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The Eyewear Market Luxottica's Leadership, Strategy and Acquisitions

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1. Introduction

When you enter an optical shop to buy a new pair of sunglasses, there is a 70% probability that you will be buying a Luxottica product. Suppose a customer enters the shop and decides to buy the classic Aviator Ray Ban sunglass, the most famous model, used by Tom Cruise in the movie Top Gun. It is likely that the customer buys the sunglass because he has seen it in a movie or on a friend or simply for the reason that the model fits them well. During their purchase, customers are for the most part presumably unaware that they are in fact buying a Luxottica product.

Luxottica s.p.a. is the largest distributor and producer firm of eyewear and sunglasses in the world. It was founded in Agordo, a small Italian town in the Alps, by Leonardo Del Vecchio in 1961. The firm is without any doubt leader in the eyewear market, producing and distributing more than 30 brands which include: Ray Ban, Persol, Christian Dior, Chanel and Oakley.

It is present in over 130 nations in all the continents with about 61,000 employees world-wide.

Luxottica adopts an extreme vertical integration. It covers all the aspects starting from the design of the frames to the distribution and retail to costumers. Luxottica Group is truly worldwide and constantly searching to improve and develop within new markets such as Brazil or Indonesia, emerging markets in this, economically speaking, difficult moment. About the economic crisis, Andrea Guerra, CEO of the Luxottica Group, said: “The economic crisis has ended in late 2010 for our firm, managing to recover the gap lost between 2007 and 2009”. A result that clearly

shows the dominance of Luxottica in a market that overall has suffered the economic crisis. Many optical shops in Italy and in other countries have closed during the last 4 years, due to the low consumption of goods such as sunglasses and eyeglasses that are not seen as primary. Consumers believe they can avoid buying eyewear products or they can find low cost alternative products not caring about the high quality eye care a good product gives him/her. Fashion eyeglasses and sunglasses, produced by Luxottica, are sold at high prices that may exceed the willingness to pay of customers, but an expensive product will have a higher protection for the eyes (e.g. capture more UV rays that seriously damage the human cornea). This is not always the case. We will see later on in the article posted by *Brett Arends* on the *Wall Street Journal* an explanation about the low markup costs of eyewear products and the high net revenues of firms, such as Luxottica, and if sunglasses are really worth those prices.

Being leader in such a big market permits Luxottica to achieve the record revenues the possibility to “dictate the rules” of the eyewear market. We will see in the next chapters that Luxottica is dominant in the market but it shares it with other firms such as: Charmant Group, De Rigo, Marcolin, Safilo and Viva International Group. We will concentrate on the most aggressive competitors that are Marcolin and Safilo, Italian eyewear producers and distributors, just like Luxottica, but not as efficient. Luxottica’s efficiency does not happen by chance. The extreme vertical structure and more than 50 years of experience are a combination of a healthy firm that is able to maximise its profits.

Luxottica Group, as said earlier, is not just a distributor and producer. In the last decades it has established and acquired optical shops and optical shop chains such as Sunglass Hut International, Lens Crafter and OPSM in Australia. This well shows how the vertical integration of the firm operates combining wholesale distribution and retail distribution. This strategy amplifies Luxottica's competitors; not only the other distributors (Marcolin, Safilo etc.) even small and medium optical shops around the world. Therefore an optical shop will paradoxically be customer of Luxottica and at the same time competitor.

Luxottica continues expanding its dominance in the market by investing on internal R&D and, most of all, in acquiring other firms. One of the milestones that has most significantly changed Luxottica's history has been the acquisition of the Ray Ban brand, previously owned by Bausch and Lomb, in 1999. When Leonardo del Vecchio acquired the world's most famous sunglasses brand, Ray Ban was heavily underperforming and needed a re-boost in the market. Luxottica moved the production to their industries in Italy, lowered the price and started a massive selling of the product around the world bringing Ray Ban to what it is today: the most famous and profitable eyewear brand on the planet. The success of this operation brought Luxottica to continue the strategy of acquisition of brands in order to expand inside the market. In the last decade it has acquired eyewear brands such as: Persol, Oliver People, Revo, Vogue etc. In the next chapters we will focus on the latest acquisitions of Luxottica during 2012, the first ones after the crisis that has ended in 2010 for the group. In the same year it has acquired Alain Mikli, French firm that produces handmade eyeglasses, and Salmoiraghi e Viganò, retail

eyewear stores all around Italy. These acquisitions are extremely important for the eyewear market that could significantly change in the next years.

Will the eyewear market change? How will it change? Who is going to benefit more from these acquisitions? Further on in the case study we will analyse and find a solution.

2.1 Vertical Integration

A firm is said to have a vertical integration when it expands its business into areas that are at different points on the same production path, such as when a manufacturer owns its supplier and/or distributor. It includes every step of the business: from the concept or design of a product to the final retail to consumers. There are several firms that nowadays decide to apply a vertical integration to their business. Famous and profitable firms such as Apple or American Apparel take care of their products from the design and the concept to the retail in their own shops. This management strategy permits to control every sector of the firm, acquiring more autonomy in the market but at the same time more responsibilities.

