

Special Report: **INDIA**

# Power players

No longer simply a diamond-cutting hub, India is gaining a reputation for manufacturing jewelry that's in tune with the particular frequencies of U.S. jewelers, from the majors to the guilds. What's next for this industry behemoth?



# THE STARS OF INDIA

BY VICTORIA GOMELSKY



Two cultures merge: At Mumbai's Chhatrapati Shivaji Terminus (formerly Victoria Terminus), British architects and Indian craftsmen worked together to forge a unique style for the evolving city.

Vertically integrated, service-oriented and diamond-rich, Indian companies are enthusiastic scholars of the U.S. market. But a swirl of events over the past year, from the Chapter 11 filing by M. Fabrikant and Sons in New York to the U.S. government's move to end Indian jewelry's tariff-free glide across U.S. borders, suggests that this industry giant may have to reposition itself. Will more mom-and-pop jewelers join India's customer list?



The time difference between New York and Mumbai—India's fast-paced, traffic-snarled commercial and industrial capital—is 10 and a half hours. The city's export jewelers, however, occupy a parallel universe in which there is no time difference.

"For all practical purposes, this company is located in New York," says Jaimin Shah, vice president of business development for Dinurje, a fast-growing jewelry manufacturer based in Mumbai's Santacruz Electronics Export Processing Zone (SEEPZ). An industrial park established in 1973 to offer Indian electronics companies duty-free export status as an incentive,

SEEPZ opened to jewelry factories in 1987.

"Every piece of jewelry we make, all the auditing and accounting and follow-up," Shah says as he shows a visitor around the factory's basement level, "is done out of our New York office in Mumbai."

Stray dogs roam the hallways of SEEPZ's many dilapidated buildings. Images of the Hindu elephant god Ganesha grace

**This gold ring by Dinurje sparkles with 2 carats of diamonds; suggested retail price is \$2,799. (212) 944-1200**



Known for its legions of poor, India has done much to appeal to the middle class in the United States.

**“The sweet spot of Indian jewelry manufacturers in terms of diamond sizes and qualities is what our customers like.”**

—Howard Sherwood, Daniel’s Jewelers

office calendars and desktops. The scent of incense mingles with that of tandoori and tar. Yet inside Dinurje’s surrogate New York office—identified by the maps of the United States that blanket its walls—the mindset is all-American. Using sophisticated CAD-CAM software and price-point spreadsheets, a dedicated staff of 93 employees (including 25 designers, 45 model-makers and 20 senior marketing executives) creates and markets designs that will ultimately adorn consumers in Boston, Miami or Memphis, Tenn.

“[The Indians] are great students of what we’re selling,” says Howard Sherwood, co-president of Daniel’s Jewelers, a 51-store chain in Southern California. He estimates that 65 percent of the diamond-studded jewelry sold at Daniel’s is made in India. “The sweet spot of Indian jewelry manufacturers in terms of diamond sizes and qualities is what our customers like.”

#### FROM BACKWATER TO HUB

Nearly four decades ago, when Indians first exported loose polished diamonds, the scenario Sherwood describes would have been unthinkable. In those days, India was a cutting backwater, good only for sourcing small, cheap goods that more prestigious centers like Antwerp and Tel Aviv refused to handle. Capitalizing on a gradual shift in global diamond industry dynamics that favored cheaper labor and volume cutting, India has, over the past decade, grown into a diamond-processing juggernaut.

Today, the sector’s nearly 1 million cutters supply 85 percent of the world’s diamonds by volume and about 60 percent by value. They also process more one-caraters by volume than all the other centers combined. The lion’s share of those goods (\$2.6 billion in 2004-05) satisfy the voracious appetite of the U.S. market, where they have helped democratize the diamond experience by delivering accessibly priced bling to the masses.

In the mid-1990s, a parallel and equally significant development accelerated the phenomenon. Under the auspices of the Indo Argyle Diamond Council (IADC)—the division of MVI Marketing Ltd., of Paso Robles, Calif., that helps Indian companies gain

access to American retailers—manufacturers in Mumbai turned their attention to jewelry. Initially, they supplied low-end product to American distributors who, in turn, sold it to volume retailers. At the time, most of these major players were unwitting supporters of Indian merchandise.

