Russell Mehta at Rosy Blue:
A Diamantaire for Life

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Russell Mehta, Managing Director of Rosy Blue India Pvt. Ltd., a leading diamantaire¹ turned off the television, deep in thought. Images of the Indian Finance Minister’s annual budget speech announcing stellar growth figures for the third consecutive year lingered in his mind. In February 2007, amid the extraordinary boom in India, friends in diverse industries had seen their companies’ valuations skyrocket. Why then, brooded Russell, had the glitter faded on Rosy Blue? Compared to the heady days of the 1990s, it was stagnating – despite the gruelling 90-hour weeks he was putting in.

The diamond industry had undergone sweeping changes in recent decades and was beset with supply uncertainties, new competitive threats, and global economic headwinds. In adapting to the new reality, the company had evolved from the small and nimble family-run business he had joined 25 years ago to a professionalized industry leader. Rosy Blue, with over 2500 employees in 8 locations, had posted record net turnover of US$675 million in 2006. Since 1995, Russell had worked 7 days a week to professionalize its operations. Now a new era of growth was his goal. Perhaps looking outwards would resolve the thorny issues he faced in steering Rosy Blue forward, yet the prospect of unfamiliar terrain and spending even less time on operational activities troubled him.

His eyes fell on a letter from the Mumbai chapter of the Young Presidents’ Organization (YPO),² inviting him for a membership interview. Friends who had joined the international association of young CEOs were urging him to join, but it seemed to offer little direct benefit to Rosy Blue. He had also been approached several times to join the leadership team of the Gems and Jewelry Export Promotion Council (GJEPC), the influential industry body for the diamond sector in India. Was that a better opportunity than the YPO to network and broaden his horizons and thus reorient the Rosy Blue organization? Or was his time better spent deepening relationships with existing clients and partners, which had paid off in the past?

The Diamond Pipeline and India’s Jains

The diamond value chain covers the exploration, mining, sorting, cutting and polishing of rough diamonds, called “roughs”, followed by jewellery manufacturing and retailing (see Appendix 1). The richest deposits are in Angola, Australia, Botswana, Canada, Russia and South Africa. A few large companies including De Beers (South Africa), ALROSA (Russia), BHP Billiton (Australia) and Rio Tinto (Australia) controlled the mining and distribution of roughs. Until 1995, De Beers had mined half the world’s stones and controlled 85% of sales.³ Thereafter, several mining companies established independent distribution networks.

Diamond traders, located primarily in Belgium, Israel, India and the United States, bought roughs and sold them to manufacturers – cutting and polishing factories – around the world. Many traders, including Rosy Blue, had their own factories. The finished diamonds were then sold to wholesalers or jewellery manufacturers, who sold them upstream and downstream through the pipeline to take advantage of price fluctuations. Ultimately, the diamonds were set into jewellery and sold to customers, either directly or through retailers.

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¹ French for diamond merchant
² The Young Presidents’ Organization is an education, networking and support group for young CEOs all over the world
³ Betting on De Beers, The Economist, Nov 12, 2011
From the late 19th century, orthodox Hasidic Jews in Antwerp, Tel Aviv and New York had dominated the diamond industry. However, by 2003 an astonishing 80% of all diamonds sold worldwide passed through Indian hands. Even more remarkable, 92% were cut in the small city of Surat in Gujarat. According to local lore, a Surat entrepreneur in East Africa had returned to India in 1901 with a boatload of diamond cutters and set up the country’s first polishing factory. India’s meteoric rise in the global diamond industry was largely attributable to its labour costs. When demand for smaller diamonds increased in the 1960s, 70s and 80s, labour became a significant component of the cost of a polished stone. The Indians were quick to seize this opportunity to cut and polish small, low-quality roughs. These were of no interest to Jewish merchants who had higher wage structures and therefore focused on more expensive stones. In 1950 there were 300 diamond cutters in India. By 2008 that number had swelled to almost 800,000. Most were employed in factories owned by families from a tightly-knit community – the Jains of Palanpur (see Appendix 2). In 2007, one of the largest was Rosy Blue.

Rosy Blue – The Early Years

Arun Mehta, a diamond trader, and his uncle Bhanuchandra Bhansali, a diamond polisher, started B. Arunkumar & Co in Mumbai in 1960. Each chipped in INR20,000. As Russell, Arun’s only son, explained:

“In the early days my father would bring in one diamond at a time. His uncle would polish it on the wheel and then my father would sell it.”