Luxottica's founder and Chairman, Leonardo del Vecchio, has embraced the idea of

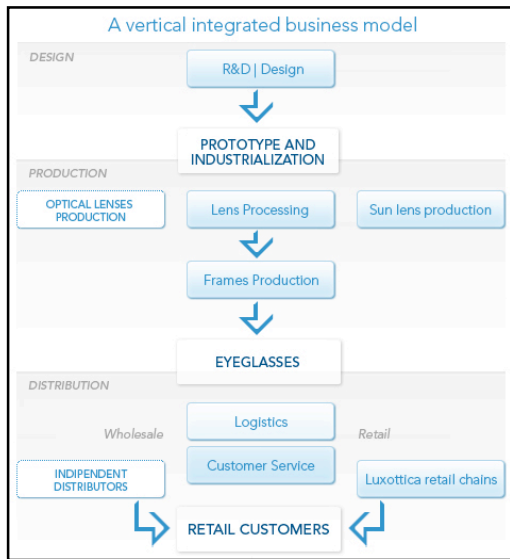
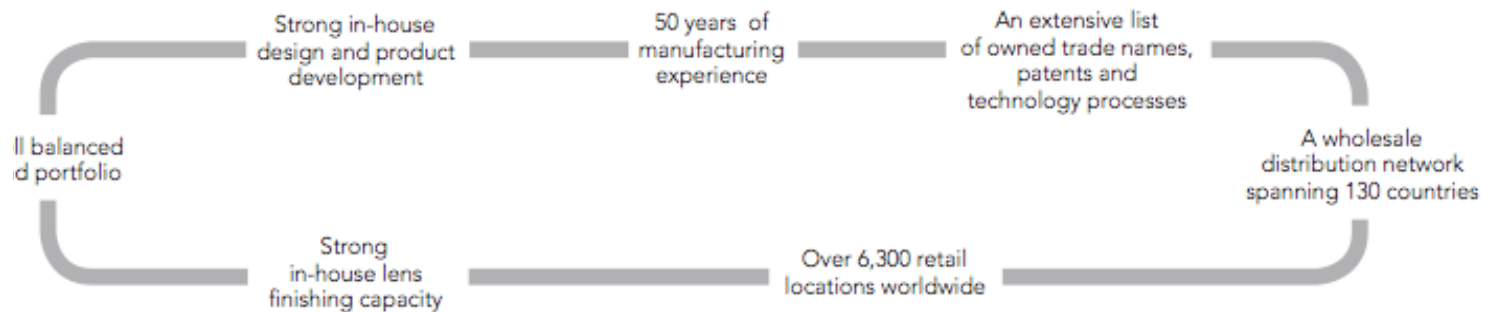


Figure 1. shows how Luxottica integrates both upwards and downwards. From the design and concept to the final retail customer distribution

a vertical integration in the last decades understanding the importance of caring every little aspect of the supply chain (luxottica.com). A decision which ended up being extremely significant and profitable for the firm that integrated vertically in both directions: upwards, towards the supply or distribution, and downwards, towards the retail acquiring optical shops or optical chains.

Luxottica's decision to adapt a vertical integration in their business model ended up being a success for the firm, that in few years became leader in the market and managed to achieve the numbers we stated before. Although it was a success, like many decisions, there were pros and cons. Vertical integration, first of all, helped Luxottica to have a faster and more detailed flow of information inside the firm. During the launch or development of a product, when information is uncertain, there are difficulties related to the lack of suppliers, the synchronisation of the production stages and the transfer of technological information. Under these circumstances, processes of vertical integration are stimulated, fostering speed and reliability information flows, and promote security and continuity of supply. A more accurate flow of information inside the firm and more synchronisation between the different stages of the supply chain makes the firm result more efficient on the market. The firm also managed to reduce transaction.

Figure 2. Another graph that show how Luxottica organises its vertical integration



costs, being every step managed internally, and maintenance costs of plants or buildings. This meant that costs were reduced and net revenues increased, making the firm more profitable or increasing the amount of money to re-invest in the market.

By integrating upwards, towards the design and manufacture steps, Luxottica increased the control over the quality of the products becoming a luxury eyewear producer and distributor. The result was a competitive advantage over their competitors as they built a new and modern concept of sunglasses and eyeglasses. Integrating downwards, towards the retail and final step, helps Luxottica get a direct contact with their customers and understand which are their tastes and their needs over the years. This keeps the firm in track with new trends and fashion styles making it an innovative and technologically advanced company. Luxottica's structure is the result of a unique business model in its industry, as seen from the outstanding results obtained by the long lasting partnerships with leading luxury and fashion brands. The integration is optimally explained in *Figure 1.1* where we can see the difficult multitasking Luxottica Group performs. A complex system,

well structured and extremely efficient, that speeds up the supply chain duration and permits to control such a rich portfolio.

One of the few cons of introducing a vertical integrated business structure is the risk of being less flexible on the marketplace and a dilution on competencies (Daft, 2008). When a firm decides to integrate upwards or downwards, there may be a problem of overshadowing the core competence from which it starts. Integrating vertically also means spreading competences in other sectors which may result as a de-concentration from the firm's main goals. In order to maintain a certain equilibrium firms must be able to maintain an efficient business organisation. In order to be efficient firms must organise with: specialised tasks, strict hierarchy and many rules, vertical communication and reporting teams, few teams or integrators and a centralised decision-making. While we can state that horizontal integration is mostly designed for learning, vertical integration is designed to be efficient and competitive at the same time.

2.2 Markup

One of the major critics made to the sunglass and eyewear market is the enormous markup the firms manage to make. The markup of a product is the difference between the selling price and the total cost of production. In the eyewear market this difference results to be extremely significant. Most sunglasses nowadays are made in China with a manufacture cost approximately between 3\$ and 7\$. Sunglasses are then sold to final consumers at prices that start from 150€ to 600€.

An enormous gain for firms such as Luxottica that can truly maximise its profits being able to set their prices. Luxottica has three major factories of sunglasses and eyeglasses: one in Italy (where the firm was founded), one in the USA and one in China. At first, Luxottica produced and assembled every part of the final product in Italy, but in the last decades, thanks to the arising economic power of China due to its low cost of labour force. What happens nowadays is that every single part of the final product is produced in China, leaving to the Italian factory the assembling part. When the sunglasses or eyeglasses are assembled they are then put into the market as “Made in Italy”, although the 80% of it was produced in China. In the last month, some original Ray Bans, the best-selling eyewear in the market, have been seen with the “Made in China” script. This means that Luxottica is starting to focus the production just in China and cutting down employees and buildings in Italy. On the other hand, in order to maintain the concept of the eyewear as a luxury accessory, Luxottica must continue to sell as a product “Made in Italy”, that gives more reliability to the consumers.