Among them was Bea Spiech, the vice president, divisional merchandise manager, for fine jewelry at Macy’s. Spiech visited the IADC pavilion at the JCK show in Las Vegas in 1995 and was shocked to learn that one of the company’s best-selling items, a 6-carat diamond tennis bracelet purchased from an American vendor, was made in India.

“I had no idea,” Spiech recalls. “In those days, the quality was a little questionable, but I thought it could be the start of great things—and it has been for the industry.”

Indeed, jewelry exports from India to the United States have averaged 15 percent to 20 percent annual growth during the IADC’s life span, from a measly \$82 million in the fiscal year 1994-95 to a whopping \$1.3 billion in 2004-05, according to figures from the Gem & Jewellery Export Promotion Council (GJEPC), the quasi-governmental agency charged with promoting India’s gem and jewelry sector. India’s total jewelry export growth, from \$304 million in 1991-92 to \$3.8 billion in 2005-06, has been even more impressive.

#### BE CAREFUL OF WHAT YOU WISH FOR?

In a globalized coup, Indian companies now dominate the U.S. retail jewelry landscape, manufacturing everything from Wal-Mart-esque trinkets to high-end platinum bridal rings sold by the likes of Ben Bridge Jeweler and Bailey Banks & Biddle. This is not to

suggest, however, that their struggles with the American market are over.

“The good news is that all major [U.S.] retailers are already working with Indian companies and they treat them like any other vendor,” says Elizabeth Chatelain of MVI Marketing. “The bad news is that all major retailers are already working with Indian companies and they treat them like any other vendor.”

Such is the Faustian bargain of volume retailing, American-style. In exchange for millions of dollars in jewelry orders—enough to sustain large-scale factories in Mumbai and enable a pipeline to the lucrative American consumer market—many Indian manufacturers implicitly agree to endure two forms of maltreatment at the hands of retailers: persistent margin pressure and demands for a seemingly limitless line of credit.

The best example of the dysfunctional relationship between Indian suppliers and their American buyers is, paradoxically, the story of New York-based company M. Fabrikant & Sons Inc. and its domestic subsidiary, Fabrikant-Leer International, one of the biggest importers in the business.

In November, the company announced it was seeking Chapter 11 bankruptcy protection because its lenders had frozen its bank accounts. It turned out that Fabrikant owed \$161.9 million to the banks and \$36 million to creditors, including two major Indian companies. One trade report, in reference to Fabrikant’s reputation as a “memo banker,” predicted the fallout to hasten “the end of the old way of doing business.”

Clearly, Indian companies aren’t the only ones vulnerable to the vagaries of the memo system. Given

India’s nearly 1 million cutters supply 85 percent of the world’s diamonds by volume and about 60 percent by value.

## Looming GSP duty threatens India’s jewelry exports to U.S.

Since 1976, the U.S. Generalized System of Preferences (GSP) has promoted economic growth in the developing world by providing preferential duty-free entry for more than 4,650 products from 144 designated beneficiary countries and territories. Jewelry manufacturers in Turkey, Thailand and India have benefited greatly.

On July 1, however, barring a reprieve by President Bush, India, along with 12 other countries, expects to have its GSP status revoked because its products have, in theory, reached a level of competitiveness suggesting they no longer warrant duty-free benefits. Overnight, Indian gold-jewelry imports will face a tariff of up to 6.5 percent, increasing costs and reducing cost-effectiveness, particularly in the margin-sensitive lower end of the market.

“Why should I pay a 6 percent duty on a \$2,000 item?” asks Anoop Mehta, group managing director of Mohit Diamonds, an Indian diamond and jewelry manufacturer with 40 percent of its business in the U.S. market.

Howard Sherwood, co-president of Daniel’s Jewelers, a Southern California chain, says he’s concerned the duty will compromise India’s strength as a manufacturer of

“popularly priced jewelry sold to working-class customers.”

The crux of the issue is who will absorb the cost increase: manufacturers, retailers or consumers, or perhaps some combination of the three?

“I’m not taking one more revision up,” insists one major retailer. “Do you know what kind of year we’ve had?”

The Indians recite similar woes.

“Manufacturers are already working on small margins,” says Kaushal Shroff of Bharat & Co., the jewelry manufacturing arm of Suresh Bros., a Diamond Trading Co. sightholder. “Because consumers would not be able to digest price increases, everyone will share the pain except for the consumer.”

