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"MERGERS AND ACQUISITIONS AS A WAY TO CREATE VALUE: ANALYSIS OF THE ESSILOR-LUXOTTICA CASE AND HOW THE EYEWEAR INDUSTRY IS CHANGING"

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Firma dello studente

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Table of contents

INTRODUCTION .... - 5 -

CHAPTER 1:DIFFERENT WAY TO GROW .... - 7 -

1.1 STRATEGIES TO CREATE VALUE .... - 7 -

1.2 RATIONALES FOR MERGERS AND ACQUISITIONS .... - 9 -

1.2.1 The synergy theory .... - 9 -

1.2.2 The transaction cost and vertical integration theory .... - 10 -

1.2.3 The resources dependency theory .... - 11 -

1.2.4 Pure diversification theory .... - 12 -

1.2.5 The resource based theory .... - 13 -

1.3 CLASSIFICATION OF MERGER AND ACQUISITIONS .... - 13 -

1.3.1 Horizontal merger .... - 13 -

1.3.2 Vertical merger .... - 15 -

1.3.3 Conglomerate merger .... - 17 -

1.4 MERGERS AND ACQUISITIONS WAVES .... - 19 -

1.5 QUANTIFY MERGERS AND ACQUISITIONS VALUE GENERATION .... - 23 -

1.5.1 Determinants of abnormal returns .... - 25 -

1.6 STAGES OF MERGERS AND ACQUISITIONS .... - 26 -

1.6.1 Analysis and strategic evaluation .... - 26 -

1.6.2 Deal structuring and Negotiation .... - 29 -

1.6.3 Post merger or acquisition integration .... - 33 -

1.7 CHALLENGES AND FAILURES OF M&A .... - 37 -

1.8 ALTERNATIVES TO MERGERS & ACQUISITIONS .... - 39 -

CHAPTER 2:THE GLOBAL EYEWEAR INDUSTRY AND ITS PERFORMANCE ... - 43 -

2.1 EYEWEAR INDUSTRY GROWTH FACTORS .... - 43 -

2.2 EYEWEAR MARKET'S TRENDS .... - 45 -

2.2.1 The Italian Bellunese District .... - 47 -

2.3 THE PRODUCTS - 51 -
2.4 THE PLAYERS - 52 -
2.4.1 The big five - 52 -
2.4.2 Components Producers - 55 -
2.4.3 Comparison of the Italian big four - 55 -
2.5 PORTER'S FIVE FORCES ANALYSIS OF THE EYEWEAR INDUSTRY - 58 -
2.6 EYEWEAR INDUSTRY IS CHANGING - 60 -
2.6.1 Kering internalization - 60 -
2.6.2 Merger between Luxottica and Essilor - 61 -
2.6.3 The joint-venture between LVMH and Marcolin - 62 -
2.6.4 De Rigo new business model - 63 -

CHAPTER 3:THE BIG DEAL - 65 -

3.1 LUXOTTICA - 65 -
3.1.1 History - 66 -
3.1.2 Business Model - 69 -
3.1.3 SWOT Analysis - 77 -
3.2 ESSILOR - 79 -
3.2.1 History - 79 -
3.2.2 Essilor's core businesses - 83 -
3.2.3 Essilor's strategy - 87 -
3.2.4 Swot Analysis - 88 -
3.3 ECONOMIC AND FINANCIAL ANALYSIS - 90 -
3.3.1 Luxottica - 90 -
3.3.2 Essilor - 92 -
3.4 DREAMS COME TRUE: LUXOTTICA AND ESSILOR TO MERGE - 93 -
3.4.1 Deal rationales - 94 -
3.4.2 The combination of two profitable players - 98 -
3.4.3 Structure of the deal - 101 -
3.4.4 Leadership, governance and structure of the new entity - 103 -
3.4.5 Antitrust's approval - 103 -
3.4.6 Market reaction - 105 -

3.4.7 The beginning - 105 -
3.4.8 Post merger integration - 106 -
3.4.9 Risks of the transaction - 107 -

CHAPTER 4:BUSINESS MODEL CHANGES IN THE EYEWEAR SECTOR - 109 -

4.1 INTRODUCTION - 109 -
4.2 EYEWEAR INDUSTRY'S BUSINESS MODEL IS CHANGING - 111 -
4.2.1 EssilorLuxottica - 111 -
4.2.2 The joint Venture between LVMH and Marcolin - 114 -
4.2.3 Kering internalization - 116 -
4.3 UNDERSTANDING THE INDUSTRY'S EVOLUTION - 120 -
4.3.1 Eyewear industry's evolution - 125 -

SUMMARY AND CONCLUSIONS - 127 -

BIBLIOGRAPHY - 131 -

WEB SOURCES - 140 -

INTRODUCTION

An important element of a dynamic economy are Mergers and Acquisitions (M&A), the tendency toward worldwide globalization, intense international competition and a fast-pace running technology make it necessary for companies to look outside their boundaries. Most of the firms lack the necessary resources to expand globally and to stay competitive in the future. This is reflected in the tendency of entities to expand internationally through a series of strategic alliances and partnership (Sudarsanam, 2010).

This thesis aims to accomplish four objectives. In the first part, the different ways that companies explore in order to grow are analyzed, in particular the focus is on M&A by looking at the main value creation theories, as well as the drivers of the success in those transactions. The whole process of Merger and Acquisition operations will be described and analyzed, with a focus on the most important steps toward a successful implementation. The value generation of M&A will be examined, with some scholar arguing that only the acquired firm gain a significant abnormal return, while the acquiring only obtain a small share of the total advantages (Netter et al., 2011).

The second part of the thesis explore the Eyewear industry, by entering into a deep analysis of its main trends and the main growth factors that make this sector so crucial for worldwide people's life. Then we look at the major players of the industry and the events that in the last years have completely changed and reshaped the way to work and the competition dynamics.

The thirds part is an investigation of a recent merger which is considered one of the most important combination of the new millennium: the marriage between the French lens maker Essilor and the Italian frames and components producer Luxottica. The analysis is based, among the other, on information obtained from interviews made to some Luxottica's employees. This deal represent a turning point for the whole sector since Essilor controls almost half of the world's prescription lens business and has acquired more than 250 other companies in the past 20 years, and on the other side, Luxottica owns an unparalleled combination of factories, designers and retail outlets. The creation of EssilorLuxottica is a big deal, it will have consequences for opticians and eyewear manufacturers worldwide. The thesis will also focus on the cost synergies and the strong vertical integration that the new giant will enjoy.

Finally, in the last part of the thesis there will be a comparison among the previously analyzed EssilorLuxottica combination and other two important recent events which have shaped the

Eyewear sector: the first is the joint-venture announced short time ago between the frames producer Marcolin and LVMH, a giant in the luxury segment, the second is the internalization process started by Kering with the creation of Kering Eyewear. Similarities and differences of the cases will be emphasized. A strong focus will be on the players' business model, in particular by examining how it is changed in the last few years due to the dynamics previously outlined. Indeed, in the past the production phases were separate, with one company producing the lenses, one the frames and another dealing with the distribution. Nowadays instead the word that best describe the business models is vertical integration, since companies are increasingly grouping together all the phases to deliver the final product, having in this way more direct control over the value chain which ensure and higher quality of the final products.

CHAPTER 1: DIFFERENT WAY TO GROW

1.1 Strategies to create value

Firms are organizations moved by a development objective, which is pursued during all their life through an attitude toward growth (Conca, 2010), in order maintain and increase competitive advantages and profitability (Gümüs, Apak, 2011).

Growth is an imperative for the survival of an entity, since customers tastes change and products become obsolete. It can only be achieved together with the possibility to create new value. Companies should indeed analyze their financial and corporate structure and choose among different strategies using as a main parameter the value creation (Kumar, 2015).

According to Conca (2010), in order to generate value, two alternatives are available:

- Internal growth
- External growth

As in any make or buy decision, also in this case a cost and benefit analysis has to be made, analysis which is particularly complex considering among the other the numerousness of the variables to consider, the different risks and the reversibility of each option.

In Internal growth, also known as organic, firms rely only on their own resources to expand their businesses, by the process of asset replication, exploitation of technologies or new techniques, improved customer relationship and innovative product to enter into new markets (Chari, 2017)

Growing a business organically has its benefits, first of all the possibility to better coordinate and manage the operations, this is due in particular to the less communicational and cultural misunderstanding (Ansoff, 1957), considering that no people extraneous to the entity are significantly involved. Secondly the alternative is more flexible, since the internal team can decide the optimal level of investment and because the exit costs, at least in the short term, are normally not prohibitive (Conca, 2010).