Dr. Lois Olson, marketing professor at San Diego State University, explains in an interview why there is such a difference between the production costs and the final selling price in the eyewear market. “There’s no logic to it – says Dr. Lois Olson – and that’s marketing. That’s essentially what we teach. Sometimes I’m kind of embarrassed by the fact that this is actually really good marketing if they can produce a product for that low of a price and people are willing to pay it. In certain product categories, they simply will pay it. In certain product categories, they simply will pay it. It’s always interesting when I’m teaching pricing theory in class and we go through the whole pricing mechanism and then I reveal to them this is

the price for sunglasses, and you can sort of see student's faces. They're just kind of shocked. Like, oh my gosh, I just paid \$250.00, I just paid \$200.00 for these sunglasses. And then there's almost a sort of denial. They kind of wipe it out of their mind like, but I really like my sunglasses, I don't – I don't want to know this. I really don't care. And to a large degree, that's good marketing." (Hank and Myrland, 2009).

Luxottica is able to integrate to its efficient structure a great marketing team, able to convince consumers to buy a product at such high prices for standard qualities. What helps the firm, especially when producing eyewear for luxury brands such as Chanel or Bulgari, is the high price they set in respect of the other eyewear (Chanel and Bulgari sunglasses cost from 300€ and can exceed 1000€) and, at the same time, sunglasses are the least expensive accessory of the whole production of the brand. This analysis reveals how brands are significant for the markets and for consumers. Fascinating and attractive brands have a history beyond them, a lifestyle approach in which consumers personify themselves. A great advantage for the firms that, knowing how much a brand may influence consumers, can set higher prices to obtain higher profits.

Brett Arends, journalist of the Wall Street Journal, is very critical about this topic. In a recent article he wrote how sunglasses manufactures, more specifically Luxottica, sell and distribute a products with same qualities at very different prices. He focuses on the fact that sunglasses and eyeglasses sold in a luxury store or in a super-market have been manufactured in the same place and with the same quality. Buying a 25\$ pair of eyeglasses in your local pharmacy or a luxury eyeglass has

very little difference in terms of quality and performance (Arends, 2010). This kind of critic may be correct for some eyewear. One of the major problems that permits these critics to arise is the production of sunglasses and eyewear in China. This “migration” of the industries has lowered the cost of production but, at the same time, it has put under pressure the level of quality as well. Materials used nowadays in China where it seems as if the only goal that really matters is the maximum production at the lowest price. On the other hand, Brett Arends critic is too extreme. Not every sunglass and eyeglass is the produced in the same place with the same procedure. Doubts have a right to exist, but it depends on what do we are looking for when buying sunglasses. Do we look at the lenses? At the frame? At the brand? People usually look for all three of these characteristics, but there may be people who just care of the lenses and are not willing to pay for the frame or the brand or vice versa. Sunglasses, thanks to Luxottica’s strategy of valorising the product, have become luxury and essential accessories to wear. People buy sunglasses not only because they protect your eyes from UV rays, people buy them because they have seen them on an actor or on the nose of a friend. The most emblematic case has been the collaboration of Steve Mc Queen with Persol, Italian eyewear brand owned by Luxottica. Steve Mc Queen has helped the design of a sunglass model that has been sponsored in movies and, most of all, during his personal life. It has been one of the most sold sunglasses in the last decades. People buy this expensive frame (Limited Edition) not only because it fits great or because it is foldable, they buy it because they associate it to a style, a lifestyle. The sunglasses is there saying to you: “Don’t you want a life as Steve Mc Queen?” as even Vasco Rossi, Italian singer, wrote in one of his songs “Vita Sperimentata”

(Reckless Life). The importance of brands in human psychology is incredible. The name of the brand written somewhere or just the logo of the brand influences on the human mind and on human decisions. Luxottica does an outstanding marketing job building an image, a style, a history behind every product. Think of the product placement of Luxottica. Being leader in the market it is able to easily place in every movie, tv-show or theatre their products convincing VIPs to wear them in important events. This creates even an indirect marketing, that probably is more convincing to the consumer than the direct one, when actors or actresses wear the products during their private life and are caught by paparazzi. This is one of the reasons why Luxottica doesn't invest much in direct publicity in TV or newspapers or magazines. Luxottica, is such leader in the market that their products are not present in the most important eyewear fashion shows such as Mido in Milan and Silmo in Paris. Very important fashion shows that help distributors to show up in the market and for customers to buy the latest products.

2.3 Industry Analysis

2.3.1 Competition

Looking at competition for Luxottica in the international quality sunglasses market there are six major players in the eyewear business: Charmant Group, De Rigo, Luxottica Group, Marcolin, Safilo Group and Viva International Group. Data for these companies are only available to a very limited extent. Partly because half of them are privately owned and on the other hand the publicly held companies do not

make a distinction between prescription or sunglass figures in their financial reporting.

We will start with a comparison of just the three companies which are public, Luxottica, Marcolin and Safilo. It is followed by Safilo, with less than half the amount of sales of the former and Marcolin is only a small third player, with less than a tenth of Luxottica's sales. Although exact figures are not available for the three other firms, we assume them to be comparable or slightly larger than Marcolin.

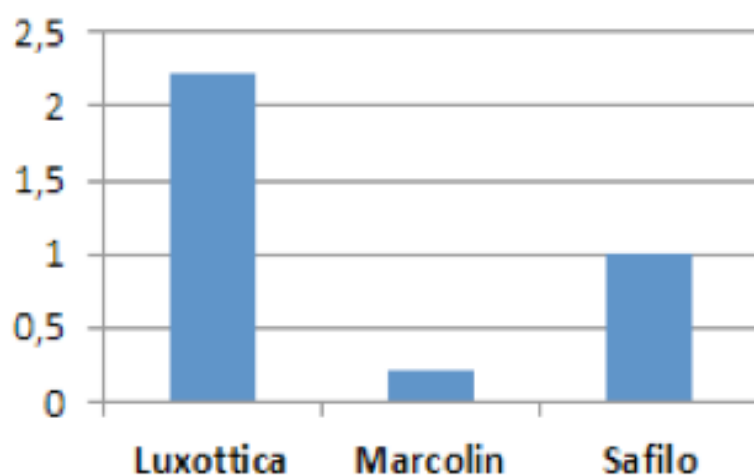


Figure 3. The graph significantly shows the revenues in the eyewear market (Expressed in billions of dollars)

Taking this into account a very rough division of market shares in worldwide eyewear is made in *figure 4*. Showing Luxottica as market leader with 40-50%, followed by Safilo (around 20%) and a group of other holding companies (like Charmant, De Rigo, Marcolin and Viva; circa 35%) making up almost all of the rest of the market.