When B. Arunkumar & Co. started operations, the Diamond Trading Company (DTC), which was the distribution arm of De Beers, controlled the supply of rough diamonds from its headquarters in London. To get access to De Beers’ diamonds one had to be a sightholder, or exclusive customer, of DTC. In 1969, Arun Mehta secured a coveted sight for the company. In 2000, B. Arunkumar & Co. changed its name to Rosy Blue (India) Pte. Ltd, named after two of the rarest colours of diamonds.

The 1970s were tumultuous for the diamond industry. The US came off the gold standard in 1971, and in 1973 came the first oil shock. The Russians, faced with falling wheat production, desperately sold off their diamonds. Meanwhile DeBeers raised prices to support Antwerp’s traders. Diamond traders had to be quick to take advantage of all the buy-sell opportunities. The speculative bubble fuelled by perceived shortages of roughs burst in 1979, and the industry virtually collapsed as prices for larger diamonds crashed. Several well-established traders in Antwerp and Tel Aviv were wiped out. De Beers survived in part because its Indian sightholders continued to buy small diamonds.

Thanks to Arun Mehta’s exceptional trading skills and the strong relationships nurtured with both De Beers and customers, Rosy Blue’s trading volumes remained high and losses were

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5 Uncommon brilliance, TIME Magazine, April 12, 2004
6 Report on Employment in Gems and Jewelry Industry in India, prepared by IMRB for the Gem & Jewelry Export promotion council in India
7 On May 18, 2012, 1 US$ = 54.87 INR (Indian Rupee)
Learning the Ropes

A young man of 21, Russell joined Rosy Blue after graduating from university. Soon after, he and a cousin went to the US on a two-month course at the Gemological Institute of America, where he learned how Western buyers valued diamonds, which was quite different from the Indian approach. Armed with this knowledge, he threw himself into learning the basics of the trade (buying and selling diamonds) at the feet of the best in the business – his father. It was still a small operation, as he recalled nostalgically:

“In Mumbai, it was just my father and I. No titles or formal structure. I first had to understand our in-house sorting system. That was easy because there were always trays of diamonds lying around at home. As a young boy, I watched my father and grandfather sort stones. I even swallowed a few when I was very young. I guess, you could say diamonds are in my blood!”

Once he had mastered how Rosy Blue graded stones, Russell went to Antwerp, where he learnt the art of building productive relationships with key customers and De Beers. Since an assured supply of diamonds was the lifeblood of a diamantaire, Russell had to understand the nuances of the De Beers’ relationship. As DTC appointed sightholders for De Beers solely on the recommendation of a handful of brokers, De Beers needed reassurance that Rosy Blue was in it for the long haul, had sufficient financial muscle to handle big deals, and would sell their diamonds responsibly. For this, Rosy Blue had help from Bonas & Co., a London-based broking firm. Russell was introduced to the owner, Benjamin Bonas, and quickly understood the importance of this relationship.

He realized that success in the diamond trade was not merely about access to roughs and polishing – building customer relationships was equally vital. He accompanied his seniors on sales calls where he met several buyers. Most customers were in the US and it was difficult for an Indian diamond dealer to break into the market. A self-effacing introvert, Russell watched his seniors in action with some trepidation; he knew the ability to make customers feel comfortable in his presence would not come easily.

Seeking to acquire another critical skill of a successful diamantaire – trading – he returned to India as an understudy to his father, regarded as one of the most gifted traders in the industry. As suppliers and customers walked into their office throughout the day, Russell learned on the job, watching his father negotiate. His father had an uncanny ability to judge how the market would move, what stones to buy, and what a customer wanted and was willing to pay. According to Arun Mehta:

“A diamond is like a lady – it holds a different appeal to different people. It’s not about the certified quality of the diamond but about recognizing which diamonds

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8 The Gemological Institute of America is a non-profit organization located in Carlsbad, California with an internationally recognized program for the certification of gemstones as well as for the education of the public about their quality.
will appeal to the client. This is an art. By watching me, Russell developed that sense too.”

The sudden absence of this father from the business due to ill health was a baptism of fire but Russell managed admirably. He was then sent to Japan to build a new customer base. In the mid-1980s, Japan was still an emerging market for diamonds and there was little competition. For 15 days, he and a local partner went from company to company, getting to know the decision makers. Recalling the lessons learnt from his seniors, Russell studied the Japanese buyers and worked hard to establish a rapport:

“I realized that the Japanese customers I dealt with were straightforward, decent people. They were sticklers for keeping promises – be it showing up exactly on time for a meeting or delivering a specific volume of diamonds at an agreed price and time. If you were serious and kept your word, they remained loyal to you. I really don’t like socializing. Nor do I drink alcohol, smoke or eat meat. I still accompanied them – just to make them comfortable with me.”

