

# **HIGH ROAD TO WORK ORGANISATION CASE STUDY**

**The Luxottica Group**  
**(Agordo, Italy)**



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## **Abstract**

This case highlights the key aspects of Luxottica's evolution during its forty years of activity. The process that has transformed the company from a small supplier to the world leader in the eyeglasses frames and sunglasses market is based on a mix of localism and globalisation, tradition and innovation.

## Hi-Res Case Study: Luxottica Group

### Sector

Nace Code , Eyeglasses frames and sunglasses

### Key Words

Vertical integration, acquisition, direct control of international distribution.

### Table of Contents

Abstract	
Keywords	
Sector	
<b>1. Background Information</b>	<b>2</b>
<b>2 Drivers for change</b>	<b>2</b>
<b>3 Characteristics and Process of change</b>	<b>3</b>
<b>4 Obstacles to change</b>	<b>4</b>
<b>5 Risk analysis</b>	<b>4</b>
<b>6 Benefits of change</b>	<b>4</b>
<b>Conclusions</b>	<b>5</b>

## 1. Background Information

Luxottica Group is a company specialised in the manufacturing and commercialisation of eyeglasses frames and sunglasses. The group has developed from the homonymous family-founded firm Luxottica, which was established in 1961 in Agordo in Italy's Veneto Region. Luxottica is localised in the area around the town of Belluno, where a production system specialised in eyeglasses and presenting the entire range of features typical of an industrial district with strong inter-firm connections, and vertical integration based on co-operation networks between companies and their subcontractors is localised. These important characteristics of the area convinced Luxottica to locate its first plant there.

## 2. Drivers for Change

Luxottica represents an important example of rapid and remarkable growth in the prescription eyeglasses frames and sunglasses market. Several factors have contributed to the process of change and the consequent success of the company in achieving a leading global position. The international success of Luxottica Group is based on three major aspects: localised manufacturing, global market presence and listings on two of the world's most important financial markets.

### Manufacturing

The localisation of the entire production in Italy, particularly within the industrial district of Belluno, where 750 firms and 9000 employees are located, was a key element of the strategy governing the initial establishment and development of the company. During its forty years of activity, a continuous evolution of production strategies and a strong innovation-based approach have contributed to the growth of the company. Also the decision to internalise and maintain almost the entire production process within its own plants, therefore constituting a vertically integrated organisation, constitutes an important factor of strength.

### Market presence

Marketing, commercialisation and distribution strategies, providing a high standard of service to customers, are strongly integrated with the evolution of production. The market presence is reinforced through direct customer control and partnerships with designers. Acquisition strategies carried out by the Group are aimed at creating greater value for the company and its brands. This approach has been applied at the global level, building a strong international customer-based business approach.

### Stock exchange listings

The listings on the New York Stock Exchange in 1990 and the Milan *Borsa* in 2001 constituted a third factor contributing to the growth of the Group, since the listings have brought various advantages. These advantages include, for example, the possibility to raise funds through a wider range of financial instruments, improved corporate governance and stability, creating more value for investors, diversification of family assets, greater ease in entering international agreements with other companies and, in general, an improved international image and greater prestige.

In addition to these three factors, the success achieved by the company wouldn't have been possible without the strategic capacities of the top management, which, since the beginnings of the company, have contributed to its international expansion. A strong managerial ability within the group and a tremendous capacity for leadership shared among the partners have constituted key factors in the international growth of the group.

### **3. Characteristics and Process of Change**

Several specific developments illustrate the process of continuous and progressive organisational change undergone by the Luxottica Group. First of all, the company, which was a family firm founded as a supplier providing moulds and glasses components for other companies, began producing entire eyeglasses frames within a few years of the beginning of its operations, leading to a change in the model of organisation of production. In fact, Luxottica began to apply a model of vertical integration, in which it acted as the lead firm using external subcontracting as the basis of production; however, the need to maintain quality standards convinced the head of the company to move toward internalisation and integration of external workers into the company. Today Luxottica products are primarily manufactured in Italy within six production facilities and concentration of production is still a key factor in competitiveness. The only external production facilities are those for production of crystal lenses for sunglasses in Hong Kong and of metal frames in China through a 50%-owned joint venture with a Japanese partner.

The acquisition of the Ray Ban brand provides a clear example of Luxottica's strategy of production concentration: following Ray Ban's acquisition, production that had previously been undertaken in three U.S. states and in Ireland was entirely transferred to Italy. This strategy has allowed better product rationalisation and a 40% increase in the production capacities of the Italian plants.