The downsides, on the other hand should not be neglected. The level of growth obtainable is lower and less predictable than the one that can be achieved through external growth, and the duration of the procedure may require a significant amount of time.

External growth, or inorganic, use resources and capabilities not developed internally, it increases output or business through takeovers, mergers and acquisitions (Chari, 2017).

One of the main problem connected with inorganic growth is that is more irreversible, with very high exit costs, the choice is more binding and the management does not have significant possibility to intervene in the financial amount required. Another limit is connected with the organizational problems it might generate, since the firm need to start an integration process with another separate reality with its own organization (Conca, 2010).

Among the major advantages of external growth there is the little time required to acquire new competencies and techniques, and to enter into new markets. Moreover the potential synergies that might be obtained can significantly reduce the costs and increase the revenues.

The two different strategies, are not exclusive, often companies act in a bidirectional way, making acquisition and internal investments.

External ways to improve the business include different alternatives. Bruner (2004) lists 3 main categories:

- Takeover/Acquisition
- Joint Venture
- Strategic Alliances

Acquisition can take different forms, like merger or purchase of equity or assets.

In a merger, two corporations come together to combine and share their resources and pursue a common aim, normally the shareholder of the entities participating in the merger remain as joint owners of the combined firm.

An acquisition instead reflect an arm’s length transaction, where an entity buys shares or assets of another, ceasing the ownership of the shareholders of the acquired firm, takeover is a similar concept where the acquirer is much larger than the acquired (Sudarsanam, 2010).

Joint Venture is a business arrangement in which two or more parties combine their resources to reach a specific strategic aim, like a new project or activity.

Strategic alliances is instead an agreement between two or more entities, which share specific resources to pursue a specific task, is less involved and less binding than a joint venture.

1.2 Rationales for mergers and acquisitions

Mergers and Acquisitions are considered the most important category among value creation activities, considering that they can increase a company's growth by improving corporation's efficiency, extending available resources, creating new products and markets, finally they can enable companies to have access to innovative and promising technologies (Larsson, Finkelestein, 1999).

There are different types of deals and each one differs from the other, moreover their reasons are numerous and tend to vary among sectors and over time. A single theory is hence not enough to explain the determinants for M&As (Leepsa, Mishra, 2016), for that reasons some fundamental theories need to be described to explain the key motivations.

1.2.1 The synergy theory

Among the most important models, stands out the Synergy theory based on the idea that two entities pool their resources in a way that increases the aggregate value.

Synergies can be generically classified as Revenue synergies (the post merger entity is expected to generate higher sales), Cost synergies (lower operating costs and capital requirements) and Financial synergies (the larger size of the combined entity results in a better capital structure and hence lower cost of capital) (Deloitte, 2013).

According to Sudarsanam, S. (2010), their origins can be explained first of all by the concept of economy of scale, which refers to the decrease in production cost when there is an increase in the business size. Production costs, normally have a fixed and a variable component, hence the average cost falls when the fixed costs are spread over a larger volume. The second concept which explains synergies is in the so-called economy of scope, that is when the cost of producing and selling two or more different products by the same company is cheaper than the production and sale of the same products by individual firms, each specialized in one product. Finally, a firm may reduce its production costs through a learning process, which arises in the form of more efficient scheduling of production, less wastes of materials and learning from past mistakes; this process is called Economy of learning.

Ansoff (1988), believed that a strategy consists of four main elements: Market scope, Development, Competitive Advantage and Synergy. He considered synergies as the reason why the value of the whole corporation can be greater than the sum of each part; it includes not only tangible assets as land or equipment, but even the sharing of intangible assets like reputation and technology.

Ansoff (1988) broken down the definition into four main types of synergies:

i. Synergies of sales: by combining the distribution channels, inventory systems and logistic, sales increment or cost reductions may arise.
ii. Synergies in production: by sharing the resources, the degree of utilization of plants and machines will rise, leading to a cost reduction.
iii. Synergies in investments: a combination of investments can lead to eliminate overlapping investments.
iv. Synergies in management: managerial capabilities and skills can be transferred into the new reality, which in turn may either reduce the costs or improve the efficiency.

Porter, M.E. (1985) in his book "How information gives you competitive advantage" set out an important theory to explain synergies, that is based on three different forms of interrelations:

i. Tangible interrelationship: activities of the value chain that can be shared between two business unit due to mutual clients, infrastructures and technologies.
ii. Intangible interrelationship: allows a transfer of know-how and management skills between different areas.
iii. Competitor interrelationship: due to the existence of competitors in different countries, which compete in more than one industry.

Corporations that are able to obtain competitive advantage through exploiting interrelationship, can expect a return less affected from exogenous shocks, hence with a lower level of systematic risk (Lubatkin, O'Neill, 1987).

1.2.2 The transaction cost and vertical integration theory

A firm may choose between entering into an arm's length transaction with its suppliers or distributor to obtain the required inputs and deliver its outputs, or to internalize the production and distribution products within its own control (Sudarsanam, 2010).

This “buy or make” decision is heavily influenced by the transaction costs defined by Coase (1937), in his book “The Nature of the Firm” as “the cost of providing for goods and services through the market rather than providing them from within the firm”.

Transaction costs include the return required by the supplier or distributor, the costs of contracting, of monitoring the compliance and the enforcement in the event of breach. These costs are difficult to estimate, due to information asymmetry between the buyer and the seller.

The “make” option, on the other side, may require an acquisition or merger strategy. In order to decide, firms compare transaction costs of dealing with independent parties to cost of internalizing the activities through vertical integration.

Transaction cost theorists sustain that the decision of Merger or Acquisition results from a need to reduce the impact of environmental uncertainty on transactions, in particular those stemming from the opportunism of partners due to market imperfections (Williamson, 1985). In an efficient market, with no asset specificity, neither Mergers and Acquisitions, nor alliances would be needed, while when market imperfections are present and increase the cost of transaction, alternative to market transactions must be considered (Yin, Shanley, 2008)

Williamson (1985) went further, analyzing the governance modes, seen as the result of the search for gains through the choice of cost-minimizing factors. Its model relate the degree of asset specificity to the governance mode cost. Basically the decision on how to organize the activity depend by the specificity of the asset involved. Three types of governance mode are described: hierarchy, market and an hybrid one. The higher the asset specificity involved, the higher will be the cost of its market monitoring and hence shift to an hybrid model is considered convenient.

Firms can undertake mergers to reach an higher vertical integration of adjacent stages from the inputs provision, through production to distribution, and they can both integrate forward or backwards. This entail not only a cost reduction benefits, but may also generate a competitive advantage over its rivals that do not enjoy similar low-cost inputs or delivering channels, acting in this way as an effective entry barrier (Sudarsanam, 2010).

1.2.3 The resources dependency theory

The resource dependency theory has become one of the most important theoretical rationales explaining why firms engage in mergers and acquisitions (Yin, Shanley, 2008), and it is premised on the idea that all entities critically depend on other for the provision of vital resources.

The theory offers and external perspective of why firms acquire other firms and in particular Pfeffer (1972) suggests three reasons why organizations may enter into a merger and acquisition transaction: first, to reduce competition by absorbing an important competitor, second, to manage interdependence with either sources of input or acquirer of output by absorbing them, and third, to diversify operations and thereby reduce dependence on the present organizations with which it exchanges.

Pfeffer and Salancik (1978), in their publication "The External Control of Organizations: A Resource Dependence Perspective" state, "to understand the behavior of an organization, you must understand the context of that behavior", they indeed tried to analyze the relative importance of sale or purchase interdependence to the likelihood of merger and acquisition, by combining many preexisting studies.

According to their research, there are strong evidences that mergers occur between entities that depend on one another as a way to reduce their interrelationship, moreover the strength of the dependency predicts the likelihood of mergers and acquisitions.

1.2.4 Pure diversification theory

Diversification may be a good choice for many company in order to reduce the risk connected with operating in one single sector, since if it fails in that sector, the whole company fails and no transfer of resources to other sectors is possible. It was the salient reason of the fifth merger wave in the late 90s (Sudarsanam, 2010). In most cases diversification through merger is preferred over diversification through internal resources, since many companies may lack the necessary resources and even if they have what is required, the process is much slower and the timing is fundamental (Weston et al., 2010).

Diversification provides benefits not only to the firm but also to its employees, managers and owners. Employees of a company that operates in one single industry develop specific skills related to the firm's activity, these skills from one side help the work force to become more efficient but on the other side are valuable only by that entity, so they have few opportunities to vary their sources of earning.

