US Wholesale: Inflation Threatens the Bottom Line

Soaring costs and reduced discretionary income are raising concerns in the diamond trade.

Increases in raw materials and salaries are an accepted fact of doing business. But as inflation hits the highest level in 40 years, it tops the list of challenges facing diamond manufacturers due to its impact on consumer buying.

New York: Existential questions

“Cost increases are part and parcel of our business,” said Stuart Samuels, president of New York manufacturer Premier Gem Corp. He cited the rising toll of wages, bench repairs and technology as “standard matters that we contend with all the time.” However, the dwindling supply of rough due to the embargo on Russian diamonds has been a “challenge of late,” he remarked.

Still, these issues do not represent an “existential challenge to our business,” said Samuels, who is also president of the Diamond Manufacturers & Importers Association of America (DMIA). He was more concerned about the length of the downturn in the economy and the impact that the lack of discretionary spending would have on the industry.

Samuels, who specializes in diamonds 2 carats and larger, envisioned two possible and opposite scenarios: People would either cut down on their purchases of diamonds, or would see value in buying diamonds because all their other assets had declined due to the erosion of the stock and financial markets.

Furthermore, increased interest rates pose much more of a challenge than the cost of an extra bonus to employees, because higher rates “could translate into real money for people who are borrowing millions of dollars,” he said.

Describing the recent JCK Las Vegas fair as a “surprisingly vibrant show” and citing the industry’s “resiliency,” he predicted that business would endure because people would put their money into things that had value. “But I’m realistic enough to know that it’s just a prediction," he said.

Chicago: Absorbing increases

"Given the rising costs of production, as well as diamonds and metals, to a lesser extent, we're facing the challenge of how to increase our prices to some of our customers," said Ren Thompson, business development and operations manager at custom-jewelry manufacturer Ho Brothers in Chicago, Illinois. "The reality is that we have to absorb a huge portion of the increases and sacrifice profitability to protect our relationships with clients, because that's everything."

Engagement rings drive his company's business. Thompson has seen a small uptick in platinum, but noted a trend toward thinner and more delicate designs. "I think the price of goods has caused retailers to lean more into cost-effective jewelry designs," he elaborated.

Admitting that he may be "biased or more aware" given the company's line of work, Thompson said it was increasingly important that independent retailers differentiate themselves by developing in-house brands. Otherwise, they risk being swallowed up by big brands that sell directly to consumers, he explained, adding that online retailers clearly conveyed "what makes them special."

While Thompson did not see a "huge overarching recession" on the horizon, he was reluctant to make predictions for the second half because of inflation and the overall economy. He was more concerned that some smaller retailers would "fizzle in the mist" if they did not become more forward-thinking about staying ahead of their competition.

Fresno: Higher salaries

"For the last two years, we've really been trying to stabilize our pricing — even with the industry-wide increases," said Nader Malakan, president of manufacturer Malakan Diamond Company in Fresno, California. "It is our policy to honor the prices we've quoted to our customers. In today's market, that means we sometimes end up operating at a loss."

Malakan reviews costs on a six-month basis. He has observed diamond prices "balancing out" in the last few months to a more rational level. "Prices are about 10% higher," which is in line with inflation, he commented; in contrast, prices shot up by "as much as 50%, or even doubled," in January and February.

"We stopped buying because we couldn't afford those prices," Malakan explained. However, having enough inventory for a year allowed him to hedge against the high increases.

Manufacturing costs continue to rise, with the cost of labor being the largest increase, according to Malakan. The high cost of living in the area has forced him to raise salaries several times so his employees could afford to continue working there.

He expressed concern about the second half of the year: "People need to restock for [the holidays], but are feeling the results of inflation. We definitely need to get it under control." Even so, he said, he looks forward to a "great" first quarter of 2023.

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