

**BUSINESS FOR DEVELOPMENT:
IMPLICATIONS FOR EXPORT STRATEGY-MAKERS**

SRI LANKA

**THE SAPPHIRE BRANDING STRATEGY
OF THE GEM AND JEWELLERY SECTOR IN SRI LANKA**

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1. Introduction

Among the main objectives of "The Future – Regaining Sri Lanka" strategy, are value addition to Sri Lanka's export products and also employment creation. In keeping with this objective, the Government has given high priority to develop the Gem and Jewellery Industry in view of the fact that the industry has a vast potential to create employment, increase foreign exchange earnings of the country and also enhance incomes of producers engaged in the industry.

The Sri Lanka Export Development Board (SLEDB), which is the national TPO, has identified the Gems and Jewellery sector as an important sector for the development of exports and have initiated a number of strategic supply and market development programmes.

Under this strategic initiative an international campaign will be undertaken to position the "Ceylon Sapphire" in the public's consciousness, in view of its intrinsic qualities and uniqueness.

Country branding is a common phenomenon in international marketing. Well known examples are Swiss watches & pocketknives, Belgian chocolate and lace, German engineered automobiles, Egyptian cotton, Indian ink, and American jeans & apple pie.

In the coloured gemstone trade, origin branding has been for long an established factor. Burmese Rubies are a striking example.

The decision to emphasize "Ceylon" in the branding strategy is also noteworthy. The island changed its name from Ceylon to Sri Lanka in 1972. But in the consumer consciousness, the old name's effectiveness has persisted and with an effective brand name in existence, it has felt that using it was better than "reinventing the wheel".

Close upon 50 per cent of Sri Lanka's gem exports go to the United States while some 15 percent reaches Japan. The Sapphire is already the best selling coloured gemstone in the US. The strategic focus is therefore to enhance the visibility of the Ceylon Sapphire within the Sapphire category and push it to the top of the ladder.

2. Industry Positioning

The industry in Sri Lanka is currently positioned in the global market as a source of high quality raw materials, particularly Sapphires and to a limited extent as a supplier of cut and polished free size and calibrated stones and more recently as a supplier of modern silver jewellery. Sri Lanka is positioned at present a little above other developing producer countries such as Burma, Vietnam, Tanzania and Madagascar, which provide raw materials to the market and therefore derive the lowest level of earnings. On the other hand, the high-end of the market is occupied by developed nations such as Italy, Germany, France and Hong Kong. These nations focus on innovation in both design and technology and reap the highest returns from the industry.

The export performance of the Gem and Jewellery industry of Sri Lanka from 1993 to 2002 is given in Table 1 below.

Table 1 : Gem & Jewellery Exports from Sri Lanka (Rs. Mn)
1993 - 2002

	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002
Gems	3468.0	4049.0	4045.8	4748.5	4877.9	3577.3	4394.3	6871	7405.6	8234.5
Jewellery	604.2	1222.5	1697.3	2005.9	1047.6	698.4	783.5	1033	1800.5	1365.1
Total	4072.2	5271.5	5743.1	6754.4	5925.5	4275.7	5177.8	7904	9206.1	9599.6

3. **The Potential**

Based on the value of Gem and Jewellery exports in 2000 as a benchmark, the potential for Sri Lanka as projected by the trade is as follows:

- ♦ Value of exports of Gems in year 2000 was Rs. 7 billion (US\$ 70 Mn) at the current exchange rate.
- ♦ If Sri Lanka exports 25 per cent of the gems that are exported at present, as value added jewellery products, an additional revenue of Rs. 4 billion (US\$ 40 Mn) or 57 per cent more revenue could be earned in foreign exchange.
- ♦ On the other hand, if Sri Lanka exports 75 per cent of the gems exported at present in the form of value added Jewellery products, Sri Lanka could generate an additional Rs. 10 billion (US\$ 100 Mn) in foreign exchange or 150 per cent more revenue.

4. **SWOT Analysis of the Industry**

A SWOT analysis of the industry has shown the following major strengths, opportunities, weaknesses and threats.

Major strengths are :

- Country's image as a fine gem producer ;
- The best source for fine Sapphires ;
- Generations of experience and expertise in jewellery manufacture ;
- Easily trainable manpower ;
- Special designing skills ;
- Existing connections in world trade in gems and jewellery ;
- Government's free economic policy to attract investors ;
- Easy communication and friendly people to work with.