Therefore, companies may diversify in order to encourage firm specific human capital investments which make their employees more valuable and productive. This work force improvement is much easier if the company diversify through a merger rather than developing

internal competences and capabilities from zero, since new skilled employees will transfer their knowledge between the companies involved (Weston et al., 2010). It also allows to increase the probability that the organization and reputation of the firm will be preserved by transfer to another line of business owned by the firm in the event the initial industry decline.

1.2.5 The resource based theory

The resources a firm uses might be tangible, like plant and machinery, or intangible, like patent or know-how, but then, the company needs specific skills and capabilities to make the best use of its resources. Even if two firms have similar assets, they may have different competitive profiles, since it is the unique combination of resources and capabilities that provides a strong and unique competitive advantage (Sudarsanam, 2010).

Firms can develop their assets internally but where the distance between the actual endowment of resources and the desired profile to accomplish their competitive goals is wide, firms may use the mergers and acquisition route to fill the distance.

1.3 Classification of merger and acquisitions

According to Gaughan (2007) mergers and acquisitions can be classified as:

- Horizontal merger
- Vertical merger
- Conglomerate merger

1.3.1 Horizontal merger

An horizontal merger occur when the two merging firms sell the same product such that they can enjoy significant synergies; even if the article sold is not exactly the same but the two entities share certain commonalities, such as technology, market or knowledge base we can talk about horizontal merger.

Horizontal mergers are typical in industries and sectors where products are in the mature or declining stages of the product's life cycle. In these industries are characterized by a low growth rate, a production capacity higher than the demand, a small number of competitors and often there is a strong pressure to reduce costs and final price (Sudarsanam, 2010). This combination of factors places pressure on firms to achieve cost efficiencies through consolidating mergers. According to Tremblay et al. (2012) such efficiencies may arise from:

- Increased market power and hence revenue growth: because the merger reduce the number of competitors, the merging firms can obtain market share, which in turn allows the entities to dictate the output price.
- Economies of scale: many of the procedures carried out by the merging firms separately can now be combined, it results in a leaner work force, smaller sales team, a single head office, pooling of advertising expenditure and so on. We can have two types of scale economies, Technical when a larger company can use fewer inputs and Pecuniary, related to the ability to bargain for lower input prices.
- Reduced management inefficiencies: when an efficiently run firm buys a poorly managed entity, as inefficient managers will be replaced by a more efficient team, fixed cost may be reduced. These kind of synergies are typical of horizontal mergers since manager of the acquiring company have a better understanding of the production and activity of a firm in the same industry.
- Economies of scope: when the fixed costs are may be spread on a wider range of products, this occur if the costs of organizing a multi-product operations are less than the benefits.
- Learning economies: these are the direct consequences of the experience acquired by managers and workers following the merger, indeed each firm can learn from the experience of the other and both can learn from the increment of combined output, a function of cumulative output over several periods.

Although horizontal mergers can strengthen a firm's business model in several ways, we have to consider that there are problems and limitations associated with this type of strategy. According to Hill C. and Jones G. (2010) the main obstacles are:

- Antitrust policy: when a firm become a dominant competitor, a further attempt to use an horizontal merger to grow even more, brings the company into conflict with the government agency in charge to enforce antitrust law.
- Diseconomies of scale: The merger generate costs associated with a diffused control, complexity of monitoring a larger firm, ineffectiveness of communication and it may also create problems connected with merging very different company cultures.
- Diseconomies of scope: Capron and Hulland (1999), in their research on redeployment of brand and sales forces in horizontal acquisitions, found that the effect of sales force

redeployment on post-acquisition strategy was disappointing. Transfer from the acquirer to the target seems to have no material effect either on market share and profitability, on the contrary the opposite flow, from the target to the acquirer have a strong negative effect on both. A merger based on the desire to incorporate another firm's sales force is highly unlikely to succeed in the long run.

1.3.2 Vertical merger

Vertical mergers involves the combination of firms that carry out different stages of a vertical chain. When a company merges with another that carries out the immediately preceding upstream activity it results in a backward integration, while if it acquires a firm operating in the immediate following downstream activity in the vertical chain it results in forward integration (Sudarsanam, 2010).

According to Perry (1989) the main determinants of vertical integration and hence to pursue a vertical merger strategy are classified in the following main cathegories:

- Technological economies: this occur when less inputs may be used to obtain the same output in the downstream process when the firm has integrated one of the upstream activities. For example a steel industry could save energy by avoiding to reheat external coming steel. Vertical integration may not only replace some intermediate inputs with primary inputs, but also reduces the requirements of other intermediate materials.
- Transactional economies: transaction costs are associated with the process of exchange, Williamson (1985) sustain that the hazards of contracting generate a strong incentive to internalize activities. In many cases, the primary objective of vertical integration is to eliminate or reduce, the costs incurred when separate companies own stages of the production. As a firm incorporate more and more stages of its value chain, transaction costs fall. These costs tend to be high for products that are custom made, and in risky markets, cause it is very difficult to negotiate a contract that consider every possible contingency.
- Market imperfections: imperfect competition is the most important case but there are also other imperfections like asymmetric information, which may be exploited opportunistically by the party that has access to superior or privileged information, or contractual incompleteness. Incomplete contract has been defined by Hart and Holmstrom

(1986) as a contract that either fails to specify performance obligations for the parties in all states of nature, or fails to specify the nature of the performance.

- Enhanced control quality and coordination: by internalizing part of its value chain, a company may increase its control over quality and delivery of inputs and has at its disposal more information to coordinate the activities. Internalizing allows to monitor and check the product in a better way, moreover vertical integration may allow cost reductions through improved coordination of production and inventory scheduling between stages. This allow to create and sustain a competitive advantage, such that in addition to cost efficiencies, the merger lead also to new growth opportunities which enhance the revenue, through leveraging the existing resources and capabilities and the creation of new ones.

Sudarsanam (2010), sustain that one important consequence of vertical integration is the increased market power, which create an anti-competitive environment; this is related to the possibility that the merging firms may:

- exploit the price discrimination opportunities,
- squeeze non-integrated manufacturers by cutting the price of output,
- eliminate firms on the value chain, such that distributors or suppliers with countervailing power,
- raise entry barriers by raising the capital requirements for new entrants.

For those reasons the Antitrust authorities monitor very carefully the power concentration that a potential merger could generate.

This is not the only downside of vertical integration, probably the biggest problem is related with the capabilities required to integrate different activities into one single company, which may also reduce the efficiency effects of division of labour and specialization, since now the resources and knowledge required are spread into a larger number of activities (Perry, 1989).

Moreover, vertical integration increase the internal monitoring costs; considering that the activity is now more complex, its dimensions are normally increased, and the ownership may be diffused such that a direct control over the company result in higher costs demand compared to pre-merger control activities (Fan, Goyal, 2006).

1.3.3 Conglomerate merger

Conglomerate mergers define the combination of two or more companies which operate in unrelated businesses. In many cases, firms produce a diversified set of uncorrelated products, one example is Unilever which incorporate many types consumer's goods (Tremblay, 2012).

The reasons for conglomerate mergers may be classified in economic, strategic, managerial and financial perspective (Sudarsanam, 2010).

- Economic perspective: diversification generate value as a result of an increased market power.

  According to Montgomery (1994), market power is delivered mainly through three ways; the main one is through the possibility of cross-subsidization, when an initially loss generating predatory pricing activities are pursued and financed with the profits generated in other market in which the firm operates; another value delivery option is through the so-called mutual forbearance, where competitors meeting each other in several markets, may recognize their interdependence and adopt a policy of "live and let live", single business competitors will not enjoy such forbearance and will be forced out of the market, the remaining competitors will compete less strongly. Finally, competitors may also move toward a mutual help through reciprocal buying and selling among themselves in different markets.
- Strategic perspective: according to this view, firms undertake acquisitions to fill the gap between their current endowment of resources and skills and the desired level, it may also be driven by the need for growth in order to exploit the excess capacity the firm has in certain resources, a company may have exhausted all the growth opportunities in its primary market and desired to invest in new ones (Lang, Stulz, 1994).
- Financial perspective: investing in a diversified firm may substitute a portfolio diversification across stocks, instead of investing in many companies each operating in a particular business, an investor may choose to buy shares of a single conglomerate. Llewellen (1971) found another financial reason in the benefits obtainable by the fact that earnings of the different businesses of the company are no or less correlated and hence the income stream is less variable since sectors that perform poorly, are offset by sectors which are performing well. This increase the ability to meet company's commitment and to obtain funds.