Russell soon learned that building lasting relationships with his customers frequently came down to trust. Diamond trading, like other commodity trading, was a fast-paced activity with no time for due diligence or contracts and bank guarantees. It operated on the assumption that each party would respect their side of the bargain. The trader showed the buyer a parcel that contained hundreds of diamonds. The buyer selected parcels by examining a sample of the stones they contained and then left. The parcel was not sealed in the buyer’s presence – it was assumed the supplier would ship precisely the parcels that were selected and would not substitute the stones. Similarly suppliers extended 60-day or 180-day credit, trusting buyers to pay on time and they mostly did. It was a unique business where your word was your bond. Naturally forthright and honest, it was relatively easy for Russell to win his customers’ trust.

Rosy Blue is No.1

By the late 80s, Russell had painstakingly forged close bonds with several Japanese buyers at a time when the rest of the Indian diamond community continued to look to the US for sales. From 1987-95, the Japanese appetite for diamonds ignited, due in part to De Beers’ efforts to build the market there. Russell’s investments reaped huge rewards:

“My competitors had an assured supply of diamonds. They had money to buy technology and machines. But they couldn’t buy relationships. I took great pride in the strong relationships we enjoyed with our Japanese customers. We got the first call when they wanted diamonds. They’d come to my office and buy heaps of stones for cash, through the day and night. It was an incredible ride.”

By the mid-90s, he had emerged from under his father’s wing as an astute player. He now embarked on a period of aggressive international expansion. Needing trained and trusted manpower, he tapped his extended family – cousins, nephews or distant relatives were hired as interns where they received on-the-job training. Interns worked closely with Russell or his father, which allowed them to assess the newcomers. They looked for a hunger to do whatever

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9 Only an accredited gem laboratory such as the GIA can certify the quality of a diamond.
it took to clinch the deal and trustworthiness; academic background was completely irrelevant. Once they had proven themselves, the young men\textsuperscript{10} were sent abroad to explore business opportunities.

Rosy Blue steadily established a presence outside India, which allowed their diamonds to be marketed better and further afield, unlike Indian competitors who were constrained by overly centralized operations and a conservative outlook. Russell explained the difference:

\begin{quote}
“Ours is a trading operation and developing trading skills is difficult. Traditionally for Indian diamond dealers, it never went beyond a father-son operation. We adopted a more professional orientation. We brought in distant relatives, even Palanpuriis who were not related to us and developed them into sharp traders. Then we sent them out and delegated control. This required trust. It is in our family’s DNA to trust. We are hard-wired to assume a person is honest - unlike others, who will not trust even their wives or children.”
\end{quote}

However, the company was not immune to breaches of trust. In the late 1980s, a close family friend who was also a fellow Palanpuri Jain, began to falsify numbers and siphon off cash. After a couple of years the losses got too large to cover up. Eventually the company had to pay him to regain control, only to uncover a multi-million dollar hole in operations.

Despite this expensive betrayal, Russell firmly believed that building trust was the only way forward – to be as transparent as possible in all his dealings with customers, suppliers, employees, even competitors:

\begin{quote}
“From day one, I’ve been extremely straight with everybody. I have no hidden agenda. I think this comes from our family values. Being Jain and meeting Jain gurus in my childhood instilled in me the importance of being truthful. Which is why, I absolutely adore Gandhi Bapu.\textsuperscript{11} He is my idol. Also, my customers tell me that they take my word very seriously. They say, ‘When you say that prices have gone up, they have gone up’. So if you are honest and know what you are talking about, then people respect you.”
\end{quote}

While his father and uncle were his principal teachers, others outside the family helped him refine his skills. Ramesh Shah\textsuperscript{12} was a well-connected, experienced diamond broker who helped Russell source diamonds for his growing clientele. After one negotiation, where Russell had used his customary direct and spontaneous style, Shah told him:

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\textsuperscript{10} Consistent with the prevailing norms of the Palanpuri Jain community, only male family members were permitted to join the business.

\textsuperscript{11} Mohandas Karamchand Gandhi, was also known as “Bapu” meaning father, for his role as “father of the nation” in securing independence for India from British colonial rule in 1947.

\textsuperscript{12} The name has been changed to protect the privacy of the individual.
“Why do you take everyone at their face value? People take advantage of you… it doesn’t matter what price you are selling the goods at and can hence afford to buy at…you should buy at the best possible price and negotiate the best deal you can.”