Among the Major Opportunities are :

- Expanding world market ;
- Potential in the market for additional supplies based on new products and new designs ;
- Facilities and incentives provided by the Board of Investment of Sri Lanka (BOI) to foreign and local investors.
- Use of e-commerce in trade.

Among the Major Weaknesses are :

- Limited access to up-to-date information on design trends ;
- Limited dissemination of information related to modern production methods ;
- Inadequate training facilities ;
- Limited exposure in the world market ;
- Inadequate assaying and hall marking facilities ;
- Shortage of finance to meet working capital requirements.

Among the Major Threats are :

- New marketing strategies adopted by developed countries.

Taking into consideration the above, the goal and objective of the national TPO and the private trade is for the industry in Sri Lanka to be repositioned against the nations that occupy the high end of the market, in order to reap the highest level of earnings from available resources.

The Gem and Jewellery Industry like most other industries that manufacture for export, faces competition particularly from countries, which have the advantage of producing large quantities, enjoy economies of scale, adopt better technology and automation, have better management skills and employ aggressive marketing facilities. Therefore, the programmes being implemented by the national TPO with the trade in a public sector private sector partnership approach addresses some of these issues in a systematic manner and includes market studies, market development, supply and technical development, skills development, and quality and productivity improvement.

5. New Initiatives Undertaken by the National TPO and the Industry in a Public Sector – Private Sector Partnership

The collaborative approach of the TPO, the National Gem and Jewellery Authority (NGJA) and the trade to achieve the goal of increased export revenue targets as outlined in Section 3 above is to implement the following two key strategies.

- a) Hub Strategy – To develop Colombo as an international hub for Sapphire Trading and Services.
- b) Brand Strategy – To develop the Ceylon Sapphire Brand in international markets to maximize value addition.

6. Hub Strategy

At present the development of the industry in Sri Lanka is comparatively slow due to the lack of adequate infrastructure, lack of critical support services, low levels of investment in mining and manufacturing technology and the non-availability of trained manpower that is needed to propel the industry forward.

An analysis of the leading gem and jewellery industry hubs in the world shows that Sri Lanka appears to lack facilities that are essential to create a hub. The approach is therefore to undertake the following investments to establish Sri Lanka as a world class hub.

- ♦ Infrastructure - dedicated commercial and investment zone for the industry.
- ♦ Hub services which include :
 - International gem testing and certification laboratory ;
 - Gemstone inscription and engraving services ;
 - Internal freight forwarding services ;
 - Metal refining services ;
 - Specialized banking services.
- ♦ Technology upgrading
- ♦ Human Resource Development
- ♦ Mining and exploration development

The above activities related to the Hub Strategy will be the responsibility mainly of the NGJA. It has already commenced working on a plan to set up the proposed "Gem and Jewellery City in Colombo" which includes gems and jewellery shops, banking services, gem museum, customs services etc. Action has also been initiated to upgrade the existing assay office and to set up an internationally accredited gemological testing center.

7. The Ceylon Sapphire Brand Strategy

Under this strategy it has been determined that the way forward for the jewellery industry in Sri Lanka is to widen its market focus and develop a more up-market and branded product so as to avoid the competition from mass-producing countries. As Sri Lanka's major strength is the "Ceylon Sapphire", the strategy is for the industry to use this gemstone and its worldwide reputation for beauty and quality to move into production for more high-end sales with corresponding higher value addition. The Ceylon Sapphire Brand Strategy is considered the innovative way forward to develop the export sector. In view of the focus on the export sector, the Ceylon Sapphire Brand Strategy related activities are the responsibility of the TPO.

The new initiative is to develop "The Ceylon Sapphire" as a premium brand in the international market. The strategy brings together local jewellery manufacturers and local gem dealers into a business relationship that will benefit both parties.

Its objectives are :

- ♦ To place Sri Lanka on the world map as an important jewellery production center.
- ♦ To develop the image of Sri Lanka as the foremost production center for Sapphire Jewellery in terms of design, product quality and services.
- ♦ To differentiate the jewellery industry in Sri Lanka from low value mass production centers and to be identified with modern design and high value products.
- ♦ To promote the use of the Ceylon Sapphire in jewellery.
- ♦ To rapidly increase jewellery exports from Sri Lanka.

Note : The NGJA is a specialized state agency established to service the gem and jewellery industry by providing testing, hall-marking, assaying and other related facilities and also as a regulatory body for the industry.

In terms of this strategy, 8 – 10 leading jewellery export houses in Sri Lanka have come together to form a jewellery marketing and promotion consortium under the name and style "The Ceylon Sapphire Council Limited (CSCL). This Consortium has entered into an alliance partnership with a renowned international jewellery designer. The strategy encompasses the following components.