- Managerial perspective: managers may insist on a conglomerate merger in order to increase the size of the company for compensation and benefit reasons, if their compensation increase when the firm becomes larger, then they have an incentive to make the firm grow through mergers and acquisitions.

  Mueller (1972) sustain the idea that a company creator may want to exploit an innovative idea, in doing so he may develops some capabilities to innovate that lead to new areas and sector of productions, most likely closely related to the initial product line at first. From here he moves into newer areas related to the second set of products. This expansion and diversification moves the organization further away from the position from which the company started.

  Managers normally have also some share in their own firm, for that reason a risk reduction through diversification may also be pursued.

Conglomerate mergers includes also some problems, due to the complexity of its structure, since there might be poor information system among different activities, interdivisional rivalry and weak incentives that misalign divisional goals with the overall goal of corporate value maximization (Sudarsanam, 2010). In particular, related to the perspectives analyzed above, the main problems are:

- first of all the market power potentially enjoyed by companies may be limited by many factors, the firm must have some very strong individual market otherwise it can not cross-subsidize and the size disparity between conglomerated in the individual markets renders reciprocal buying and selling infeasible. According to Montgomery (1994), market power may be incidental but not the main driver of conglomerate diversification strategy.
- There are significant obstacles to an efficient resource transfer between acquirer and acquired firms. The familiarity between the two activities is very small in conglomerate mergers, hence the sharing process of technologies, markets, inputs is in many case very limited (Sudarsanam, 2010).
- Firms should undertake actions and decisions in order to maximize the shareholders value, but agency problem may cause these decisions to deviate from this objective. In conglomerate mergers, the agency problems may be more severe than in firms with homogeneous products, because of the complexity and wider range of the activities. In general, conglomerate mergers are not in the interests of the shareholders, since they can

diversify directly in their portfolio, but are attractive for managers to diversify their own risk or increase their benefits. Hence, conglomerate diversification is a sector in which owners and managers interest diverge (Amihud, Lev, 1981).

1.4 Mergers and Acquisitions waves

M&A has been around for a very long time; it is no longer a new concept that has just been introduced in the business world and the topic has been widely investigated throughout history. It has started making its presence felt as early as the latter part of the 1800s, and the increasing competitiveness in the global business landscape was largely instrumental in its widespread application (Nouwen, Pikulina, 2011). The activity in M&A in the past century shows a clustering pattern, which is characterized as a wave and they occur in burst intersperse with relative inactivity (Sudarsanam, 2003). Economics usually refer to five specific waves starting from 1890, the length and start of each wave is not specific, but the end of each wave usually falls with a major war or the beginning of a recession/crisis. Furthermore, the first and second wave was only relevant for the US market, while the other waves had more geographical dispersion.

First Wave (1893-1904)

The first wave of M&A came to be known as the "great merger movement" in the US business scene, it followed a period of economic expansion, and involved in particular the manufacturing sector (Sudarsanam, 2003). This wave was characterized by horizontal mergers of major industries and created the first giant in the oil, mining and steel industries. Large corporations aimed for more efficient economies of scale since the companies joining together were providing the same products or services. The proliferation of horizontal mergers led to the creation of monopolies. According to Stigler (1950), "mergers permit a capitalization of prospective monopoly profits and a distribution of portions of the capitalized profit". In 1890 the Sherman Antitrust Act, which limits cartels and monopolies, was passed but it was not yet clear in the beginning so the direct impact was limited (Stigler, 1950).

The first wave was also characterized by friendly deals and by cash financing. However the reasons why the merger wave started is not so clear. In the first place, laws on incorporations were evolving and were implemented more rigorously at the end of the nineteenth century. Before proper legislation, entrepreneurs had an unlimited liability on their assets, which means more risks and responsibilities. Improvement of laws led to limited liability for entrepreneurs.

Moreover, the economic expansion of those years, together with the improvement of the New York Stock Exchange also boosted the number of mergers because capital needed to acquire, or merge, became more accessible. Also the threat of the First World War is pointed as a cause of the end of the first iden

The end of the first wave came due to a more rigorous enactment of the new antitrust laws, the stock market crashed around 1905 which resulted in a period of economic stagnation. Also the threat of the First World War is pointed as a cause of the end of the first wave.

Second wave (1919-1929)

The second wave began in 1910s, where the primary focus was in the food, paper, printing and iron industry, but the wave was significantly smaller in magnitude than the first one. Where the first wave exceeded more than 15 percent of the total assets in the US market, the second one had an impact of less than 10 percent (Sudarsanam, 2003). The wave followed the First World War in times of economic recovery and increasing concern about monopoly power. This wave characterizes itself as a creator of oligopolies, with companies switching over to vertical integration. Vertical merger are more efficiency-oriented, rather than increasing revenue, the goal is to reduce costs and improve a company's overall efficiency. This type of merger involves two companies that are not competitors but collaborators.

Especially small companies, which survived the previous wave, were active on the M&A market, to merge with other businesses or acquire other companies in order to remain competitive with the bigger players created during the first wave.. Similar to the first one, the M&A were friendly, but the prevalent source of financing switched from cash to equity (Nouwen, Pikulina, 2011).

The end of the second merger wave was caused by the market crash of 1929 which started the "Great Depression" which led to a worldwide depression in the following years.

Third wave (1955-1975)

Due to the "Great Depression" and the Second World War, the activity on the M&A market slowed down significantly. The new wave started only in the 1950's and coincided with further restrictions which needed. to prevent anticompetitive mergers and acquisitions. Mergers in the first and second wave usually involved horizontal (wave 1) or vertical (wave 2) integration, but the third wave gave rise to the concept of expansion and diversification. Similar to the second was that equity was the dominant source of financing (Sudarsanam, 2003).

The method of diversification led to the rise of conglomerates, which are large corporations that consists of numerous businesses not necessarily related. Diversification can be a method to reduce the cash flow volatility through the reduction in the exposure to industry specific risk. The conglomerate will be less vulnerable to shocks in one industry because it generates income in different, maybe unrelated, industries (Faulkner et al., 2012). Due to conglomerate creation, growth opportunities in unrelated businesses can be exploited. Finally, a conglomerate will create its own internal capital market which is especially useful when outside capital is expensive.

The diversification also led to changes in the market structure. Baldwin (2002) with his concept of the Multidivisional Enterprise, stated that the strategy of the corporations leads to changes in the market structure, in particular the diversification led to an increased distance between the managers at the headquarters and the divisional managers. Besides possible inefficiencies associated with increased communication lines the addition of the numerous businesses also led to a decision overload at the company headquarters (Baldwin, 2002).

In the third wave the percentage of corporations active in unrelated business increased from 9 percent to 21 percent among the Fortune 500 entities (Sudarsanam, 2003). It did not last long, however, the crash in share prices, amplified by the oil crisis in the first part of the 1970s, resulted in the end of the Third Wave.

Fourth wave (1984-1989)

The fourth merger wave started in the 80s, and was quite different then its previous one. First of all, the bids were usually hostile which meant that the bids did not have the target's management approval. Second, the size of the target was also significantly larger than in the previous waves. Furthermore, the dominant source of financing shifted from equity to debt and cash financing.

According to Ravenscraft (1987) the beginning of the wave could have been a bargain hunt taken place in a depressed stock market where the conglomerates of the previous wave divested their divisions. Sudarsanam (2003) states that in the fourth wave divestitures constituted about 20-40 percent of the M&A activity. Apparently there was a simultaneously expansion and downsizing of businesses, where the expanding corporations made use of the divestitures to increase competitive position (Sudarsanam, 2003).

Schleifer and Vishny (1991) sustain that this wave is characterized by "bust-up" takeovers, where large portion of the target were divested after the acquisition. In those years, also the concept of

leveraged buy-out emerged (LBO). LBO is when the acquisition is financed by a large portion of outside debt.

The end of the fourth wave came in 1989, when the banks ended up lending too much, too often, that they were unmable to sustain their capital structures. This was aggravated even more by the crash of the stock market in 1987, where many companies were forced to close their doors.

Fifth wave (1993-2000)

The 1990s was a decade of great economic prospect. The financial markets were booming and a globalization process was developing. The merger activity also boomed in continental Europe where it almost equaled the US market. The globalization implied that the bumber of cross-border acquisition increased significantly, foreign investors began entering the US market. Growth was an important determinant for mergers. Companies wanted to participate in the globalization of the economy. This created big deal in order to achieve economies of scale. It resulted in the creation of multinational companies. The reason of this wave were due to technological innovations, and a refocus of corporations on their core competences to gain competitive advantages (Sudarsanam, 2003).