Unless, that is, price-sensitive American retailers refuse to budge. Instead, they may opt to take their business to China, whose jewelry-manufacturing industry has a reputation for high-quality finishing at prices India can’t beat.

For now, however, there are no easy answers.

“Somebody has to figure it out,” says the major retailer. “Hopefully, the Indians.”

—VG



**“The good news is that all major [U.S.] retailers are already working with Indian companies and they treat them like any other vendor. The bad news is that all major retailers are already working with Indian companies and they treat them like any other vendor.”**

—Elizabeth Chatelain, MVI Marketing Ltd.

sorting office in Mumbai’s Opera House district and a factory in SEEPZ. “They wanted a lot of goods on memo, they had a major cash problem, payments were not coming on time.”

#### COMING TO AMERICA

While there is consensus on the need to cut some of the ties that bind Indian suppliers to the major players in the American market, members of the Indian jewelry community lay part of the blame on themselves.

“Honestly, I think it is the Indian companies that spoil them,” says Dinurje’s Shah. “If all the factors remain the same—the price of diamonds, the gold, the labor, the setting—then what is different? It’s either the service, the quality of the product, the finish or the credit that’s going to bring their business to us. So it depends on how deep you can go or how late you can wait to get paid.”

Sanjay Kothari, chairman of the GJEPC, admits that after the Fabrikant affair, Indian companies are more reluctant to take risks by extending credit to big American retailers. But he insists that, like units of energy, the businesses Fabrikant served have only changed form, not gone away.

At one of Fabrikant’s suppliers, Tara Ultimo, Deputy Managing Director Alpina Deo echoes Kothari’s optimism, and with good reason. Six months ago, in the run-up to Fabrikant’s bankruptcy filing, Tara set up a joint venture simply called Fabrikant Tara International, or FTI for short. Tara is the majority partner but it is Fabrikant’s retailer-rich database of customers that is the real booty.

their deep penetration in the U.S. market, however, they are disproportionately more at risk.

“In 2006, the biggest problem we faced was that a lot of American jewelers were not ready to commit to buying goods in mass,” says Anoop Mehta, the group managing director of Mohit Diamonds, a Diamond Trading Co. (DTC) sightholder with a diamond

## At Venus Jewels, technology and transparency orbit as one

The epicenter of India’s diamond trading business is a collection of creaky buildings in the Opera House district of downtown Mumbai. Teeming with dealers, brokers and messengers, the buildings are notorious for their snaking elevator queues and patchworks of air-conditioning units, which drip into the surrounding courtyards as men relax in the shade provided by a few colossal banyan trees.

The cool, perfumed Venus Jewels office, located on the 9th floor of one such building, Panchratna House, offers a welcome reprieve from the chaos. In contrast to the dingy, linoleum-lined hallways, the office evokes a trendy boutique hotel room with its polished wood accents and sleek furniture. A Flash presentation about the Venus diamond-cutting factory in the Gujarati city of Surat plays on the flat-screen TV: From the outside, the four-year-old \$20 million state-of-the-art facility looks like yet another luxury hotel.

In an industry still tethered to traditional ways of doing business, Venus, a Diamond Trading Co. (DTC) sightholder, is a paragon of hi-tech prowess. The company embraced the digital age in 1987, when it introduced its first information-technology system. Its technology investment totals \$7 million thus far, including a dedicated Web server and a collection of e-commerce enabled Web sites that give customers access to Venus’ entire inventory.

“Ultimately, my manufacturing is not controlled by my Surat team or me, but by my customers,” says principal Anil Shah over a lunch of homemade Jain cuisine. “We only produce goods which they want. We

turn around my entire stock, around 3,500 carats of polished, within one month, including putting everything through final grading.”

The foundation of Venus’ business is its 11-year-old Venus Grading System, a proprietary in-house assessment of a diamond’s Four C’s and 12 additional parameters, such as symmetry, polish and inclusion patterns, all of which are specified on each stone’s parcel paper. A tracking number indicates which mining company supplied the diamond and its date of import.

Shah is passionate about giving customers more than they expect. “When the margins are tight, that time is the right time to provide more services and take more off your customer’s shoulders,” he says, adding that Venus voluntarily specifies carat weight to the third digit. “We are not charging for that. But we always mention the third digit because we believe in transparency.”