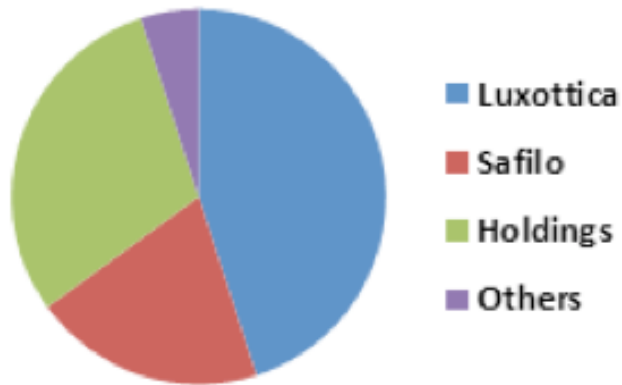


Figure 4. This pie chart shows how the eyewear market in a general view is distributed among Luxottica and competitors

Assuming the holding companies are all equally as large and the “others”-group is comprised of five equally large companies we can calculate the HHI. The Hefindahl-Hirschman Index (HHI), which is a measure of the size of companies in relation to the industry and the level of competition, is 0.27. This implies there is only little competition in the industry, as a HHI above 0.25 is seen as a corresponding to a highly concentrated market. Which means only a few firms control most of the industry and have a high level of market power. However, as said above, it should be noted that these figures are based on very broad assumptions and just educated guesses.

Below each company is depicted with corresponding geographical percentages of total sales. These figures in no way represent the division of market share for those markets, they rather show the importance of different markets to different companies. Luxottica clearly is more focused on the US market, while Safilo and especially Marcolin get most of their revenues from the European markets.

However, it is important to notice the presence in other markets, since they contain developing countries and hence these activities might be an indicator of larger future growth.

Apart from concentration, product differentiation is an important measure for the rivalry between firms in an industry. Most of the competitors have a very broad variety of brands in their portfolio (see *figure 5.*). This makes it hard to differentiate companies based on their final products. However events in the past suggest there can be made some distinction based on product differentiation, at least between Luxottica and its main competitor Safilo. As possible brands for licenses decreased over the last years, the rivalry of Safilo and Luxottica has increased, with brands switching from the one to the other (Tagliabue, 2004). Reasons for these switches may indicate one of the few really big differences (except from size) between the two companies.

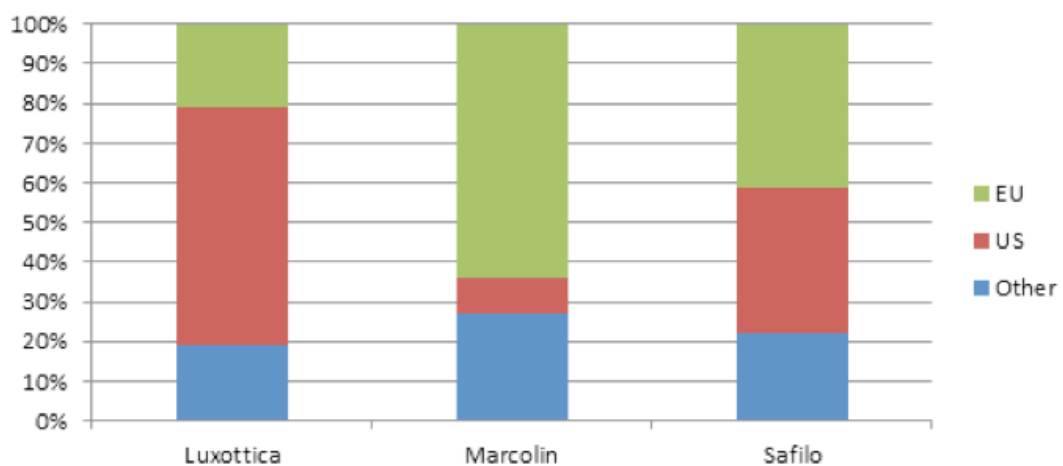


Figure 5. A graphic showing how the distributors brand portfolios are managed in the EU, US and other parts of the world

In 2006 Armani switched from Safilo to Luxottica and Ralph Lauren and others, went the other way around. Reasons for these switches were large (advance) payments by Luxottica and superior design and product development capabilities of Safilo. This shows these companies are differentiating at least to some extent. However, since then Safilo did not increase its output of new glass designs (2,500), while Luxottica went on to increase its 1,000 in 2005 to 1,800 last year. This might be seen as a move to gain market share, however only time will tell if quality has increased proportionate to quantity and Luxottica is really able to gain on Safilo in this respect.

2.3.2 Threat of Entry

Luxottica may be the largest eyewear company, but this does not imply the company does not face competition or threat of entry. In this section we will explore the threat of new entrants for Luxottica. When looking at companies coming into sunglass market, there are two basic alternatives:

- (1) A new company or brand entering the sunglass market (e.g. fashion and shoe company Converse starts a sunglass line)
- (2) A holding acquiring licenses and house brands enters the market, which effectively equals Luxottica's model.

The threat of entry is influenced by two factors: barriers to entry and retaliation by incumbents.

In the sunglass industry, there are several barriers to entry that prevent potential newcomers from entering the market. A brand that decides to license its sunglasses production and marketing to a holding company that is not Luxottica however faces fewer barriers than a company that starts to produce sunglasses itself.