Many of the biggest M&A deals in history took place during this period. Gas and oil industries were particularly active (Nouwen, Pikulina, 2011). But this wave did not last very long, either. The end was due to another economic recession. The beginning of the new millennium started with the burst of the internet bubble, causing global stock markets to crash.

Sixth wave (2003-2008)

The sixth merger wave emerged in 2003, only three years after technology bubble burst. M&A activity peaked in 2006. Shareholder started to be more involved, and their influence and power over the management of a company increased. This proactive stance taken by shareholders led them to take action in spreading ownership with the management and the investors of the company. This resulted to the influx of private equity.

LBO, became prevalent, but differently from the fourth wave, this time, interest rates were keep low.

Globalization became a key feature of the new competitive landscape within which the mergers and acquisitions boom is taking place. Cross-border M&A have become a fundamental

characteristic of the global business landscape (Nouwen, Pikulina, 2011). Vestiges of the cross-border mergers trend during the fifth wave are still strong and visible during the sixth wave, but with greater benefits. Government support is more readily available, and the growth of private equity funds also helped greatly.

However, in December 2007, the subprime mortgage crisis in the US, which coincided with the recession of the US economy, market the end of this wave.

Seventh Wave (2011-onwards)

In this wave, BRICS (Brazil, Russia, India, China and South Africa) are taking to the forefront of M&A activity. They are either developing countries or have just become newly industrialized. The emerging economies are growing at an exceptional speed, together with the companies based there. On Fortune Global in 2007 there were 70 companies based in emerging countries, in 2015 this number had increased to 98. (Egan & Ovanessoff, 2015). This cooperation among these countries are putting a lot of focuse on commercial and corporate activities. It would definitely come as no rusprise when M&A activities in the coming years will be heavily concentrated in these countries.

1.5 Quantify mergers and acquisitions value generation

When a merger occurs, two companies come together and this has an impact on a range of stakeholders, including managers, shareholders, employees and the community as a whole.

The interests of those groups may not coincide, and so during a merger and acquisition action one group can win at the expenses of the others (Sudarsanam, 2010). For that reason, in order to asses if a merger or acquisition have delivered value, we have first to define with respect to which category of stakeholders.

According to Lazonick and O'Sullivan (2000), the corporations should primarily be run in the interest of shareholders, and managers decisions should be taken to enhance shareholders wealth. Based on the finance perspective, shareholders are better off, if their shares gained value because of the acquisition and Sudarsanam (2010) defines "better off" as the term that defines when the rate of return of the shareholders is at least equal to the cost of capital.

Several studies have been conducted to analyze the benefits of a merger or acquisition to the firms' shareholders. The results of Gugler et al. (2003), is that merger in general generate

significant profit increases for the combined company, in particular the projected profits are above actual profits in the first 5 years after the mergers and the difference is about 10%. However other studies found different results, for example Ravenscraft and Scherer (1989), concluded that there is a decline in the profitability of acquired firms, this may be due to the loss of control and the more complex organization. Moeller, Schlingemann and Stulz (2004) analyzed the acquirers' shareholders gains over the period 1980-2001 in the US market and report large value losses experienced by large acquirers. According to this research, acquirers lost $221bn over the period analyzed and the combined losses to acquirers and targets shareholders were about $79bn. However, the negative result of this study is caused by a relative small number of acquisitions with a negative effect, which weight more heavily than the positive effects of thousands of other acquisitions.

So in the end it is not possible to give a definitive answer on whether mergers have a negative or positive effect on the profitability of the combined firm, even if many studies agreed that acquisition create overall value but almost all gains go to the target.

However, to determine the impact of the merger or acquisition on firm performance, another parameter is fundamental, the stock market reaction around the announcements date. Most of the studies agree on the fact that the announcement generate a significantly abnormal positive return to shareholders of the target companies and insignificantly negative return for the bidder company (Campa, Hernando, 2004). A more recent study of Netter et al. (2011), conclude that the acquiring firms gain an abnormal return of 1,1%, compared to the target firms gain of 20,4%. The reasons for this difference are several and this is confirmed by other studies. Andrade et al. (2001) sustained that sometimes M&As are carried out for bad reasons, for example empire-building by managers which may generate poor results for acquirer's shareholders. Another cause might be the presence of many competitors during the bid, which results in higher takeover price. Moreover the outcomes are influenced by many variables, among which the method of payment (by cash, stock or a mix), the type of merger (horizontal, vertical or conglomerate) and the kind of acquisition (domestic or cross-border).

Chen et al. (2011), analyzed a sample of acquisition announcements released during trading and non trading hours and they found out that for overnight acquisition announcements, cash payments offer a positive and significant return for the target company. Moreover the impact of

announcement can differ significantly based on the different window periods chosen to calculate the abnormal return.

In the end, regarding the returns of the acquiring company there is no clear evidences whether these returns are positive or negative, on the contrary, regarding the returns of target firms, it can be concluded from many research that abnormal return are in general positive, especially due to the improvement in efficiency, control, economies of scale and synergies (Voesenek, 2014).

1.5.1 Determinants of abnormal returns

Abnormal returns are defined as the excess returns of a stock, compared to the expected return and is an important parameter to determine the effect of a merger or acquisition on shareholders value.

It is influenced by many characteristics of the deal and of the firm. According to the studies of Braggion et al. (2012), the acquirer's gain is higher the lower the target's ROE. This is quite straightforward, since it reflects the potential improvements on the profitability of a poorly managed target by the management of the acquirer. Regarding the acquired companies, it appears that less profitable target experience larger abnormal returns.

An important contribution was given by Schleifer and Vishny (2003), that analyzed the stock market acquisitions and discovered that companies with an overvalued equity are able to make acquisitions, while firms with undervalued or less overvalued equity become targets themselves. This in turn means that entities have an incentive to get their equity overvalued, such that they can make acquisitions with stocks.

The decision to use stock instead of cash have a strong impact on the cumulative return. In a study covering more than 1.200 major deals, researchers have found that, at the moment of the announcement, shareholders of the acquiring companies are worse in stock transactions rather than in cash deals (Rappaport, Sirower, 1999). Servaes (1991) confirms this statement by finding that total gains are 10% larger in cash deals than in pure securities takeovers. Servaes (1991) also point out another important factor which influence the return, the deal atmosphere. According to his studies, the losses to acquiring company are 4% larger in hostile takeovers than in friendly acquisitions, on the contrary the target firm gain are 10% higher in the first case. The reason can be found by the greater premium paid in hostile takeovers or by the decrease in firm value caused by the takeover defenses.

An important factor is also the type of acquisition, Moeller and Schlingemann (2004) found that the acquiring firm perform worse in case of cross-border M&A, rather than in domestic deals. An ulterior explaining factor, discovered by Moeller, Schlingemann and Stulz (2005) in another research, is the size of the acquirer, they showed how large acquiring companies perform higher announcement returns than smaller acquirer.

Finally the business relatedness, in products, market or technologies, according to Singh and Montgomery (1987), is positively related to higher gains, since it creates economies of scale, economies of scope and market power.

Abnormal returns are influenced by many elements, and various theories have been discussed, such that is not possible to define exactly their reasons.

1.6 Stages of Mergers and Acquisitions

As any other important strategic decision, even the choice of merger and acquisition is complex and requires several steps. A deep analysis is fundamental to evaluate critical aspects and feasibility. It can take from 6 months to years and the signing of the M&A deal is definitely an important step as it finalize the pre-transaction activities, but is only a very small fraction of the whole process (Sudarsanam, 2010). Due to this complexity a specific team of specialized manager is sometimes created.

According to Conca (2010), the process can be articulated in three macro-phases:

- Analysis and strategic evaluation;
- Deal structuring and negotiation;
- Post-M&A integration.

1.6.1 Analysis and strategic evaluation

The process starts with a careful analysis in order to evaluate if the strategy of a merger or an acquisition represents the right answer for the company's issues.

The sub-phases in which this step is articulated are (Conca, 2010):

1. strategy definition;
2. target profile identification;
3. search of alternatives.

Strategy definition

The starting point is to analyze the strategic position on the market, where the M&A project will be implemented in a coherent manner. Hitt et al. (1995) defined strategy as "an integrated and coordinated set of commitments and actions designed to exploit core competencies and gain a competitive advantage".

Companies should evaluate the current and expected business environment, using a process of "strategic audit" based on the following points (Conca, 2010; Sudarsanam, 2010):

- analysis of the sector and actual and potential competitors;
- definition of the weaknesses of the firm;
- identification of possible economies and synergies, generated primarily by strengthening the weak areas;
- verify if the M&A option is coherent with the overall defined strategy.