Far from being affronted, Russell appreciated the honesty and wisdom of the older trader. With his father’s permission, he hired him in 1994:

“He was our most expensive employee but worth every penny. He’s still with us. He gave me insights into myself. I instinctively trust people. That’s the way I’m built and so I see the world that way. But people sometimes take you for a ride - I couldn’t read that. I had an excellent client base in Japan and we made good money. But I would have made a good deal more had I been shrewder. He taught me how to be less naïve. Without that skill my company would have suffered.”

A second advisor, unrelated to the family, was Samir Jain13 - a customer of the company. In the early 1990s, Rosy Blue had invested in Jain’s company and a close friendship developed. Periodically, over a cup of tea, he offered constructive criticism or acted as a sounding board, becoming a valued mentor. While their input made Russell a more perceptive and shrewd trader, he retained his forthright, honest approach – the basis of all his relationships within the family and across the industry – earning him recognition and respect in the trade, and a sense of satisfaction:

“Ultimately it’s all about passion. I was doing what I loved best – trading diamonds. I worked incredibly hard. For the first ten years of my marriage I never took my family on a vacation. That bothered me for sure but we were doing so well.”

By the late 1990s, Rosy Blue had become India’s leading diamantaire – the fulfilment of a dream:

“I recall in the late 70s, Benjamin Bonas asked my father, ‘What is your ambition in life?’ He replied, ‘To be the no. 1 client of De Beers.’ This astonished the broker, for Rosy Blue was only a small player at the time, but we finally got there!”

**Turbulence and Change**

One of Russell’s earliest lessons in trading was during the crisis that followed the diamond bubble of the mid-70s, when, as a teenager, Russell had watched his father weather the storm better than most. Twenty years on, during the 1997 Asian financial crisis, he followed suit:

“We saw the crash coming before anybody else. We sold early and replaced the sold stock with cheaper stock. By rolling over stocks in this way, the company’s cost base kept falling and trading never stopped. While we did make losses, the magnitude was relatively small and we were able to maintain supplies to our

13  The name has been changed to protect the privacy of the individual.
customers. This was important because in this industry if you don’t sell, you’re out of fashion. The other Indian merchants held on to stock, not wanting to sell at a loss. But that meant they stopped trading because their prices were too high. When they did finally sell, they made huge losses.”

Thereafter, Russell worked harder than ever to nurture his trade relationships. When Benjamin’s son Charles Bonas started work at Bonas & Co., his father organized a year’s internship, whereby he spent two months with all of the brokerage’s key clients, including Rosy Blue. Russell recognized the importance of establishing a connection with Charles as their respective fathers were approaching retirement. When Charles came to Mumbai for his internship with Rosy Blue, the chemistry was instant. Over time, Russell forged a strong bond with his broker.

Despite his natural reserve, Russell increasingly met his customers socially, believing that outside the office a more open and personal relationship could be cultivated. He occasionally invited overseas buyers to his beach home outside Mumbai, where the conversation rarely turned to business. When he visited them, he invariably joined them for a meal, sometimes with their families.

The value of these relationships became clear when a customer helped Russell diffuse a potentially explosive crisis. Pierre Moreau, a French client and a close friend, had known Russell as a teenager in the 1970s on a visit to Paris. Once a regular and loyal customer, Moreau stopped doing business with Rosy Blue in 1997-98. Notwithstanding, Russell found time to visit him while on a business trip to Paris months later. Moreau confided that he had found a cheaper source of diamonds, and showed Russell a parcel recently purchased from this new source, revealing the price. Russell recalled:

“I recognized the diamonds at once, based on the sizes, the cut and the polish. To a dealer, diamonds are like children. They have a distinct personality. I was sure I had sold this very parcel to a business associate, Arvind Parekh, but at a substantially higher price. If I was right, then our partner was cooking the books. Given the deep trust my family had in this person, I desperately hoped I was wrong. Just as I was leaving, I asked Pierre, ‘Please, please tell me you didn’t buy the stones from Arvind Parekh.’ Pierre got up, closed the door and turned to me saying, ‘Russell, we have a problem’.”

It turned out that Rosy Blue had sold substantial quantities of diamonds to this person – all on credit. And the situation would have carried on unchecked had Russell not recognized the diamonds. While he managed to clean up the operations, Rosy Blue lost a lot of money in the process.

A second breach of trust occurred at about the same time. A young member of the extended family was sent to Singapore to sell diamonds. Under pressure to show results, the young man disregarded the advice of senior family members and sold to customers who were poor credit risks. Again, Rosy Blue suffered significant losses.

