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De Beers: The Stackelberg Leader or Cartel Ring Leader

The diamond industry is dominated by De Beers Corporation, which produces 80 percent of the world's mined diamonds. One-hundred-four-year-old De Beers mined most of the world's diamonds in its early years. Most of the stones De Beers owns were mined in South Africa. Today the firm owns mining interests in South Africa and in several other countries. The London branch of De Beers weighed, purchased, and stored an average of $15 million in diamonds per day in 1991. DeBeers' diamond inventory has been valued at more than $2.5 billion. In the mid-1980s, Australia increased the world's new mining of diamonds by 50 percent, yet De Beers held on to its control of the market. How did it accomplish this feat?

De Beers' strong position in the market comes from two sources. First, because the firm owns 80 percent of the mined diamonds in the world, it could flood the market if other companies made a bid for lower prices. Consequently, most small producers of diamonds let De Beers move first in the market and follow along with the decisions made by De Beers. The size of De Beers' market share induces other firms to allow it to enjoy a first-mover advantage, which leads to larger profits for De Beers.

Second, De Beers has set itself up as a clearinghouse for almost all of the world's uncut diamonds. By acting as a clearinghouse, it effectively makes "cartellike" decisions for the diamond industry. This results in a relatively high, stable price of diamonds. This stability is very attractive to other mining concerns, since they are affected less by economic downturns than are other industries.

With its strong leadership position and its ability to act as a clearinghouse for diamonds, De Beers has little to fear from competition in the diamond market. Interestingly, De Beers is not allowed to operate in the United States because of U.S. antitrust laws. However, through its ad agency, N.W. Ayer of New York, De Beers spent approximately $52 million on advertising in 1991. Its biggest success came in the 1920s, however, when the firm set the standard for engagement rings; the ad stated that a young man should spend two months' salary on a ring.

Source: Richard S. Teitelbaum, "Hard Times for Diamonds," *Fortune*, April 22, 1991, pp. 167–78.