Economies of scale are in this respect important. A company like Luxottica, with 56.6 million pairs of sunglasses and frames produced in 2010, is likely to be more efficient than a start-up company. Also, Luxottica, vertically integrated as it is, has access to distribution channels (the company has 23 distribution centres across the world) and its excellent contact with retailers (not to mention the fact that Luxottica owns several retail chains) are clearly to Luxottica's benefit. Moreover, one will need significant capital in order to start its own assembly line and Luxottica's knowledge of sunglass production is clearly in the holding's advantage, and hence a barrier to entry for possible newcomers.

Sunglasses are highly differentiated products. By means of marketing companies create brand identities. With its balanced brand portfolio Luxottica gains by this aspect, but with it comes a threat. Consumers buy particular sunglasses because they like the design and help the brand, not because they are made by Luxottica. Chanel and Ralph Lauren are perceived as two different brands, but their sunglasses both contribute to Luxottica's profit. New entrants, with their own brand identity, can decrease Luxottica's market share because they may capture customers from Luxottica's brands. This is further stimulated by the fact that consumers do not have to deal with switching costs when they switch from one brand to another.

When a company coped with the barriers of entry and subsequently enters the market, it may face retaliation by companies like Luxottica. For instance, when a brand enters the market that has the same brand identity of one of Luxottica's brands, Luxottica may react by performing more marketing activities for its brand. Luxottica may intimidate the new brand by doing so. Also, it might increase its contact with the brands currently in the holding's portfolio or offer these brands more money for their sunglass license. In an optimal case, the brand that just entered the market may be incorporated by Luxottica.

2.4 Brand Portfolio and Distribution

This next chapter focuses on the acquisitions of Luxottica of brands and distributors. Luxottica has made many and different acquisitions during the last decades and still nowadays and in the most recent history continues doing them. The strategy of acquisition used by Luxottica has given them the strength over the years to become what they are now: leaders in the eyewear market. Del Vecchio understood the importance of several brands from the beginning in order to exploit the market. Most of Luxottica's acquisitions derive from firm or brands that are somehow in a crisis situation. A situation where the brand has already his base, his history and a good notoriety around the world, but are suffering an economic and distribution crisis. At this point Luxottica jumps into the field offering to take over the firms at a price sometimes lower than the true value of the firm. A real

investment of Luxottica that has then the capacities to rearrange under-performing firms and take them to top levels again if not even better.

This was the famous case of Ray Ban. Ray Ban was founded in the USA and was produced by the famous lenses producer Bausch & Lomb, that for Ray Ban produced both lenses and frames. Ray Ban was produced in the USA and become famous with the help of famous movies such as Top Gun, The Blues Brothers or Pulp Fiction. Ray Ban sunglasses were distributed mostly in the new continent and at high range prices making them not accessible for everyone. When Luxottica took over in 1999 there were great changes in the market. Ray Ban became in few years the most sold sunglass in the world and the most produced one. Del Vecchio's Group had increased the production and lowered the cost of the sunglasses that was now manufactured in Italy. In 2010 Luxottica acquired a lens producer firm "Barberin" that now produce most of the lenses for Luxottica's portfolio brands.

Luxottica's brand portfolio is very differentiated and it is mainly divided in two categories: the house brands and the license brands.

House brands are 100% owned and administrated by Luxottica Group. In 2010, Luxottica developed approximately 500 distinct new styles within its house brands, of which approximately 290 are prescription frames and 210 are sunglasses. Each style is typically produced in two sizes and five colours.

These are the most famous house brands owned by Luxottica with a brief description of the brand and the acquisition by Luxottica:

Ray-Ban

Style, tradition and freedom of expression are the key values underpinning the philosophy of Ray-Ban, a leader in sun and prescription eyewear for generations. Debuting in 1937 with the Aviator model created for American Air Force pilots, Ray-Ban joined Luxottica's brand portfolio in 1999. Ray-Ban is recognized for the quality and authenticity of its eyewear and is worn by countless celebrities and trendsetters all over the world.

Oakley

Acquired by Luxottica in 2007, Oakley is a leading sports eyewear brand, known for its blend of technology, design and art across all its products. In addition to its sun and prescription eyewear and ski goggles, it offers branded apparel, footwear and accessories in collections addressing specific consumer categories: Sport/Active, Lifestyle and Women. Oakley is also well-known for its lens technologies, and especially its High Definition Optics

Persol

Persol, the iconic “Made in Italy” eyewear brand, made its debut in 1917 and was acquired by Luxottica in 1995. With its evocative name, meaning “for sun”, it is the proud heir to a culture of excellence and craftsmanship, a perfect alchemy of aesthetics and technology. The irresistible appeal of timeless design and high quality make the brand a favourite among celebrities.



Figure 6. Persol’s Special Edition for Steve Mc Queen; one of the most iconic sunglasses made by Luxottica

Arnette

Launched in California in 1992, Arnette was acquired by Luxottica in 1999, and combines the comfort and functionality demanded by extreme sports enthusiasts.

Oliver Peoples

Acquired by Luxottica in 2007, Oliver Peoples began in 1987 with the introduction of a retro-inspired eyewear collection created by designer and optician Larry Leight. All eyewear is handcrafted from the finest quality materials, in colours exclusive to Oliver Peoples. Frames are manufactured in limited quantity and with deliberate anti-logo labelling so that only people “in the know” will recognise them.

REVO

Created in 1985 and acquired by Luxottica in 1999, REVO is characterised by an innovative lens based on a technology that NASA developed for satellite portholes, offering maximum protection against ultraviolet and infrared light.

Vogue

Launched in 1973 under the same name as the famous fashion magazine, the Vogue brand was acquired by Luxottica in 1990. Vogue models distinguish themselves

through their innovative designs, their variety of colors and frames and the detailing on the temples making it an irresistible fashion accessory.

All of these brands helped Luxottica to become a leader like it had never been. A strategy used by Leonardo del Vecchio and his team that ended up being the most successful one. The acquired firms will be probably now regretting the giving away of the brand, but Luxottica was good in making the correct offer in the correct moment, “an offer they couldn’t refuse” as Marlon Brando said in a famous movie.