14 The name has been changed to protect the privacy of the individual
Meanwhile, the diamond supply chain was undergoing a seismic change. In 1995, Rio Tinto had broken away from De Beers to market its Argyle diamonds independently. As De Beers lost its stranglehold over supply, sales revenues plunged. The 1997 Asian financial crisis worsened the situation and De Beers ended up with more than a year’s inventory of stones in its vaults. It hired Bain & Co to conduct a strategic review, after which changes ensued. The most far reaching of these was a structured, point-based system for evaluating sightholders. The new De Beers environment accelerated the transition of power from father to son, said Arun Mehta:

“Getting diamonds from De Beers was no longer about discussions and meetings. Their new Supplier of Choice programme had masses of paperwork and documentation. You had to describe why your company deserved their supplies and your plans to sell them in the most efficient way with the best value-add. I was happiest dealing in diamonds; I did not want to write long essays about them.”

Declining health from years of overwork made it difficult for him to continue at the same pace. The breaches of trust were the final straw for which he felt morally responsible. Disillusioned, unwell and tired, he stepped down. Russell took over as the de facto chief executive of Rosy Blue’s operations in 2000.

**Russell at the Helm of the India Operations**

His taking over coincided with a fundamental structural change in the industry. After a bitter separation from the Argyle diamond mine, De Beers unloaded all its Argyle diamond stock, driving down prices. The 1997 financial crisis put further pressure on prices. For traders, margins shrank drastically and managing current assets became crucial. It was important to know exactly what inventory the company was carrying in all its locations. Receivables also needed close oversight. Clients could buy from any Rosy Blue location and all sales were on credit. In order to ensure that it did not overextend itself to any one client at a global level, Rosy Blue needed comprehensive customer data and robust control systems.

Developing and installing management control systems was uncharted territory for the entire Indian diamond industry. Russell could not turn to his father or uncle for advice – he had to look for answers outside the business. He contacted a college friend who was then head of management consulting firm Accenture in Mumbai. In 2000, Accenture computerized all operations worldwide and installed an ERP system for Rosy Blue.

As the organization grew, human resource issues began to absorb more of Russell’s time. Despite working long hours, there were constant delays. Worse still, business began to suffer.
"I couldn’t continue to trade diamonds and decide matters such as salaries for every employee. Sometimes we were six months late in deciding annual increments. I didn’t think that was fair. A lot of our staff were old-timers who found it hard to adapt to the new operating systems. So I tried to do everything myself. Then I missed a couple of order deadlines and we lost business. I knew I had to hire the right kind of people and delegate.”

At the end of 2000, Russell appointed a manager to professionalize the HR function, including the institution of a retirement policy to tackle the problems arising from an aging and less productive workforce. Since most diamond sorters need excellent hand-to-eye coordination, they set the retirement age at 55. This also paved the way for Russell to bring fresh blood into the finance function. He hired a young, dynamic CFO recommended by one of his brokers, a Gujarati Jain who streamlined the company’s finance function and established comprehensive treasury operations.

With several longstanding employees nearing or over 55, the scheme created shock waves. To soften the blow, the company offered generous severance packages to departing staff and organized bonding activities for those that remained. It was a challenging period for Russell, but the changes were for the most part successful:

“It was really tough telling people who had worked with you for 25-30 years that they no longer had a job. In 2000-01 we let go of 12 people, including a few sorters who weren’t due to retire but were not effective enough. All this shook up the organization. Maybe we had become a bit sleepy and needed to wake up to face the new environment.”

In many ways, Rosy Blue was an industry pioneer in restructuring to meet new challenges. Russell, as the principal architect, was increasingly seen as a role model and a key player in the industry for a number of reasons. First, he had inherited valuable relationships from his father, which he continued to nurture. Second, he had developed personal friendships from school or college with many of the younger traders who, like him, had inherited a family business. There were regular interactions at airports, restaurants and the famous lounge at the DTC building in London, as diamantaires made the obligatory trip to London once every five weeks to participate in the De Beers’ sights. Being in the vanguard of change, Russell was often approached by fellow Indian diamantaires at such ‘watering holes’ for advice on how to modernize their businesses:

“Whatever the occasion, after a few pleasantries, conversation quickly reverted to the diamond trade. This was the common ground. These interactions helped us stay abreast of what everyone was doing. I was open and friendly with them and so they were open with me. We didn’t discuss clients but we did talk about operational issues like De Beers’ prices or staff salaries.”

