

DIAMOND INSIGHT FLASH REPORT #3

◆ AUGUST 19 · 2020

De Beers Group is working actively in the face of the COVID-19 pandemic to understand the consumer perspective and monitor how this evolves as we pass through the stages of the crisis.

To augment our existing research program, we are conducting additional consumer, retailer and supply chain touch-bases to understand the pain points and the opportunities for partners large and small across the pipeline.

In March 2020, we launched a weekly quantitative survey to collect data on the attitudes, behaviors and expectations of consumers in the US. Once a month we also conduct a deep dive into diamond-specific attitudes. The latest survey was completed on July 22.

This report takes a look back at a tumultuous summer and looks forward to Q4 in terms of consumer confidence, the performance of jewelry and key competitive categories, and how best to connect with consumers in the critical holiday shopping season.

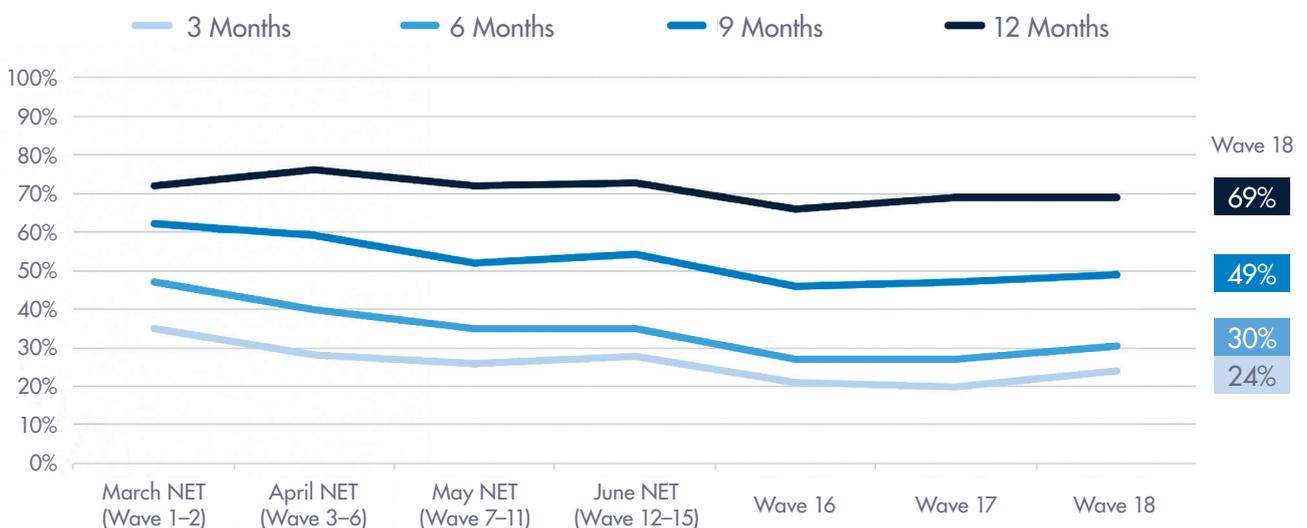
CONSUMER CONFIDENCE IS FRAGILE BUT THERE ARE SOME SIGNS OF OPTIMISM

While spending has normalized in many categories, particularly essential goods such as groceries, pharmaceuticals and cleaning supplies, concerns about the future are evident in the public. In this wave, 42% of consumers say overall spending will not return to normal for over six months. This is the highest percentage in eighteen weeks of the survey seeing such a long window for expected recovery. For comparison, in March 2020, only 18% believed that it would take 6+ months for overall spending to stabilize.

Other signs of concern in July 2020 include that 64% of consumers say they are very/extremely concerned about the ongoing COVID-19 pandemic. Additionally, 42% of Americans now believe the peak of the COVID-19 pandemic is over six months away. In March 2020, only 10% believed the peak to be over six months away; the majority then believed it was 1-3 months from its peak.

Outlook on the US Bouncing Back Slightly

% with an Optimistic Outlook Over the Next...

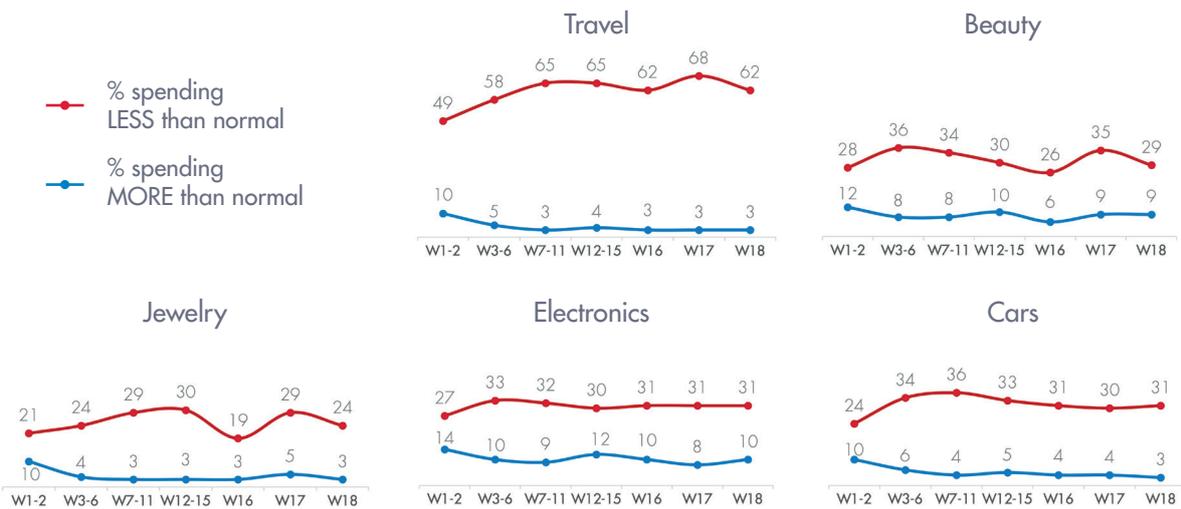


46%

say their jewelry spending is normal now, with another 25% saying it will normalize in the next six months