Meanwhile, other Indian companies are taking advantage of their country’s information-technology know-how and booming call-center industry to boost their own service offerings. For example, Tara Ultimo, a Mumbai-based DTC sightholder, is on the cusp of launching a 24-hour call center in India to handle requests from jewelers it has inherited through a joint venture with New York’s Fabrikant, which filed for bankruptcy in November.

“The basic reason people run away from independents is the servicing cost,” says Tara’s Deputy Managing Director, Alpina Deo. “Imagine if I can have a situation where the manpower is here.”

—VG

“The company we have set up is a brand new operation,” Deo stresses on the eve of a trip to New York, where she’ll be headquartered for a short time in order to help launch the business. “We felt obliged, as one of their vendors, not to just wander off. Now we are an Indian company operating out of the U.S.”

Heed those words. If Tara’s move into the American market was a harbinger of things to come, then the December acquisition of Samuels Jewelers by Gitanjali Gems, one of India’s largest exporters, was a full-on proclamation. As part of its carefully laid out vertical integration scheme, Gitanjali reportedly paid \$22 million for Samuels’ 97 retail stores, and in a statement, Gitanjali Chief Financial Officer G.K. Nair boldly professed a desire for “control of the entire supply chain.”

#### IF YOU CAN’T BEAT ‘EM

Nair and the Indian manufacturers who share his sentiment might do well to follow in the footsteps of Tara Chairman and Managing Director Rajeev Sheth, whose dream, Deo says, is “to become the largest in the world.”

Under Sheth’s direction, 11-year-old Tara has transformed itself into a bona fide multinational, with all the supply chain and sourcing efficiencies that that implies. With plans pending for a factory in China to manufacture jewelry featuring “10-pointers and under,” and opening March 1, Tara is also on the brink of launching a sourcing venture in Thailand to specialize in “semi-mounts with big color centers.”

“China is for high-end product but not solitaires, so you’re looking at stars and melee,” explains Deo. “You save on your labor but you do justice to your money.”

Several manufacturers interviewed by NATIONAL JEWELER said Tara’s strategy is not unusual and that one of the hottest trends in the industry right now is Indian manufacturers opening Chinese factories of their own. That way they can exploit China’s looming competitive threat yet simultaneously undermine it.

In Tara’s case, having a specialized Chinese factory will serve its American joint venture with Fabrikant well, because as a trading operation, the new company should be able to source product from the world. According to Deo, China will own the high-end labor-intensive sector while India will own the extreme opposite, “promotional fashion cheap jewelry.”

Even though Indian manufacturers exporting product to the United States will face a

**Jewelry exports from India to the United States grew from \$82 million in 1994-95 to \$1.3 billion in 2004-05.**

# Special Report: INDIA

6.5 percent duty come July 1 when the Generalized System of Preferences fails to recognize India as a designated beneficiary (see related story on page I4, "Looming GSP duty threatens Indian trade"), Deo is confident that it will make sense to keep a portion of Tara's manufacturing in Mumbai.

"The reason people will stick to India is because we are the diamond source," Deo says, sounding a familiar refrain within the Indian trade: He who has the goods has the power.

After all, Indian companies are the undisputed darlings of the rough diamond trade. In 2005, they accounted for 32 percent of DTC sales. They form the bulk of Rio Tinto's customers and are influential buyers of BHP-Billiton and Alrosa rough.

Yet even the most confident Indian diamantaires don't deny that their grip on supply is weakening. Not only are African producer nations keeping more rough for their own beneficiation schemes, but there's also the very real possibility that China's core of 100,000 diamond cutters will mushroom as more manufacturers are lured by the promise of ultra-cheap labor. (A recent report, *The Global Gems and Jewellery Industry: Vision 2015: Transforming for Growth*, commissioned by the GJEPC and researched by accounting firm KPMG, said as much, when it predicted that India's share of the diamond-processing pie will drop from 57 percent today to around 49 percent in value terms by 2015, while "China will emerge as a strong player with 21.3 percent of the diamond-processing share.")

To study the export figures is to realize that the decline in India's share of the polished trade has already gotten underway. GJEPC's provisional figures for net polished-diamond exports from April to November 2006 total \$6.9 billion, compared to \$8.1 billion for the same period in 2005, a decline of 14.9 percent.