During this phase, the model of five forces proposed by Porter (1980) is massively used to understand the competitive environment in which a firm is placed. Also SWOT analysis provides useful information regarding future opportunities and threats the firm may face.

This moment in the M&A process is particularly important to have a clear image of the status quo and to try to define the strategic direction of the acquisition.

Target profile identification and search of alternatives

With the conclusion of the first sub-phase, the company reaches a first rough idea on the validity of the project.

However, the most fundamental step to increase the success of the operation is to select the right target companies, which match the strategic purpose of M&A, and as a preceding step, an acquiring company should identify potential targets (Christensen et al. 2011).

According to Sudarsanam (2010), to identify the target companies which satisfy the strategic and value creation objectives of the firm, is useful to first identify the key competences that the post-acquisition firm will need to achieve its objectives, and subsequently match these competences against the resources and capabilities that the different targets need. Figure 1 shows this matching process.

After having identified a list of potential targets, a profile of the latter should be drawn up, to evaluate their strength and weakness. Nikolova et al. (2011) include in this profile: the target's financial and stock market performance, future development of technology and ability of the target to deal with this changes, industry of the target company, its competition level and the quality of management in term of strategic thinking, effective implementation of strategic plans and delivering performance.

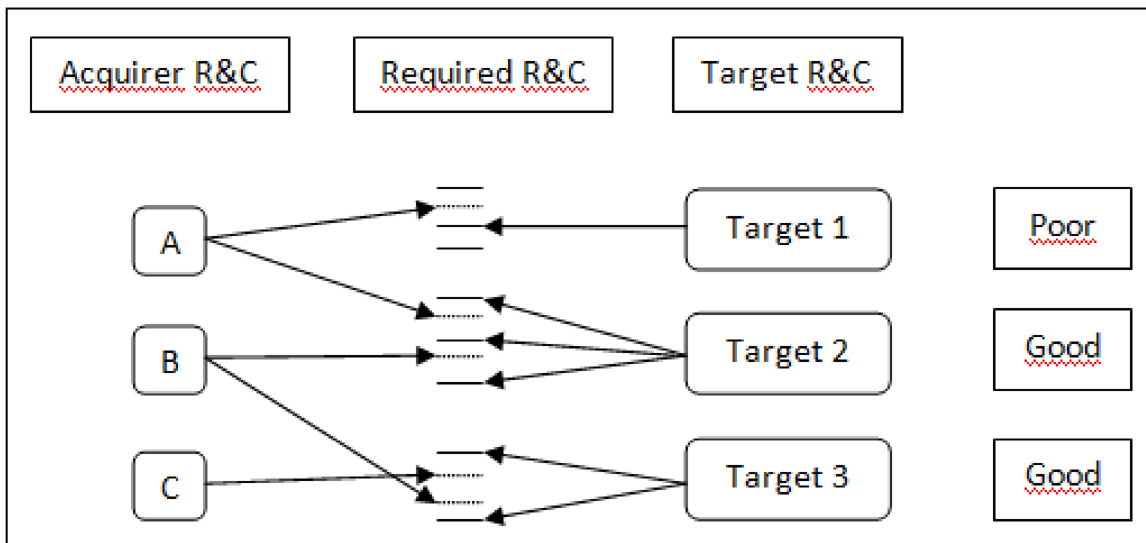


Figure 1 - matching process: the broken lines represents the R&C that the acquirer bring to the merger and the unbroken lines show the R&C the target brings

The list of potential target companies often include: current competitors, suppliers and distributors of the company.

Many empirical studies have tried to identify the main characteristics a target should have to result in an efficient combined company.

Faccio et al. (2006), examined announcement period abnormal returns to acquirers of listed and unlisted target in western Europe during 1996-2001, and the result was that acquirers of public targets obtain an insignificant average abnormal return of -0,38%, against 1,48% for acquirers of private firms. Moreover this effect in acquirers return persists over the time. A similar research of Officer et al. (2008) obtain the same results for the US market, and the justification they give to the phenomenon rely on the information asymmetry model. Indeed considering the lack of information of private targets as a source of risk, acquirers tend to pay lower premium for non-listed companies and hence to earn higher returns.

Chatterjee et al. (1992), have explored the impact of culture in the deal, and they discovered that cultural similarity between acquirer and target has a significant positive effect on shareholders gains.

Nikolova et al. (2011) identified that for a successful M&A a target company should: be undervalued or has an high fair market value, has an inefficient use of resources and capabilities, produce complementary outputs with the potential buyer and has a poor management.

Researches offer only a suggestion based on past data and practical evidences, however each deal has different reasons and dynamics, so it has to be analyzed and evaluated carefully, set a list of target's characteristics which surely results in an efficient M&A is not possible.

1.6.2 Deal structuring and Negotiation

The second macro-phase of the M&A process regard the initiation, management and conclusion of the negotiation. The outcome of the previous part is a specific targets list, from which the acquirer has to select the right partner for the transaction. This phase is more complex than the preceding one, since it allows to pass from a mere ideal project to real concrete actions. The role of the management is not crucial as in other phases, since normally they are helped and supported by external specialists.

This step is particularly complex and can be articulated in the following sub-phases (Conca, 2010):

- Target selection
- Target financial evaluation
- Formalization of the deal

Target selection

From the previous macro-phase the acquirer obtain a list of potential targets, for each firm a deep evaluation on whether it possesses the minimum prerequisite and the potential synergies that might be generated is done, to ensure that they satisfy the firm's acquisition criteria. The acquirer begin to interact with the potential targets in order to obtain information about the possibility to generate synergies, the probability to reach an agreement, the estimated price and other critical aspects. The profile of the desirable target, realized in the previous phase, can be used to score the listed targets on their attributes, analyzing their characteristics for what they can do to the merged entity, rather than to the target as a stand-alone reality (Sudarsanam. 2010). The score for

each group of attributes is calculated, and their sum give the overall score for each potential target.

Target valuation

For a successful merger or acquisition it is necessary to conduct a proper assessment of the target company. Determining its value is one of the key moments in the process. The price that the bidder offers to the target shareholders is the sum of the pre-bid stand-alone value of the target and the incremental value the bidder expects to add to the target's assets. The latter may arise from profitable assets disposals, improved operations or synergies between the combining firms (Nikolova et al. 2011). Anticipate precisely the potential benefits is challenging and company always strive to collect and elaborate information. In particular, a precise valuation requires to take direct contacts with the target companies, its suppliers, distributors and consumers in order to answer some fundamental questions regarding for example the perceptions about company's product, the relationship with the members of the supply chain, financial information, future forecasts, level of indebtedness and so on.

Conca (2010), divides the valuation of the target into three main components, which are the objective value, the subjective value and the price. The first amount to identify is the objective value of the target without any synergies or advantages that the acquirer may bring to it. This estimation is particularly important since finding an agreement on it, increases significantly the probabilities of a successful operation.

The second step is the estimation of the subjective value, that imply the quantification of the effects arising from the acquisition, in particular the synergies and improvements that the acquirer may generate by purchasing the target.

The final step is the price determination, which procedure changes whether the company is listed or not in the market. In the latter case the estimation is significantly more complex, since the available information are less.

Several methods exist for the determination of a reliable price that best suits the value of the company, however the most sound on theoretical grounds is the Discounted Cash Flow (DCF) (Mukherjee et al., 2004). It is known as the equity residual model, since it is based on the free cash flow which is the residual cash flow after meeting the claims of debt holders (Aydin, 2017).

Applying this method requires forecasting post-merger cash flow and estimating a discount rate to apply to these projected cash flow.

Each company should be evaluated separately to see whether is possible to create synergies. The future free cash flow can be determined by using a pro-forma income statement prepared for both the firms. By using past data is quite straightforward to estimate future free cash flows for individual companies, however it is much more complicated to estimate both entities free cash flow after the M&A.

At this point is critical to identify in the most possible accurate way the synergy expected to be created by the deal. Most of the times, the company value is not calculated precisely due to the unrealistic estimation of expected synergies (Sudarsanam, 2010).

Synergies represent the incremental value, that the combination of the two firms generate, which could not be created by operating separately. In the calculation all types of synergies must be taken into account, either operating synergy, arising from the increase in the effectiveness of activities after the M&A, and financial synergy, related to the financial advantages obtained, like tax savings, increased debt capacity, and a lower cost of capital. The total synergistic gain of a successful transaction is described as the change in the wealth of the shareholders of the target firm (ΔW_T) plus the variation in the wealth of the shareholders of the acquiring firm (ΔW_A) (Bradley et al., 1988).