As a trusted industry figure, Russell’s advice was frequently solicited by the trade body, the GJEPC, and was repeatedly asked to take an active leadership role in its administration.

Russell also intensified his efforts to strengthen supply arrangements. With De Beers’ monopoly disintegrating, most of its sightholders began to look for alternative sources of diamonds. Rosy Blue developed supply arrangements with the Russian mining company,
ALROSA, the world’s second largest producer of diamonds, and BHP Billiton in Australia. As brokers for DTC, Bonas & Co were deeply affected by these changes. With De Beers’ new Supplier of Choice programme, their lobbying role had virtually disappeared. Several diamantaires chose to deal directly with De Beers, but Russell maintained the relationship, even though it meant paying his brokers a 1% commission on all DTC purchases:

“Charles, who took over from his father in 2000, sat in London and was very close to the decision makers at DTC. I felt he could help us present the value-add we achieved in a manner that De Beers could “understand”. They were, after all, still the dominant source of rough diamonds. Charles helped us write the “profile” that De Beers required; which were not unlike the essays you would find on a university application form! In fact, Charles helped us with the paperwork for other suppliers too. He was like a consultant to us, providing inputs beyond securing supplies from De Beers, and also became a personal friend.”

During the early 2000s, Russell allocated the lion’s share of his time and energy to the issues of internal reorganization at Rosy Blue, as well as rejuvenating supply-related relationships. As a consequence, he could not fully comprehend the rise of a new set of competitors – the Kathiawaris of Surat. These families had started off in the diamond business as small-scale polishers. The Palanpuri diamond families would give them roughs to polish on a job-by-job basis. In 2003, the Kathiawaris had started sourcing diamonds themselves. With accessible technology and low start-up costs, the only real barrier to entry in the diamond business was securing supply. They managed to do this by adopting a highly aggressive pricing strategy, and by being prepared to take losses for extended periods of time. With margins as low as 1-3%, Russell knew that Rosy Blue could not play the price game profitably:

“We had done well to come this far. Our next competitor was half our size. However, with this growth came bureaucracy and sluggishness. We were no longer a father-and-son team who could make decisions on the spot. We were not as agile as the Kathiawaris. They were first generation; I was second generation. I had made money and I didn’t want to lose it. They had little to lose and were hungrier than me. I underestimated the competitive threat they posed.”

Russell’s initial reaction was to fall back on the strategy that had served the company well in the past – to differentiate Rosy Blue by building strong customer relationships. Its professional structure was particularly advantageous. In the past, Indian diamantaires had sold predominantly to wholesalers in the US. Later, they bypassed these middlemen and sold directly to retailers. Unlike the wholesalers, diamond retailers were professionally managed listed companies. Rosy Blue’s professionalized operations enabled it to differentiate itself from the less progressive Palanpuri firms and the Kathiawari dealers, but challenges remained

“In the past I dealt mostly with clients that were family-owned firms like our French customer Moreau. Being a family business ourselves, there was a natural kinship. Now I had to deal with professionals who often did not stay long enough with their companies for me to build a relationship. Also, it was harder to engage them. It was no longer about being reliable and competent. Doing business also

15 Kathiawaris are the residents of Kathiawar, which is part of Saurashtra in the peninsula region of Gujarat. They established their businesses in Surat.
meant getting engaged at all levels of their organization...and, of course, dinners and golf. I was working 16 hours a day, 7 days a week. I didn’t have 3 hours to chitchat on a golf course. I knew I was only a few years ahead of the pack. I needed to figure out where the next curve was and how to stay ahead of it.”

The rules of the game were changing. Like his father, Russell had been content to remain cocooned in the diamond trade. Until the early 2000s, he had neither the time nor any reason to look beyond. For over a century De Beers had insulated the industry from the global economic climate. Beginning in 1995, fragmentation and unprecedented competition across the value chain had exposed the industry to fluctuations in the global economy. He realized he needed to become more connected to the world outside.

His wife, Mona, was an invaluable aid. Naturally outgoing, she had a wide circle of friends and acquaintances outside the Palanpur Jain community. With her help, Russell met several Mumbai-based businessmen from a range of industries. He was both fascinated and troubled by what he learnt:

“Their worlds were very different from mine, but the organizational challenges and issues were similar. The big difference was that most of them were seeing incredible growth in their businesses. Many had made millions as their company’s share prices shot up. While Rosy Blue’s growth had stalled, it really did seem like India was shining for them.”

