

The Value of Values



RAPAPORT... There's a lust toward trust," Leanne Kemp jokes as she explains the movement driving businesses to embrace sustainability. Since 2015, the company she founded and heads, Everledger, has been on a mission to facilitate that trend, using its blockchain-powered platform to help diamond and jewelry businesses keep a transparent record of their products' provenance.

Everledger is not the only one doing so. Over the past half-decade, several industry initiatives have gained steam, including Tracr by De Beers, Sarine Technologies' Journey program, and the Diamond Origin Report service from the Gemological Institute of America (GIA). That's in addition to the growing membership in organizations and trade bodies that set standards for responsible sourcing and sustainability.

The shift is part of a global trend that's seeing more industries showcase their values and the good they're doing, Kemp observes.

"The mantra has always been to look after shareholders, but over the last decade, there has been a pivot to focus on stakeholder value," she explains. "That means more than just employees and shareholders that need to be understood and valued. It's about people and the planet, and how the wider supply chain affects all those."

In the diamond and jewelry pipeline, there's been a flurry of companies publicizing their environmental, social and corporate governance (ESG) policies recently. De Beers has

made sustainability central to its messaging with its Building Forever 2030 program, and the likes of Signet Jewelers, Richemont, Lucara Diamond Corp. and Alrosa all published extensive sustainability reports in the past few months — documents that were not previously part of the trade's typical investor or public relations strategy.

From 'Do no harm' to 'Do good'

The United Nations laid the groundwork for this newfound focus when, in 2012, it formulated its 17 Sustainable Development Goals (SDGs) to provide a framework for companies' social-responsibility strategies.

For its part, the diamond and jewelry industry has made efforts in recent decades to adopt policies that would keep it on an ethical path, even if it has often faced criticism for its sourcing practices. Its most famous initiative, the Kimberley Process, was devised to stem the flow of conflict diamonds, while the Responsible Jewelry Council (RJC) has enabled more extensive auditing through its Code of Practices and Chain of Custody standards for minerals.

In May, the RJC aligned with the UN by joining the latter's Global Compact SDG Ambition platform, which aims to accelerate the adoption of sustainability objectives in the business community. The RJC also established a task force to measure the SDGs' impact on the industry and educate its members on the UN goals. "We began by uniting the industry behind a common set of standards, and now we are uniting the industry again as we up our ambition from 'Do no harm' to 'Do good,'" declared RJC executive director Iris Van der Veken at the time of the announcement.

Financial incentive

The end goal of all these initiatives is to increase consumer confidence, says David Bonaparte, president and CEO of US umbrella organization Jewelers of America (JA), which requires its members to sign a code of conduct in line with industry standards.

But it's not just consumer demand that's driving ethical sourcing programs. A major catalyst is actually the financial markets, according to Kemp, as there is real money behind the trend. Asset management giants such as BlackRock and Fidelity have put sustainability practices at the core of their investment programs, she says.

Financing based on green, social and sustainability goals in North America grew by an average of 76% year on year between 2016 and 2020, according to Climate Bonds Initiative, which works to mobilize the bond market toward climate change solutions. Luxury companies such as Prada, Chanel, Burberry and Cartier have all issued bonds with sustainability strings attached.

"So it's beyond a marketing ploy," Kemp stresses. "Financial instruments are now being underpinned by such information and data, and unless you can get true

transparency and visibility across the supply chain, there is a risk for any company.”

Priorities: Price and style

While financiers have seamlessly pivoted to prioritizing the ESG component of their funding, consumers appear to be taking longer to change their mind-sets.

Most observers agree that people are not coming into stores in droves asking questions about the origins of diamonds or gold, or the social practices of the jeweler and its suppliers. First and foremost, consumers are looking for the right brand, price and design, says Patrick Bennett, founder of Successful Consultants, which works with jewelry and luxury brands. Responsible sourcing is lower on customers’ list of priorities.

For jewelers, then, it’s more about staying ahead of the curve, Bonaparte explains. “It’s inevitable that consumers will become more aware of responsible sourcing issues, ask questions, and come to expect that everything they are buying is responsible” — and when they do, declarations of sustainability will give them the confidence to buy.

Network effect

A bigger conversation driving transformation in the industry is about digitization, says Bennett, a self-described jewelry technologist. Consumers are doing a lot of research online, looking at companies and jewelry on social media, and that’s where they forge a deeper connection with the values of a brand.

“This is where they see founders, owners, executives and teams that want to make a change and do things differently,” Bennett notes. “I think that’s where the conversation gets more traction on sustainability.”

Social media has drawn greater attention to millennials and Gen-Z shoppers, who are more sensitive to sustainability issues, agrees Mark Hanna, chief marketing officer at US-based jewelry wholesaler Richline Group.

Younger consumers will find a product more enticing if it has documentation proving it was sourced responsibly, especially if it’s through blockchain technology, he says. A Richline-commissioned survey of affluent alumni from Bryant University showed that 44% of respondents would choose to switch to eco-friendly or socially responsible goods, while 68% said they were willing to pay more for such goods.