The equation of the total synergistic gain is:

$$\Delta\Pi = \Delta W_T + \Delta W_A$$

Based on this formula, the premium paid to the target company should be as high as $\Delta\Pi$. If the advantages achieved, through the acquisition do not exceed the premium paid, the acquisition results in a failure. The acquirer must strive to achieve synergies higher than the premium paid or at least achieve positive synergies (Sirower, 1999).

According to Sirower (1999), obtaining synergies is not certain in the combination of firms. Constraints and interdependence, as well as negative synergies are elements to consider. Negative synergies not only destroy value, competitors get the opportunity for strengthening their position against the acquiring business. In the case of negative synergies due to diseconomies of scale or

other costs the initial combination may be divested when companies experience that they cannot operate efficiently as one big company (Fulghieri, Hodrick, 2006).

Deal formalization

The process goes on with the formalization of the relationship between the involved parties, through the so called letter of intent (LOI), which represent an important step, since it prove the willingness of the parties to conclude the deal. It might happen that the seller is not really interested in the acquisition, but is just testing the water to see the valuation of the company, hence with the LOI the position taken is more definitive (Sudarsanam, 2010). This document is not legally binding, but is of fundamental importance to avoid problems or misunderstanding during the preparation of the contract. According to Conca (2010), the main objectives of the LOI are:

- to confirm the willingness to proceed with the deal;
- to establish a deadline within which the negotiation will be concluded;
- to find an accord on the exclusivity of the negotiation;
- to introduce the clause of non-disclosure;
- the general definition of the content of the contract;
- to identify how the price will be calculated.

After having signed the letter of intent, the process need the fulfillment of further mandatory procedures, among which the most important is the due diligence. During an acquisition, the management of the acquirer company are in a disadvantageous position, compared to the target's side. This is due to the lack of information regarding the seller. Moreover shareholders, managers and stakeholders of both seller and buyer may have different interests, for this purpose the main process of the negotiation phase is the due diligence, that is the procedure of investigating the prospective target, one of its aim is to create an equal environment for the negotiation period and thus support the parties to align their interests (Conca, 2010).

Through the due diligence, a buyer can define the appropriate price for the target and the method of payment, anticipate potential risks and liabilities, specify the important provisions to negotiate with the other party, analyze the competition issues, and clarify that the target is as it seems, so with the due diligence a bidder can corroborate the merger decision or opts to walk away (Conway, Rouse, 2001). The content and depth of the due diligence investigation depends from the knowledge needs of the acquirer and the type of the deal. The objectives may be reduced due

to lack of time, cost constraints or because the target refuses to collaborate and provide the required information.

The main downsides of the due diligence are its time consumption and costs. Moreover the management involved into the deal, reduce its focus on the daily business. Due to this time pressure and expenses, manager sometimes conclude the deal without the proper due diligence and the consequence for this lack are normally an unsuccessful or un-integrated merged companies (Mengus, 2016).

Assuming due diligence is concluded with no significant problems, with the information obtained from that phase, the parties can move on with the following step, that is the formalization of a concrete agreement. In this moment the companies make a final decision on the object of the acquisition, the agreed price, the payment method, guarantees and clauses and other important elements. The negotiation process ends with the signing of a contract, that is the product of what the companies have agreed on in the bargaining phase.

1.6.3 Post merger or acquisition integration

When the deal is concluded and signed, the challenge of realizing the strategic and value creation objectives starts. Varying on the type of acquisition made, its strategic rational and value creation logic, the firms involved in the M&A have to be integrated in varying degrees. Integration process is not just a matter of establishing a new management and organization, merging firms have to redefine their activities by adding, redeploying, recombining or divesting assets with the aim of adapting the resource base to the new context (Karim, Capron, 2016).

Strategic interaction or autonomy

Initially the Post merger integration (PMI) was analyzed from an acquiring-oriented approach, where the targets “disappear”, fully incorporated in the acquirer activity.

Haspeslagh and Jemison (1991) doubt on this approach and adopted a different view, defining PMI as “the process of creating value with a new bundle of resources that is obtained when two organizations merge, while balancing the economic benefits and organizational costs involved”. They centre their work on PMI on the transfer and application of strategic capabilities, guided by a value creation logic pursued by the acquiring firm. Transfer of competences can be done either with the sharing of operational resources or with the transfer of specific management skills or know-how.

Companies must establish in their strategy the extent to which the capabilities of the two entities are merged together within the same structure or maintained separate within the boundaries of the firms.

Haspeslagh and Jemison (1991) create a model of the trade-off between the need of interdependence of merging firms, and the need for autonomy of the target. This trade-off can be described by the "integration matrix" represent in Figure 2.

At the two extremes we find total preservation and total absorption, then we have symbiosis and holding, which represent a mixture of interdependence and autonomy.

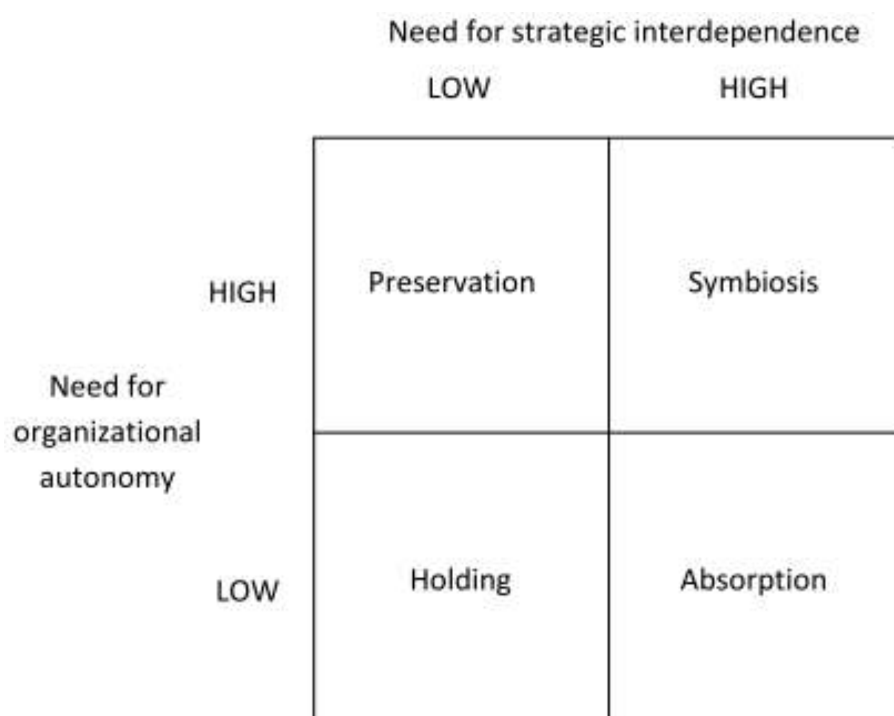


Figure 2 - Strategic interdependence and organizational autonomy

- Absorption is chosen in case of an high level of interdependence between the companies; it requires a full consolidation of the operations, culture and organization, and to pool together resources to avoid duplicates.

  Acquiring firm, will opt for this approach if the acquired entity does not need an high degree of autonomy and if significant synergies can be created by combining the firms. A deal with the aim to reduce excess capacity in a declining industry, normally requires an absorption approach.

- Symbiotic is the definition of a merger when neither of the involved companies are dominant in the newly created firm, instead they work at the same level supporting each other. Initially the two firms coexist, subsequently they become increasingly interdependent.

  Symbiotic is a compromise between the need of either an high interdependence and an high autonomy for the target capabilities.
- Preserving is the choice when the mutual dependence is low but there is a strong need of autonomy in order to maintain the acquired firm capabilities. These capabilities have to be nurtured by the parent with targeted and limited interactions to pursue their strategic goals.

  The acquirer, may also use the acquisition as a learning opportunity. Acquisitions by private equity firms often use the preservation approach.
- Holding, is the approach chosen when the benefits of a transaction arise from sharing resources, with no or very little integration. The investment of the acquirer is passive and justified more by financial or diversification reasons, in order to reduce risk or cost of capital.

Integration probles obviously generate costs or reduce the potential synergies. Jansen (2003), provided a model to understand the most influential and critical motives for a successful integration. According to this 7K model, firms should be aware of the following core problems and provide plans before the integration process starts:

1. Culture: cultural profiles can help to overcome some problems.
2. Communication: clear communication plans for staff, client and supplier.
3. Clients and partners: awareness of existing clients/partners and special treatments.
4. Know-how: plans to avoid know-how outflow by layoffs.
5. Labor: training plans and workshop inform staff about new career prospects.
6. Controlling: effective control measurement displays the success or failure.
7. Coordination: task forces can accelerate a successful integration.