The Design Alliance :

- Formation of the Design Alliance Consortium ;
- Appointing of a Strategic design partner ;
- Development of an international collection of Ceylon Sapphire Jewellery designed by the world renowned designer ;
- Production by local gem and jewellery export companies ;
- Joint promotion by the exporters, designer and the Government of Sri Lanka.

The partners have undertaken the designing, development and promotion of a collection of Ceylon Sapphire jewellery in international markets within a time frame of 1 – 3 years. It includes the designing and development of the Ceylon Sapphire Collection, which comprises 200 pieces of jewellery, set with natural Ceylon Sapphires and Diamonds. The collection comprises Rings, Pendants and Earrings as well as other special jewellery items, in gold and platinum. They will be priced between 1000 – 10,000 dollars per unit for the high end of the market.

The Ceylon Sapphire Jewellery collection developed by the CSCL, which is a public sector private sector partnership, has an initial investment of Rs. 100 million (US\$ 1 Mn) and comprises an investment component of Rs. 35 million (US\$ 300,000) by the TPO. The balance investment is subscribed by the trade.

The Ceylon Sapphire Jewellery Collection will be promoted through trade fairs, point of sales publicity, a Sri Lanka Jewellery portal on the web and product placements in design competitions and design pavilions. Promotion will also be undertaken directly with the consumers by placing the Ceylon Sapphire Collection in fashion weeks, consumer magazines and direct promotion to the consumers in overseas markets at special events, which include :

- Special events to be organized in selected markets for trade buyers and the media.
- Trade shows such as the Ceylon Sapphire Pavilion in LJT (Japan), Inhorgenta (Germany), Basel (Switzerland) and JCK (Las Vegas).
- Ceylon Sapphire Collection catalogue and web site.
- Editorial coverage in trade and consumer magazines such as JCK, Modern Jeweller, JNA, Vogue etc.
- Point of sales material for retailers.

By undertaking the above programme, branding at the top end will have an effect on the whole industry, viz. jewellery manufacturing, gemstone cutting, certification, packaging, logistical development etc. which will help to lay the foundation for an essential hub. This hub will be an enlargement of the Design Alliance Consortium and will encompass all other jewellery exporters and manufacturers from the small to the medium scale companies and also companies which have yet to enter the export market.

8. Enterprise Specific Assistance Programme for Medium Scale Companies

In addition to the Sapphire Brand Strategy to be worked out in collaboration with the leading jewellery exporters, the TPO will work together with a group of medium scale export companies and also companies who have yet to enter the export market, to benefit from the promotional programmes. Broadly it will include a special package to upgrade existing workshops in order to resort to modern production methods. The package will also include technical consultancies and assistance for development of promotional material as well as assistance for marketing through a marketing cum sales agent.

9. Implementation of the Ceylon Sapphire Brand Strategy by the CSCL

The CSCL has recognized the fact that Sri Lanka's major strength in the gem and jewellery industry lies in the "Ceylon Sapphire". It is Sri Lanka's most widespread stone in terms of geography and also has worldwide awareness. It has all colours of the rainbow. As a result of the discovery of Geuda material, as well as technology improvements in the ancient practice of heating to convert geudas to Blue Sapphires, it has become one of the world's most widely cherished precious stones. All these marketable qualities of the Ceylon Sapphire has created a brand recognition worldwide, a brand not created by the producers of the stone, but by the sellers and consumers.

Ceylon which is the historical name for Sri Lanka carries a commercial message crucial for branding effectiveness which conjures up imagery of ancient civilization, exoticism, natural beauty, tradition and ritual, mystery and the eastern philosophy of harmony.

Therefore, the Ceylon "Sapphire Brand Strategy" was designed to use this gemstone and its worldwide reputation as a tool to move into production for more high end -sales with corresponding higher value addition. The Ceylon Sapphire Brand Strategy is considered the innovative way forward primarily to develop the export sector. Brand development will also benefit the entire industry and the country as a whole.

It is for the implementation of activities related to the Ceylon Sapphire Brand Strategy that the CSCL was formed.

The main business of the CSCL is to develop and market jewellery, set with Sapphires and manufactured in Sri Lanka. The product will be positioned in the high end of the market. In order to do so the CSCL has developed its own brand named "Sriya" for its products.