The license brands, instead, are those brands that Luxottica have only the license on manufacturing eyewear products. These are usually luxury brands that decide to commission the eyewear line to Luxottica’s stylists. Designer lines are produced and distributed through license agreements with major fashion houses. The license agreements are exclusive contracts and typically have terms of between three and ten years. Designer collections are developed through the collaborative efforts of Luxottica’s in-house design staff and the brand designers. Luxottica’s designer lines presently feature approximately 900 different styles. These are the most famous licence brands of the Luxottica Group:

Brooks Brothers

Characterised by lightweight materials and a slender line, the Brooks Brothers collections reflect the iconic features of the style of this American brand. This is an affordable product line with classic style that delivers functionality, lightness and high quality. The original license agreement was entered in 1992.

Bulgari

Extending its vision of extraordinary beauty to everyday objects, Bvlgari applies the same uncompromising design and product standards to its men's and women's eyewear collections, recapturing magnificence and handcrafting in ladies collections décor and the technical innovation in gentlemen styles.

Burberry

Since its founding in England in 1856, Burberry has been synonymous with quality, as defined by the endurance, classicism and functionality that characterised its history. Burberry has become a leading luxury brand with a global business. The eyewear collection, under license since 2006, is inspired by innovative ready-to-wear and accessories brand's collection, the eyewear plays with very recognisable brand icons elements for both men and women.

Chanel

In 1999, Luxottica was the first company licensed to produce Chanel eyewear products. The Chanel product line, targeting luxury-oriented consumers, reflects the essential characteristics of the brand: style, elegance and class.

Dolce & Gabbana

Dolce & Gabbana is a luxury brand that owes its incomparable appeal to superior quality and stylistic originality. Dolce & Gabbana is the new “Made in Italy”, whose essence lies in its contrasting yet complementary features. The eyewear collection, under license since 2006, is characterised by modern, unconventional shapes, prestigious materials and sumptuous detailing.

Miu Miu

Under license since 2003, Miu Miu is Miuccia Prada’s other soul: a brand with a very strong and autonomous identity, characterised by an avant-garde, sensual, sometimes provocative, style aimed at a trendsetter woman with a strong and independent personality.

Paul Smith

The Paul Smith Spectacles brand, which was launched in 1994, includes prescription and sun eyewear featuring the whimsical yet classic designs and attention to detail that are synonymous with one of Britain’s leading fashion designers.

Ralph Lauren

The Ralph Lauren eyewear collection embraces a timeless and sophisticated elegance that mixes the American glamour with an air of refined luxury.

Prada

The Prada license agreement was signed in 2003. Prada represents the best of Italian culture and tradition. At the same time, Prada is one of the most innovative fashion brands with an accurate attention to details and new trends: the Prada eyewear collection reflects this approach with unmistakable style, sophisticated elegance and uncompromising quality.

Tiffany & Co.

Founded in 1837 in New York City, Tiffany has a rich heritage filled with celebrated events, artists and milestones that live on today in legendary style. The eyewear collection, signed for the first time with Luxottica Group, takes inspiration from the most iconic jewellery collection, celebrating stunning originality and enduring beauty.

As we can clearly see Luxottica owns the licences of some the top luxury brands in the world. This kind of eyewear is sold in optical shops that Luxottica concedes the licenses and in the flagship stores of the brands. Their success comes from the fact that they are the less expensive product in the flagship stores. For example a Chanel sunglass may cost up to 500€, but the less expensive Chanel handbag exceeds 1000€. At that point, a consumer that really desires a Chanel accessory will prefer the sunglass to the handbag.

Other important acquisitions have been made by Luxottica in the retail stores. As we saw earlier, Luxottica's extreme vertical integration gives the possibility to control every step of the product; from the design and project to the final product distributed directly to consumers. The last part of this integration, the retail to customers, has been somehow revolutionary in the last decade. Luxottica before focused their work on the manufacture and distribution of their eyewear products. Luxottica's optical retail operations are now anchored by leading brands such as LensCrafters and Pearle Vision in North America, and OPSM, Laubman & Pank and Budget Eyewear, which are active throughout Australia and New Zealand. The Group also has a retail presence in China, where it operates in the premium eyewear market with LensCrafters. Due to the fragmented nature of the European retail market, the Company does not operate optical retail stores in Europe outside of the United Kingdom, where it operates a network of more than 70 David Clulow stores, which sell both prescription and sun products. As of December 31, 2011,

Luxottica's optical retail business consisted of approximately 3,670 retail locations globally.

In 2012 Luxottica continued with the same strategy acquiring new brands and new retail stores. The most relevant ones, the ones that will change the eyewear market have been the acquisition of Salmoiraghi & Viganò and the French eyewear brand Alain Mikli.

2.5 Salmoiraghi & Viganò

Salmoiraghi & Viganò is an Italian eyewear retail store with more than 500 shops in franchising. It is present only in the Italian territory in the most important cities and can be defined as leader in Italian retail stores. To talk about Salmoiraghi & Viganò's foundation we have to go back to the late 1800's when Angelo Salmoiraghi and Angelo Viganò started in parallel their activities that will then be designated to coexist.

The Salmoiraghi part of the company's origins date back to 1865, year in which the Filotecnica school workshop in Milan was founded, specialised in the manufacture of surveying instruments. Angelo Salmoiraghi, a former student, changed the structure into industry, while keeping side by side production activities in the education and science.

Figure 7. The first Salmoiraghi optical shop back in the first 1900's



In the period from 1906 to the dawn of the last World War, the company changes its name Filotecnica Salmoiraghi and expands its product range: not just surveying instruments, but also tools for mathematics, drawing, astronomy , meteorology, hydrometry, the traditional optical, sea and air navigation. Between World War I and World War II, thanks to the technical successes in the aviation technology, the firm enters the IRI group. The relations with other great industries of the period around the world are strengthened to the point that the company's studies become famous to the international public. During WWII the Salmoiraghi industry is a war target and gets bombed in via Raffaello Sanzio in Milan. At the end of the war, the company is able to quickly reorganise and continue in the optical market adapting to the new necessities of the history period.