"A little bit [of the polished diamond business] might have gone to China or the countries that are mining them," GJEPC chairman Kothari allows—failing to mention that the drop in production from Rio Tinto's Argyle diamond mine in Australia, a mega-producer of smaller diamonds and Indians' long-standing cash cow—is another factor affecting exports of polished. "But I am not particularly worried because these people will not be able to compete with us for another at least five to 10 years. And by that time...Jewelry. There was no export of jewelry in 1995 to 1996 and today we have reached \$3.8 billion. So if diamond share is taken by somebody else, we will focus on jewelry."

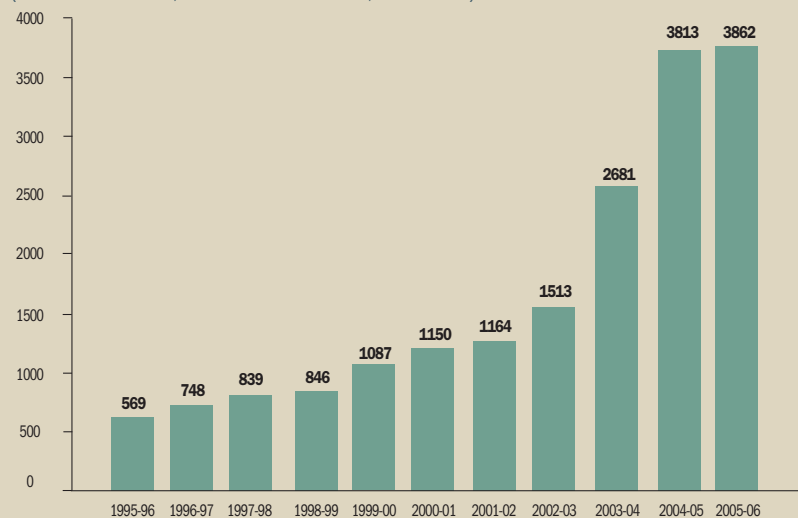
## INDEPENDENTS' DAY HAS COME

For Indians in the U.S. market, there's one logical strategy to grow a jewelry business in a healthy manner, but it requires a willingness to look beyond the high-volume trade. Rather than putting all their eggs in one major's basket, many Indian manufacturers now recognize independent jewelers as small yet dependable clients who, together, represent a big chunk of business. For the first time, those feelings are being reciprocated.

"Independents have never looked at India as a manufacturing supplier directly," says Ashish Shah, managing director of Gold Star Jewellery, one of the largest exporters in SEEPZ with a core clientele composed of TV channels, catalogs and wholesalers. "Gold Star as a company has a product that can fit their showcases, especially in bridal. We have product from three-stone to Journey, which they currently source from companies like Stuller and Goldman. The Gold Star goal is to acquire that business."

## A steady rise in India's gold jewelry exports worldwide

(From 1995-2006, shown in U.S. dollars, in millions)



Source: Gem & Jewellery Export Promotion Council

**In a globalized coup, Indian companies now dominate the U.S. retail jewelry landscape, manufacturing everything from Walmart-esque trinkets to high-end platinum bridal rings sold by the likes of Ben Bridge Jeweler and Bailey Banks & Biddle.**

"Our focus has never been the majors," counters Dave Shah, sales manager of Ornamé Creations, the Los Angeles-based subsidiary of parent company Ornamentations India Pvt. Ltd., a diamond jewelry manufacturer in SEEPZ that targets guild jewelers across the United States.

"Doing business without profit is like eating soup with a fork: It keeps you busy but you're starving," he adds, by way of explanation. Among the first companies in SEEPZ to launch a platinum manufacturing unit, Ornamentations began building its independent clientele in the United States about seven years ago. Its specialty is custom-designed diamond jewelry—top of the line work that netted the company an exclusive manufacturing agreement with Bucherer, the upscale Swiss retailer.

Ashay Mehta, company director, says offering independents the level of personalized service they need to feel comfortable can be challenging, but fixed payment terms and a diversified base of buyers are

strong reasons to stay in the sector.