A few of these new friends were members of the Mumbai chapter of the YPO. Although they urged Russell to join, he had reservations. It was not clear how spending 12-15 hours a month of his scarce time at YPO meetings would make him more effective at work or at home. Already, his multiple responsibilities left little time to pursue the one aspect of his work that he loved the best – trading. His children were growing up and before long would head off to university. He desperately wanted to spend more time at home.

Did he really want to stray from the familiar world of diamonds? As an industry elder, would his time be better spent taking a leadership role in the trade association. Or should he simply continue to focus on deepening relationships with existing stakeholders and avoid getting involved with either the YPO or the trade association? This strategy had worked well in the past; there was no reason for it to not work again.

Arguably, future success would depend on how wisely he allocated the most critical resource of all – his time and energy.

16 In the 2004 Indian parliamentary elections, the Bharatiya Janata Party, a major national political party, ran the ‘India Shining’ advertising campaign. It showcased the rapid transformation that pockets of the Indian economy were experiencing at that time.
Appendix 1

The diamond industry

A diamond goes through two principal stages as it travels from the earth to the customer – rough and polished. In the first “roughs” stage the diamond is found, produced, sorted and sold to cutters and polishers. Gem-grade diamonds were used in jewellery, while lower quality industrial stones were used in manufacturing or drilling operations. Polished gem-grade stones are then sold to jewellery manufacturers who distribute their products through retail and direct channels to the consumer.

Approximately 50% of the volume of diamonds extracted from the earth is used as gemstones. However they account for 95% of total value. The remaining stones, which are not gem-grade, have industrial applications. Being extremely hard, they are used as drill-bits in machinery; as abrasive slurries to cut and polish other materials; in the production of microchips and lasers. Almost 95% of industrial diamonds are synthetic – made by replicating the conditions that produce diamonds naturally.

Exploration: Under extremely high temperatures and pressure, carbon atoms are transformed into diamond crystals. During volcanic eruptions, rock formations called kimberlite or lamproite pipes transport the crystals to the surface. Most kimberlite pipes are found in southern Africa, Russia and Canada. Economically viable lamproite pipes have only been found in Australia. Some diamonds get transported by natural erosion and deposited in riverbeds, along coasts, in glaciers or on the ocean floor. In 2011, these alluvial deposits accounted for only 10-15% of the world’s diamonds but were higher quality and larger stones. Discovering economically viable diamond sources was a slow and low-probability event. There was a 1-3% chance that a greenfield site would lead to a commercially profitable mine – a process that could take 6-8 years.

Production: “Pipe” diamonds are extracted on an industrial scale through either open-pit (when diamonds are on the surface) or underground mining. Thereafter the ore containing the rough diamond goes through several stages of crushing and processing. Alluvial diamonds found along shorelines or in riverbeds and glaciers are extracted by the removal of sand and soil deposits. Those found on the sea floor are extracted through marine mining. Russia and Botswana were the world’s largest producers of diamonds in 2010. The largest mines were owned by De Beers (South Africa and Botswana) and ALROSA (Russia).

Sorting: Diamonds can be sorted into thousands of categories based on the four C’s cut, colour, clarity and carat. Most diamonds fall within a range of standard colours from colourless to faint yellow or brown tints. A few rare “fancies” have pink, blue or even green hues. A perfectly transparent diamond, with no color at all, is considered to be the purest.

Rough diamond sales: According to lore diamonds were first discovered along rivers in India thousands of years ago. However, it was in the late 1800s that the global diamond rush began with large discoveries in South Africa. In 1880, Cecil Rhodes, an Englishman, formed the De Beers Mining Company. It controlled virtually 100% of South Africa’s diamond output and 90% of world output. Rhodes also created the Diamond Syndicate, which bought the output of every other producer and therefore exercised complete control over supply.

After Rhodes, the next key figure in the diamond world was Ernest Oppenheimer. In the 1930s, as Chairman of De Beers, he formed the Diamond Trading Company, which became the company’s sole sales channel. By the 1970s, Russia, Botswana and Australia began producing diamonds in significant quantities. DTC negotiated distribution arrangements with all the large producers and retained control of 85% of world rough diamonds until 1995. Then, De Beers lost its monopoly over the sale of diamonds from the Argyle mine in Australia, which was later acquired by Rio Tinto.

With the collapse of the Soviet Union in 1991, De Beers’ monopoly over Russian diamonds came into question. In the early 2000s the European Commission conducted an anti-trust investigation and ALROSA, the largest Russian diamond producer gradually phased out sales through DTC, stopping
them altogether in 2008. In the United States too, De Beers was subjected to anti-trust scrutiny and barred from selling its diamonds in the mid-1950s. It was only about 50 years later, in 2004 that De Beers was allowed to resume operations, after pleading guilty to price fixing and paying a US$10 million fine. By 2011, DTC controlled only 40% of the global rough diamond supply.