The Viganò part of the firm was founded by Angelo Viganò. He started selling eyewear on a little cart through the small markets in Milan and subsequently

Angelo opens his first optical shop in Piazza Cordusio always in Milan. When Gianni, Angelo's son, takes over the shop there is a first turning point. Gianni offers free eye examinations in his shop and in 1933 expands the shop in Piazza

Cordusio creating a three-floor centre entirely dedicated to optical products. This ends up to be a great success that brings Gianni Viganò to open the same type of stores in Genova, Rome and Bari.

In 1974 the big merge occurs. Dollond & Aitichinson, the biggest optical group in Europe at that time acquires first Salmoiraghi and subsequently Viganò. The result is a big merge between two firms that started in parallel roads their journey and that

Figure 8. The first optical shop of "Ottica Viganò in Piazza Cordusio in Milan



until that moment were in competition with each other. Salmoiraghi and Viganò remains under the Dollond & Aitichinson administration for 25 years, until the year 2000, when some Italian managers acquire the company. The Italian company therefore is again managed by Italian administrators. In 2002 the company has been

acquired by the engineer Dino Tabacchi has continued the work of Angelo Salmoiraghi and Angelo Viganò, ultimately changing the firm from optical stores to retail stores. In more than 500 franchising shops Salmoiraghi & Viganò sell optical glasses, sunglasses, binoculars and photo-cameras of top quality brands. Most of the goods, regarding optical frames and sunglasses, is bought from eyewear distributors, the most quantities from Luxottica. The shops are all based in the same way both in the exposition of the products and in the inventory and warehouse management. During the last decade the Tabacchi family did an extraordinary job expanding their stores and taking them to a higher level. Salmoiraghi & Viganò was said to have the 7% of the whole retail distribution (Madron, 2012).

In the last years, due to the economic crisis, Salmoiraghi & Viganò suffered a great loss of capital not being able to maximise its profits as it wanted. Debts started to be unsustainable, especially the ones due to its main distributor; Luxottica. Salmoiraghi & Viganò closed 2012 with 170 million revenues (-10%) and a negative balance sheet (Mangano, 2012). What happened was that Salmoiraghi & Viganò continued to buy goods from Luxottica in order to keep up with the new trends and fashions that are continuously changing not being though able to sell their “old” goods. This created an overload of the inventory that could not be disposed easily. Debts reached such high quantities that at the end of 2012 Luxottica acquired the 34% of Salmoiraghi & Viganò. In this important operation for the eyewear market, Luxottica didn't pay anything. The 34% of Salmoiraghi & Viganò is exactly the amount of debts the company had towards Luxottica. In this way Salmoiraghi and Viganò has cancelled their debts towards Luxottica and, although the Tabacchi family has given away the 34% of their company, they still

have the decisional and managerial power. The merging operation seems to have satisfied both parties, but what scares the most is the future forecasts. Salmoiraghi & Viganò will continue to buy Luxottica's products and debts will continue to increase in the future. What experts in the eyewear market are predicting is a total takeover of Luxottica on Salmoiraghi & Viganò in a short-term period. A total takeover that will be done without spending a single euro cent from Luxottica. The strong pressure that Luxottica applies will force Salmoiraghi & Viganò to sell another part of the firm and give away the decisional and administrative power.

The example of Salmoiraghi & Viganò scares most of the eyewear market, especially little and medium optical shops. As today, Luxottica divides his optical shop customers in four major categories:

- 1) **STAR** - every selling step is under Luxottica's control; from the supply of goods to the final retail
- 2) **Directional optical stores** - similar process as the STAR category with the difference that Luxottica controls the inventory and supplies the shop as much and how it prefers. If you refuse to have the inventory under Luxottica's control, your activity will be declassified to category A
- 3) **Category A** - possibility to buy a limited amount of goods chosen by Luxottica with no discounts even on big orders.
- 4) **T2** - probably the best category an optical shop wants to be at; proper control of the inventory and possibility to acquire and retail luxury products with exclusives and discounts.

What many experts predict, is that small optical shops of category A will struggle to get along with their activities in the future. Luxottica is planning to “eliminate” small and under-performing optical shops and to bring bigger and well performing shops to the “Directional Optical Stores” category. This recalls the strategy used with Salmoiraghi & Viganò. Experts believe that controlling the inventory for bigger optical shops will lead to the complete or partial overtaking of the best optical shops by Luxottica. An overtaking strategy that could reinforce Luxottica’s leadership in the eyewear and optical market “eliminating” any possible competitor. The group would acquire optical shops without spending money in the acquisition operations becoming leader not only in the distribution, but even in the final retail.

The slow but constant operation done by Luxottica brings up different opinions, especially depending from which point of view you look at it. Obviously looking at Luxottica, as a firm that wants to continue to expand consolidating its leadership in the market, we can surely state that it has found a perfect strategy to acquire those small and medium firms or optical shops that are mostly suffering the economic crisis in the last years. On the other side, the small and medium optician look at Luxottica as a real threat. This because Luxottica, for a small optician shop for example, has started being just the distributor, then a competitor ending up to acquire your own activity. A solution to this problem for those firms is difficult to find. The alternative would be in not buying Luxottica’s products but, as we saw before, this would bring to a significant loss in revenues because Luxottica has the majority of brands in the market. What many opticians are trying to find now is alternative brands, probably more expensive but different from the usual Luxottica products.

