable impact on sales
- Strong alignment by industry leaders to address reputational issues, despite fragmentation
- Industry remains very defensive
- Fine jewelry losing market share
- Losing relevance and desirability with younger consumers

TRUST: THE NEW OPPORTUNITY

- Trust is now:
 - A major market differentiator
 - A source of reputational value
 - A source of financial value and price premium

TRUST: CREATE COMPETITIVE ADVANTAGE

- Best responsible sourcing guidelines in the premium/luxury market
- Leading players in industry driving change
- Be more positive, less defensive
- Create reputational and financial value
- Improve market share and consumer demand
- Connect with consumers at retail level