Yet on the more positive side, almost half (46%) of consumers say they have an optimistic outlook on life overall for the next three months. Twenty-four percent have an optimistic outlook about the US bouncing back overall in the next three months – an increase over the previous two waves. And in July 2020, six in 10 consumers say that COVID-19 has not affected their personal finances. Forty-six percent say that their jewelry spending is normal now, with another 25% saying that they believe it will normalize within the next six months. Spending is also “normal” now or soon for the following non-essential categories: beauty products (47%), electronics (46%), and automobiles (45%).

Consumer Spending on Non-Essentials



Where spending is not normal now/soon is travel: Only 15% believe they will spend on travel in the next six months.

In recent years, industry watchers have seen “experiences” – and particularly travel – replace material things as the top choice of millennials for discretionary share of wallet. De Beers’ historic data through the 2020 Diamond Acquisition Study have shown travel to be consistently the

No.1 competitor to diamonds as the “ultimate” gift/experience. For consumers seeking connection, meaning and the ability to make memories, no other category comes close to travel in rivalling diamonds.

15%

Only 15% believe they will spend on travel in the next six months

REDUCED SPEND ON TRAVEL CREATES SIGNIFICANT OPPORTUNITY FOR JEWELRY AND OTHER DISCRETIONARY SPENDING CATEGORIES

A series of interviews in July 2020 with independent jewelry retailers and local jewelry chains shows that retailers’ experiences reflect what the data indicates about a reduced spend on travel. **Their customers who have remained employed and/or qualify as affluent have continued to buy as normal, and in fact, average tickets have increased. Many believe that this is due to available discretionary funds that formerly would have been allocated to travel, live entertainment, and fine dining.**

While foot traffic is depressed compared to a year ago, conversion rates are higher as consumers entering stores tend to be shopping with a purpose rather than window shopping. One retailer told us that a customer made a major purchase after a trip he had planned to Las Vegas for his wife and ten friends for her 50th birthday had to be canceled. Others have told us that the cancellation of travel for weddings or expensive children’s summer camps meant customers felt they could make substantially larger purchases than normal.

At a time when we see a hard stop on travel before 2021, and 70% of consumers are saying they have changed their shopping to opt for “timeless classics” over “new trends,” diamonds are poised to be the gift of choice this holiday season. Consumers say “meaningful” and “practical” are the key characteristics of holiday gifts this year,

and when ranked, choose diamond jewelry as their top choice over other fine jewelry, designer accessories, and designer clothing. (Interestingly, women do see diamond jewelry as “practical,” with 34% saying that “it’s something that can be worn every day, with everything.”)



US jewelry retailers, particularly local independent jewelers and those with robust ecommerce offerings, have an opportunity in Q4 2020 to recoup Q2 losses through:

- 1 marketing that connects with consumers and the need to find meaning and connection in their relationships with loved ones
- 2 communications about the safety of their physical stores
- 3 selections of classic, timeless pieces that resonate with the search for both meaning and value

Interviews with retailers around the country reveal that consumers are increasingly seeking more traditional, classic designs, with solitaire and solitaire-plus pieces selling better than fashion. The message is clear: jewelry pieces whose component values are clear are more attractive than intricate, design-focused pieces.

With regard to communications, remember that consumers are engaging with media in ways they may never have before. Boredom, anxiety about current events, time at home, and inability to interact in person with more than a small group of people means that consumers are on social media and also watching local news (66% of consumers) more than ever before. There are real opportunities to reach consumers locally with appropriate media buys.

2020 promises to remain challenging up until its very last day and hours. But with over 60% of consumers saying that their personal finances are unaffected, the No.1 competitor momentarily sidelined, and the desire to spend creating an itch, there is a unique opportunity to fulfill people’s true need to celebrate the relationships in their lives they are most grateful for. Retailers who properly prepare through smart marketing, merchandising, and provision and communication of safety measures will be primed to benefit from this opportunity as they head into the holiday season.



PULSE SURVEY

In addition to the ongoing research, once a month we also check in with 500 consumers in the US to understand what they are thinking and feeling as we make our way through the COVID-19 crisis.

This month we wanted to know whether cancelled experiences resulted in extra funds for consumers and how they might spend that money.



This month, two-thirds of Americans have cancelled travel plans in 2020, and 55% of those consumers found themselves with extra money.

Among all consumers, 44% found they had more disposable cash as they had to cancel travel, dining or other experiences in 2020.

44%

of all consumers find themselves with more disposable cash

With travel off the list, one in eight people would choose diamonds from a competitive set to mark a special occasion.

HAVE A QUESTION YOU’D LIKE TO INCLUDE IN OUR PULSE SURVEY?

Send it to flashreport@debeersgroup.com and we’ll aim to include it in an upcoming survey.