In the first phase of the brand development programme, the CSCL through its Strategic Alliance with the world renowned jewellery designer who owns an international luxury jewellery brand, will develop designs, quality control and co promote a collection of Ceylon Sapphire Jewellery, manufactured by the members of the CSCL. Products developed under this Alliance will be co branded with the world-renowned jewellery designer.

The objectives of the CSCL are :

- Develop, market and distribute worldwide, a collection(s) of Ceylon Sapphire jewellery.
- Register and develop an international brand(s) for the Council (Company) and its collections.
- Core brand the jewellery collections with other branded products and companies.
- Increase value addition to domestic raw materials by manufacturing high-end jewellery.
- Place Sri Lanka on the world map as a major jewellery production center.
- Enter into strategic alliances with local and foreign jewellery designers.
- Contract the production of jewellery to local manufacturers, including its shareholders.
- Joint promotion of Ceylon Sapphire jewellery and gemstones by CSCL, exporters and state agencies.

The CSCL will not operate its own production facilities. All orders that are secured by the company will be sub-contracted to members for production. The initial product line of 100 pieces is developed in association with the world-renowned designer. Of this collection, 45 designs will be his own original designs. The balance 55 styles will be designed by a local designer(s) under the direction of the world-renowned designer, maintaining the same theme as the original designs. The local designer(s) will be selected by the CSCL.

The CSCL will develop a second collection of jewellery in the 3rd year of operation. This collection may be in association with the existing world-renowned designer and/or any other well-known designer.

The CSCL will produce a product catalogue, brochure and CD ROM. The design and colours of all branding material will be coordinated and developed by a reputed international agency.

In regard to marketing and promotion, the CSCL will endeavour to sell directly to the larger well-established up-market retailers. The CSCL members who operate retail outlets in Sri Lanka and overseas, will also be considered potential customers of the company. The company will also target existing customers of CSCL members as well as customers of strategic alliance partners. When commercial orders are received CSCL will ship directly from Sri Lanka to the warehouses or stores of the organization/s purchasing the orders. On-line sales will also be undertaken from the company's own web site. In the case of on-line sales a reputed courier company will be used to deliver products to the door of the end consumer. Direct mail will also be targeted at potential customers identified by the company.

Assistance of an international technical Consultant is being sought to supervise the initial production of the Ceylon Sapphire collection. Recommendations to select a Technical consultant are expected from France, Italy and the U.K.

A joint promotion will be undertaken by the exporters and the Government of Sri Lanka in promoting the Ceylon Sapphire jewellery collection "Sriya" in the international market. This promotion would take the form of a launch to be held in London and Sri Lanka in early 2004, and trade events in Basel (Switzerland), JCK (Las Vegas, USA), Hong Kong Jewellery and Watch Fair and three consumer events. Products of the Ceylon Sapphire collection will be ready at least two months prior to the launch, for pre-publicity.

As the Ceylon Sapphire collection targets the high-end of the jewellery market, quality and workmanship of jewellery are considered to be very important. A key factor to the success of the programme would be the ability to translate the designs to quality jewellery.

The CSCL is expected to operate as a commercially viable, self-sustainable legal entity in the medium to long term. Its members who operate retail outlets in Sri Lanka and overseas will also be considered potential

customers of the company. It will design and develop its own point of sale, display material and packaging that will be made available to all retailers.

Four main marketing approaches will be used by CSCL to market its products. This will be trade fairs, special events, one to one sales meetings and direct mail. In the first year of operations the CSCL will cover the East and West coasts in the USA through two sales representatives. The UK and Europe will be covered by another sales representative. They will carry a complete sample line and will use these samples to write orders. The CSCL will also negotiate with members to use their retail distribution networks to distribute products.

Under the overall programme the national TPO and the trade with the assistance of "the competitiveness initiative" (TCI) of the USAID has already established a Gem and Jewellery Institute (GJI), with computerized CAD CAM equipment to undertake designing of jewellery using advanced technology and also to undertake advanced training programmes to further develop the skills of those who are already engaged in the industry and to undertake training programmes for newcomers to the industry. For this purpose an existing Lapidary Training Centre for gem cutters and calibrators has been incorporated under the umbrella of the GJI.

10. Conclusion

The benefits of the overall strategy of value addition and branding is expected to percolate down to all segments of the Gems & Jewellery industry from Jewellery Manufacturers, Lapidarists, Gemstone dealers and to gem miners at the lower end of the scale. Successful implementation of the strategy will not only see enhanced foreign exchange earnings for the country and employment creation but also increased earnings and improved living standards for the stakeholders at the lower end of the value chain viz. the gem miners who live in rural areas.