The Group's strong attention to market evolution and distribution channels, reinforced by the development of innovative production competencies, also constitutes a key strategic organisational factor, strengthening Luxottica's competitive position by capturing new customers and raising their level of satisfaction.

Short commercialisation channels and in particular direct control of market outlets and customer service are the most important aspects of product commercialisation. These aspects have driven the internationalisation strategy of the Group throughout its entire history.

In order to directly penetrate markets, the constitution of affiliated companies and acquisition processes have initially started in Italian and European markets. This strategy is seen in the examples of the acquisition of Brico, specialised in snow goggles, and Persol, specialised in sunglasses, both companies representing firms with developed commercial strategies in foreign markets. Several joint ventures with companies located in foreign markets have also comprised part of the internationalisation strategy of the Group and have contributed to the establishment of a worldwide direct distribution network and a strategic presence in the retail business on an international scale.

At the end of the 1970s, the company started to become aware of the importance of the North American market; therefore the growth process was moved across the Atlantic, where two acquisitions in particular have played a key role in the establishment of Luxottica in this

market. First of all, with the purchase of Lenscrafters, a chain of 861 stores, Luxottica became the largest optical retailer in North America in 1995. Four years afterward, in 1999, the acquisition of Ray-Ban has made Luxottica the world leader in the mid-to premium-priced categories of the sunglasses market, and this development has led to an increase in the percentage of sunglasses in the total product mix. Luxottica has further strengthened its retailing position in the North American market with the acquisition of Sunglass Hut International, representing, with its network of 1962 shops worldwide, the largest graded lenses and sunglasses retailer in North America with a significant presence in Australia, the Caribbean, Europe, New Zealand, Puerto Rico and Singapore.

In the process of change characterising Luxottica's development over the years, the identification of complementary businesses and the analysis of potential candidates for acquisition play a critical role. International acquisition, vertical integration and diversification together with internal capitalisation following post-acquisition rationalisation and the realisation of a significant level of economies of scale between its divisions and commercial units make up the main elements of the development strategy of this company since the beginning of its operations.

#### **4. Obstacles to Change**

Change has been continuous since Luxottica's establishment, and the company is continuously evolving, following market trends. This approach embraced by the Group has affected various strategic choices and requires an evaluation of the impact of change on every aspect of the organisation. In fact, companies adopting a strongly evolutionary approach operate under the assumption that, for a certain amount of time, the processes of internalisation related to acquisitions will involve some organisational restructuring and integration and will thus result in some adjustment problems.

In addition, possible uncertainties related to generational change can also present problems for a company founded as a small family firm in developing as an important business both locally and internationally. The firm has to be able to externalise key management functions in order to guarantee the company continuity.

#### **5. Risk Analysis**

The expansion of the company leads to higher costs in management and control of a continuously growing structure. Higher costs can have a negative impact on growth trends and therefore cost monitoring and rationalisation of the structure is necessitated in order to maintain efficiency and competitiveness. For instance, Luxottica's process of reorganisation has required some restructuring, leading to job cuts with significant consequences at the local level (for example the RayBan acquisition).

The reorganisation and consequent and likely job cutting constitute a risk for the company, since such a large company, employing almost 20,000 people, plays a strong social role at both the local and international level.

#### **6. Benefits of Change**

Over less than forty years of operation, Luxottica has become the world leader in the eyeglasses frames and sunglasses market, operating in more than 40 countries, with a turnover of 1.900 million Euros.

Today Luxottica products are sold in approximately 115 countries world-wide under a variety of well-known brand names and the Group controls an extensive global wholesale network comprised of 29 wholly- or partially-owned subsidiaries, over 1,000 sales representatives and approximately 90 independent distributors. Its highly efficient distribution network allows Luxottica to provide customers with high quality products at competitive prices and with superior customer service.

Luxottica's product lines represent one of the largest collections of prescription eyeglasses frames and sunglasses available on the market. Luxottica offers more than 2,650 models in a wide array of styles and colours and more than 750 new styles are introduced each year.

Despite expanding its activities, Luxottica has been able to maintain direct control over all significant elements of the eyewear production and distribution process. The group has also maintained high quality standards and efficiency rates: in fact, its six manufacturing facilities, which are ISO 9001 certified, are highly automated and are ranked among the most efficient in the optical industry.

## Conclusions

Luxottica represents one of the most important examples of a successful Italian firm that has become a world leader in its market. Its development has been characterised by the application of a strategic approach focused on the establishment of a directly controlled distribution system, the maintenance of strong product quality and application of innovation to meet market needs. Vertical integration and therefore a concentration of production, compared with competitors, has led to cost cutting strategies and delocalisation.

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