At Dinurje, Jaimin Shah, who earned his MBA in the United States in 2000, is convinced. He began researching the independent jeweler marketplace in January 2006. Using information gleaned from retailer Web sites, his team has phoned hundreds of mom-and-pop jewelers who have yet to embrace Indian-made goods. His pitch emphasizes Dinurje's "factory-direct" pricing, customer-service focus and trendy designs.

Michelle and Sam Hananian, owners of M&S Jewelers in Belmont, Mass., a Boston suburb, gave Dinurje a trial run three years ago after meeting Shah at a trade show. Now Dinurje supplies close to 40 percent of M&S's merchandise.

"Everybody can offer anything and everything but we clicked with Jaimin and he's never let us down," Michelle Hananian says. "He's always open to ideas. If something needs to be fixed in production, they basically bend over backwards to get everything correct."

Jewelers with years of experience buying direct from India are perhaps the most encouraging.

"You are buying from a prime manufacturer at more competitive prices, you can control the designs if they are exclusive for your company, you have more input into the finished product and you build relationships further up the supply chain," says Starboard Cruises Merchandising Director Charleen Wuellner in an e-mail sent from India, where she's in the midst of her seventh buying trip. "It gives you more control of the production."

Wuellner urges interested buyers to do their due diligence before signing on with an Indian manufacturer. Investigate their infrastructure, assess their capabilities and scrutinize their track record. Once those things pass muster, settle in for the long haul. "The relationships here are usually developed over a period of time," she says. "Start slowly so both parties can grow together."

## India's net exports of gems and jewelry to United States in U.S. dollars, in millions, from 1991-2005

Items	1991 - 92	1992 - 93	1993 - 94	1994 - 95	1995 - 96	1996 - 97	1997 - 98	1998 - 99	1999 - 2000	2000 - 01	2001 - 02	2002 - 03	2003 - 04	2004 - 05
Cut and polished diamonds	783.46	1,043.98	1,146.91	1,249.55	1,363	1,363.97	1,641.31	1,900.18	2,442.44	2,144.33	1,972.71	2,258.8	2,553.88	2,584.76
Gold jewelry	54.27	54.26	65.39	81.91	86.21	106.99	156.41	436.55	598.60	646.21	647.02	913.38	1,220.57	1,348.78
Colored gemstones	26.05	24.18	30.14	53.8	54.72	59.56	67.64	76.52	96.98	103.72	88.91	99.86	91.21	88.35
Other items	3.9	4.17	5.85	4.68	8.72	12.61	13.73	29.06	27.03	36.76	42.23	53.67	59.31	71.91
Total exports to USA	867.68	1,126.59	1,248.29	1,389.94	1,512.65	1,543.13	1,879.09	2,442.31	3,165.05	2,931.02	2,750.87	3,325.71	3,924.97	4,093.8

Source: Gem & Jewellery Export Promotion Council

## DESIGN GALLERY

# INDIAN BLOSSOMS

India, long known as an epicenter for diamond-cutting, has also emerged as a powerhouse for jewelry exports to the United States with designs that range from affordable basics to mid-range bridal to more glamorous diamond pieces retailing at over \$2,500.



18-karat gold two-tone diamond earrings with 0.50 carats diamonds by Suresh Brothers USA; suggested retail price is \$999. (212) 949-4444



Bridal set in gold by Gold Star Jewellery; suggested retail price is \$2,999. (212) 391-2021



Diamond ring by Tara Ultimo; Suggested retail price is \$279. (215) 313-9412



Diamond ring in gold by Ornamé Creations; suggested retail price is \$2,340 without the center stone. (213) 200-4599



Gold and diamond bands by Gold Star Jewellery; suggested retail price is \$999. (212) 391-2021



Diamond pendant features VS1 quality diamonds in platinum by Ornamé Creations; suggested retail price is \$2,600. (213) 200-4599



Diamond ring in gold by Tara Ultimo; suggested retail price is \$2,999. (215) 313-9412



Dinurje pendant features 4.75 total carats of gemstones; suggested retail price is \$3,999. (212) 944-1200



Bridal set in gold by Dynamic Design Group; suggested retail price is \$2,899. (800) 347-9999



"Petal plus" ring in gold by Gold Star Jewellery; suggested retail price is \$3,999. (212) 391-2021



Dinurje pendant features 0.50 carats of diamonds; suggested retail price is \$599. (212) 944-1200