Premium product

SCS Global Services reports similar results. Some 35% to 40% of consumers today consider values in their purchasing decisions, says Stanley Mathuram, the consulting firm’s executive vice president of sales and marketing.

“That is continuing to grow, and in the next five to 10 years, the dominant buying market will be based on a population that aligns with these values and is willing to pay a premium for them,” he says. “This is a complete value add, and we want to expand the pie of people willing to pay a premium.”

With the younger generation increasingly skeptical of the jewelry market’s green claims, he continues, SCS has been developing a sustainability standard for diamonds, which it plans to unveil at the JCK Las Vegas Show in late August. It hopes to replicate the momentum that sustainability certification has gained in other industries such as forestry, agriculture, livestock and poultry.

Sales of organic commodities, for instance, rose 31% between 2016 and 2019, according to research that SCS cites from the US Department of Agriculture, and organic products sell at a 20% premium over nonorganic foods.

Tackling diamond tracking

SCS’s 133-page standard covers the entire diamond supply chain, laying out the ESG requirements for mined and lab-grown stones and placing an emphasis on carbon neutrality and traceability. It is working with Australian company Source Certain International to confirm mines of origin. Given a diamond, Source Certain claims to recognize the chemical elements of the deposit — or growth machine, in the case of synthetics — that birthed it. The company has data from kimberlite deposits in Australia, Canada, Russia and South Africa, a spokesperson recently told Rapaport — though Mathuram confirms that no miners have signed up yet for the SCS program.

Other groups have been tackling traceability in different ways. The GIA has partnered with various miners and manufacturers to analyze the rough before it gets polished, creating a “fingerprint” for the stone that it can track and document on its origin reports.

Blockchain programs such as Tracr and Everledger form a registry of transactions involving each diamond. For that to work, though, companies participating in the programs need to be on the same technology platforms, says Hanna. He points to the “tech gap” as the biggest challenge facing the development of Trust Chain, a jewelry blockchain program that Richline partnered with IBM to establish but has since put on hold.

“Unless you’re working with mainly large corporations, the interoperability setup costs are quite high,” Hanna explains. “I can’t tell a small manufacturer that they need to be part of this program but need to spend tens of thousands of dollars on their systems so I can get the information I need.”

Return on investment

The largest cost of putting these systems in place is the backend, agrees Kemp, but she

says companies could consider it part of their general web tooling expenses.

Mathuram argues that the cost of certification is a marginal consideration, though he acknowledges that it depends on the size of the organization. For a large mining operation, the cost of certification “is a fraction,” he says.

Furthermore, many contend, there’s no need to take the additional expense out of consumers’ wallets.

“The cost is minimal to join organizations like the RJC that provide the resources to help jewelers implement responsible sourcing techniques and practices,” Bonaparte says. “I’m not hearing from retailers that they are passing that onto the consumer.”

In any case, the value of social responsibility tends to bear out in branding, says Kemp. “This is not about the consumer paying more. Companies want to bear the cost in their brand because they know it’s the right thing to do. It’s about standing out and making a difference in the world — enabling the brand to be better and answer to a different target market.”

Gaining an edge

Premium brands arguably have an advantage in this area, says Bennett, since they have the resources to put sustainability at the forefront and create a narrative around it. As such, he reports, many modern luxury brands are gaining market share, leading to concerns that smaller businesses — diamond dealers and mom-and-pop jewelry retailers — are being left behind. At the very least, the market is segmenting into companies that can demonstrate responsible sourcing, and those that cannot.

That said, cooperation is a key part of making sustainable strategies work. As a consultant, Bennett tries to bring together like-minded parties that can create opportunities to buy transparently produced diamonds. The RJC also encourages its members to work with each other; Signet Jewelers — the largest jeweler in the US — states in its Responsible Sourcing Protocol that it expects all its suppliers to join the RJC. And Everledger has developed a platform for its clients — which include diamond manufacturers and retail jewelers — to interact with each other on the same blockchain system.

A lasting impression

Jewelers are increasingly building marketing programs around source verification, or are getting the tools to do so from third-party providers like Everledger and Sarine. Through a mobile app or other means, they can share the story of a diamond or jewel with the customer. Details like where and how the diamond was mined, cut and polished add more layers that stay with the product well beyond the sale, Kemp says.

“Consumers are feeling a lot more trust in terms of the connection with the retailer,” she states. “What we are seeing is that goods are moving faster if origin is embedded.”

Whether they’ll pay more for such a piece of jewelry remains to be seen, although Mathuram and others are confident they will. If anything, it’s economics rather than ethics that is driving this movement, according to Hanna, who urges the trade to get on board.

“You’re either going to be trusted and documented, or you’re not going to exist,” he cautions. “Our industry still has a long way to go when it comes to branding and marketing. Trust and reputation are a central part of that.”

The original version of this article was published in the [August](#) issue of Rapaport Magazine.

Image: A boy writes on a blackboard at Mokobaxane Primary School in Orapa, Botswana, part of a De Beers community initiative. (De Beers)