2.6 Alain Mikli

A different discussion must be done for Alain Mikli Group. In the late 2012 the brand was acquired by Luxottica at an incredible price of 100 million euros (Bennewitz, 2012). Alain Mikli Group was founded in 1978 when Alain Mikli, french eyewear stylist, at the young age of 23 and with a degree in optics and eyewear, decided to commercialise his works and designs. At the beginning of her carrier, unable to get noticed, he decides to adopt an extravagant and different style of eyewear helped by the famous stylists of that time such as: Claude Montana, Sonia Rykiel, Anne-Marie Beretta and Jean Paul Gaultier. To increment the popularity, during the 80s, famous actors and VIPs wear Alain Mikli; such as: Grace Jones, Elton John, Dalida and Stevie Wonder. Seeing Alain Mikli's products in famous movies and series helped the brand gain popularity. Alain Mikli's eyewear have always been famous for their particularities and for their great handmade quality. Nowadays Alain Mikli Group works along with Philippe Stark



Figure 9. A particular Alain Mikli hand made in France mode

(that created in 1996 the eyewear brand “Stark”) and Jean Paul Gaultier (since 2011 it has been designed and manufactured by Alain Mikli). In 2012 Luxottica set on the table approximately 100 million euros. An incredible price for the acquisition of a brand, but the acquisition was justified by the Alain Mikli’s net sales in 2011 of about 60 million euros (Suzzi and Jewkes, 2012) The major difference with an Alain Mikli eyeglass and a Ray Ban (owned by Luxottica) is the quality of the material and the strange shapes that characterise the French brand. Ray Ban is a more “commercial” kind of eyewear. If you go in a city centre and pay attention to what kind of sunglasses people are wearing in majority, you will notice the majority wears Ray Ban, and usually Aviator or Wayfarer models. Alain Mikli is a more coveted eyewear, more difficult to see it on the nose of a friend. We must say that Alain Mikli is a very expensive eyewear, given that it produces more eyeglasses than sunglasses; meaning that other than the high amount of money a consumer must spend for the frame, it will also have to pay extra their prescription lenses. This brings the price around 1000€ per eyeglass that becomes quite important for normal consumers, especially in a recession economic period as the one we are living. Alain Mikli’s products are not present in every optical shop as Ray Ban is instead. What Mikli has payed great attention is to maintain a low amount of consumers equally distributed over the territory. This helps the optical shops that may claim the exclusivity over the product and the possibility to maintain the prices set by the mother brand, instead of fighting with the other optical shops present in the territory on who has the lowest price. Doing so, keeps an exclusivity also on the image of the product that maintains a fashion of an accessory that is for few

fortunate people. Probably the decision of keeping low amount of customers is due to the low possibility of manufacture given that each frame is hand made in France when a maniacal precision. A slower speed supply chain that on the other hand assures a quality that few eyewear brands may reach.

With the acquisition by Luxottica, Alain Mikli Group will probably modify its strategies, influencing the entire market. Future forecasts believe that, not in a short term-period but in a medium-run period, Alain Mikli will begin a slow process of change towards a manufacture production at industry levels. Alain Mikli was believed to be, for many opticians, a way to differentiate their retail trying to apply resistance to Luxottica's leadership and slow takeover. Now that Luxottica has secured this important acquisition, an alarm is starting to ring; both for opticians that have to find an alternative way to undergo Luxottica's control, both for the other brands that see their future to be dependent from Luxottica, inside their enormous brand portfolio.

Conclusion

Luxottica is the biggest distributor of eyewear at the moment around the world. An almost perfect “business” machine that is able to manufacture and retail enormous quantities of goods. The success is brought from the great organization behind the firm that has adopted an extreme vertical integration that is very effective in the market. The possibility to work in the market with a very big brand portfolio permits Luxottica to obtain a competitive advantage over its competitors both in the distribution and the retail market. Luxottica’s most important markets are the American and European while the Asian one is becoming more important over time. A great business model and structure that many believe it to be one of the most profitable firms in the world.

Others believe that Luxottica’s strategy is killing the market. Many small opticians and other distributors (Marcolin, Safilo etc) believe that the dominance and leadership of Luxottica is going towards a monopoly. Luxottica is improving its business acquiring new brands and new activities to enter in the decisional powers of these firms. Another large critic that has been done, is the one regarding the markup. Experts believe that the final products of Luxottica result to be very expensive for what they actually are. Many eyeglasses and sunglasses are produced in the same factory in China, with the same quality of some eyewear you can purchase for a small amount of money in your local pharmacy. Most of the critics come from the small optical shops that with the latest economic crisis are having difficulties to continue their business. Most believe that Luxottica may be a great

firm from an economic point of view, but it lacks of “humanity”, not listening and helping small activities that are asking them help.

We took as recent cases the acquisitions of Salmoiraghi and Viganò and of the French brand Alain Mikli. Two different cases that help understand what will probably be the new strategies of Luxottica. Their acquisition process is continuously expanding year by year, enlarging both the brand portfolio and the retail shops. Salmoriaghi and Viganò was acquired for the 34%, but Luxottica didn't pay cash for this acquisition because Salmoiraghi and Viganò had exactly the 34% value of the firm debt towards Luxottica. For Alain Mikli, instead, Luxottica has put on the table a very high amount of money, but with the great revenues of Alain Mikli's eyewear the costs will be easily cut back.

What will effectively happen in a long and medium run probably we still don't know it. Probably Luxottica will continue to enlarge so much to the point it will become a sort of monopolistic market. The acquisitions will certainly continue in all the directions: both in the brand portfolio and the retail sector. Many small and medium optical shops will be forced with an debt and economic pressure to giveaway their businesses to Luxottica Group. Who will probably make a resistance, are those businesses that will believe in a differentiation. This means searching for new and different brands that are and want to remain independent. Even the final consumer should understand that purchasing goods not produced by Luxottica would help firms that believe in differentiation. Globalisation has been very helpful for the world, reducing distances and creating a high speed flow of information. But probably it is so fast it is not more able to control. Goods you may

purchase in Italy are the same that you may buy in Canada or Mexico for example. People should think of “going back in time” when you could purchase genuine and characteristic goods that belong to a certain area, region or nation. With the globalisation we are going towards a world where everything will be the same everywhere, but I still believe that “*Variety is the Spice of Life*”.

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