Rough diamonds are sold through long-term contracts, auctions or spot trading. Holders of long-term contracts or sightholders - a small and exclusive group of suppliers - worked with all the large global producers. The system was originally established by De Beers who invited a select group of buyers to a “sight” – an inspection of a collection of diamonds. This system was later adopted by all major producers and in 2011, less than 100 sightholders bought 70% of all diamonds produced. Sights are usually held every 5 weeks where sightholders buy “boxes” of diamonds specially assembled to match their requirements. The quality and quantity of diamonds in a box and its price is pre-set by the producer and is usually worth between US$ 500,000 and US$ 2 million. The 10-15 largest sightholders could potentially buy up to US$ 100 million worth of boxes during a single sight. In 2010 auctions and spot sales accounted for about 30% of total sales. Here too diamonds are sold in boxes and is the preferred mode of selling for smaller producers. Not being tied to long-term arrangements provides both buyers and sellers with flexibility. In 2011 BHP Billiton was the only large producer to sell a significant proportion (almost 50%) of its output in auctions and spot sales.

Cutting and polishing: At this stage, lapidaries attempt to create the brilliant stone jewellers seek. Almost 50-60% of the rough’s weight is lost in the process. A round cut maximizes the gem’s brilliance. Other special cuts have square, oval, heart, or pear shapes.

From 1870-1970, the cutting and polishing industry was dominated by Belgium, Israel, the US and Russia. Antwerp and Tel Aviv, in particular, had a monopoly on high quality, large stones. The focus shifted to Asia and, in particular, to India in the 1970s. With exceptionally low labour costs, India spurred the development of a market for smaller, lower quality, cheaper diamonds. As the world’s largest manufacturer of diamonds, India later moved in to larger higher quality stones. China and Thailand also established themselves as cutting and polishing centres.

Polished diamond sales: In 2011 over 50% of polished diamonds were sold at the offices of diamond cutters and polishers. Another 30-40% was sold at large industry exhibitions, the largest of which was in Hong Long, followed by Las Vegas and Basel.

Jewelry manufacturing and retail: In 2011, there were over 100,000 manufacturers most of which were located in India and China to take advantage of low labour costs. These players dominated the low end, non-branded segment of the market. The larger manufacturers with strong brands played in the luxury end of the market. In between were smaller regional manufacturers including Rosy Blue. Over 250,000 retailers – largely global chains – sold jewellery all over the world with almost 40% of sales taking place in the US.

For detailed information on the economics of the diamond industry please refer to the Global Diamond Industry Report for 2011 prepared by Bain & Co at:

Appendix 2

Palanpur’s Jains and the Diamond Trade

Palanpur is a small city in the western Indian state of Gujarat. The city was originally named Prahladanpur after its ruler Prahladan. Legend has it that Prahladan contracted leprosy and he scoured his kingdom for a cure. He encountered a sage who belonged to the religious community of Jains who told him that his disease was a punishment for melting down a Jain statue. While Prahladan never adopted Jainism, Prahladanpur, or Palanpur, as it came to be known, became a haven for Jains.

Jainism is an ancient religion of India with 4.2 million followers in India according to the 2001 census. It is infused with a concern for every living thing in the universe and for the preservation of the universe itself. Jains believe that all living things, including plants and animals have souls and so follow a philosophy of non-violence and vegetarianism. The religion has no gods and preaches that the path to liberation and eternal bliss must be self-driven. Truthfulness is central to this religion and constitutes one of the five great vows a Jain must make. Mahavira is acknowledged as the teacher who gave Jainism its current form.

In 1616, during the reign of the Mughal emperor Akbar, the Nawabs of Jhalore made Palanpur their home. Along with them came scores of nobles, officials, craftsmen, traders and administrators. Among them were several Jain families who quickly established themselves as astute administrators. They enjoyed the patronage of the princely Nawab families but there were not enough meaningful employment opportunities in Palanpur for their growing numbers. The Nawab encouraged a few leading families to create alternative employment by entering the jewellery business. Thus began the extraordinary rise of a small community to the very pinnacle of the diamond manufacturing and trading industry. He even introduced them to other princely families in India and Nepal. In order to have better access to supplies, infrastructure and markets, several Jain families left Palanpur and moved to Mumbai and further afield to Europe and the US during the mid-1900s.

Source: www.palanpuronline.com, Census of India, 2001