Management teams should be aware of the potential pitfalls. A well-structured and sophisticated post-merger integration plan can help to overcome with most of the integration hurdles. It is important to focus on the post-merger plan and its implementation.

Cultural perspectives on integration

Cultural differences may be overlooked and underestimated during the negotiation of the deal, even if, culture audit should be part of due diligence. Cultural distances may impact on the integration process, its effectiveness and success in value creation.

Studies on this field started in the early 1980s when the process was, for the first time, view as an attempt to combine different organization cultures and not just a mere strategic operation. In particular Buono et al. (1985) considered a merger as a “cultural collusion”, where the shock for its members can significantly reduce the benefits expected from the newly formed firm. A decade later, the rise of European cross-border M&A activity generate the increase of studies on the impact of cultural diversity on merger’s performance.

Culture represents a fundamental part of an organization as personality is for an individual, and the level of culture fit between the merging firms is positively correlated to the success of the marriage and mergers between certain incompatible cultures can result in a disaster (Cartwright, Cooper, 1993).

Later, Schweiger et al. (1994) proposed an integration where the value chain of the merging firm are reconfigured in order to obtain the value creation objectives of the parent. This reconfiguration has three dimension: technical, political and cultural. The concept is base on the idea that the value chain is more than just a technical configuration, it is related also to social and political interactions which affect workers’ motivation and behavior.

To measure the cultural distance between the combining firms and hence to evaluate different acquisition options, David and Singh (1994) introduced a parameter, the so-called culture risk. The acquirer must consider, in addition to strategic issues, the cultural risk. This parameter depends on many factors, among which:

- Whether an operational integration occurs, the attempt to create synergies involve an higher cultural risk.
- The division being integrated and their subcultures.
- The mode of integration pursued by the acquirer.

In a more recent investigation, Schweiger and Goulet (2005), argue that achieving the right employee mindset toward integration, is not a matter of limiting acquisitions to companies with similar cultures, but rather it regards the ability to manage differences through cultural learning,

which can be performed at a deep or at a surface level. The find that deep-level intervention led to greater intercultural awareness, understanding and communication, as well as more cooperation and integration, on the other side, for the employees that did not receive learning interventions cultural misunderstanding flourished.

A crucial point on culture is that managers should not eliminate differences, but understand which are fundamental and hence should be preserved and maintained (Conca, 2010)

Culture must be a focus in the integration phase, otherwise it may undermine the possibility to create value, managers have to consider that employees are unlikely to change their cultural belief, and that, on the other side, culture is significantly linked with the business value. By tying culture to value creation and indentifying and changing specific behaviors when necessary, culture can be used as an effective way to achieve post merger integration objectives.

1.7 Challenges and Failures of M&A

One of the main reasons for most mergers and acquisitions are to maintain or increase market share and to increase shareholder value by cutting cost or increasing revenues. Despite the initial optimism, many deals failed to provide the expected financial results. An Harvard Business Review report of 2016 states that the failure rate for mergers and acquisitions sits between 70 and 90 percent.

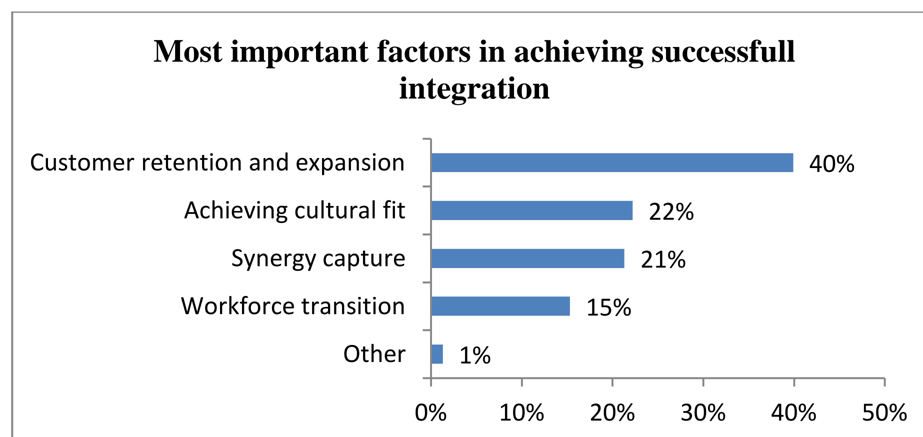
Merger success may be linked directly to the level and quality of the planning involved, companies sometimes spend insufficient time on the analysis of current and future market trends as well as to plan the integration phase. Often firms forego an objective analysis of their strengths, weaknesses, opportunities and threats, risking the success of the transaction from the start. Many transaction also fail as a result on insufficient due diligence performed on the target company (Nguyen, Kleiner, 2003).

However, research shows that the opportunity for mergers to fail is larger during the integration process. According to Sudarsanam (2010), the 80 percent of the interviewed managers, sustain that unsuccessful acquisitions are due to a lack of an accurate integration plan. A common error of management is to focus on integration when it is too late, rather than from the negotiation phase.

The main problems that might arise during the integration are (Conca, 2010):

- Determinism: the tendency to remain stick to the initial reason of the deal even when the reality is different from expected, the error arise from the non adaptation of the original justification of the acquisition to the new context.
- Value destroying for employees and manager: employee uncertainty increases with mergers and with that there seems to be a rise in stress and decrease in satisfaction, commitment, and loyalty. This attitude can spread and become "contagious" among employees (Appelbaum et al. 2000).
- Improper managing and strategy: the integration phase should be responsibility of top management, instead it is often in the hand of middle management, which may lack in the experience and competences to make critical decision and allocate properly the resources.
- Culture differences: as we said in the previous paragraph, culture plays a central role in the way employees react to the new structure of their work environment, ranging from quick adapting and commitment to the new expectations, to resistance and unproductive behaviors.
- Change of management: under normal conditions, managers of both companies should be maintained in the new one, since they have a deep and consolidated knowledge of the two realities, they have experience and already established relationships with stakeholders (Jeffrey et al., 2014). Of course this is not the case if the management is inefficient or lack the competences to drive the combining entity.

Based on a survey conducted by Deloitte (2014) on a sample of 2.500 firms, the most important factor in terms of achieving a successful integration is the customer retention and expansion, while the most challenging is achieving cultural fit.



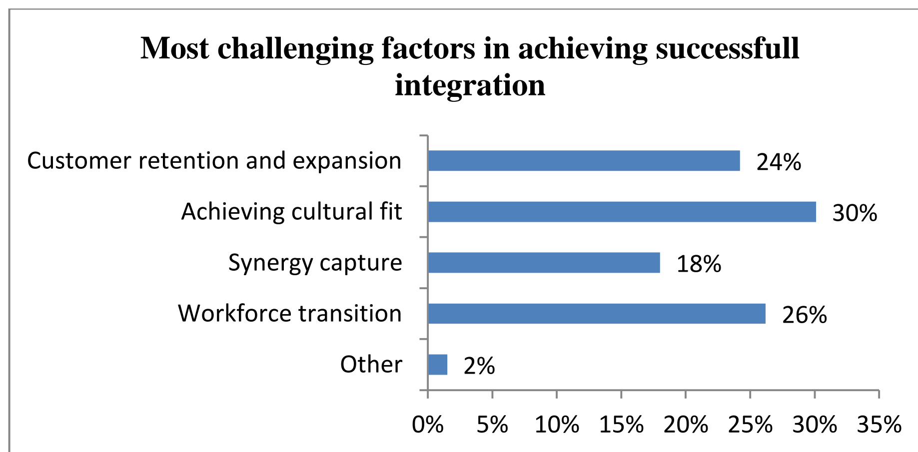


Figure 3 - Factors impacting in PMI. Source: Deloitte (2014)

Other problems which may undermine the success of an acquisition, may arise during previous phases, in particular they can be categorized into three main groups (Conca, 2010):

1. Mistakes in the definition of the strategy: those are related to the complexity of the decisions, in particular managers can have a wrong perception of the strategic scenario and hence take unsuccessful options.
2. Bad choice in the partner selection: this is due to the inability of the management to recognize the lack of the required characteristics in the target.
3. Inability to manage the operation: this entail the incapacity to conclude the deal, due for example to discrepancies between the merging firms, or to fiscal problem, or even to the inability to reach an acceptable price.

Failure may also be attributed to the lack of competences of the people involved into the deal, for that reasons, may be fundamental, especially for complex deal, to be helped by specialists with a strong experience, which have already managed many M&A process.

1.8 Alternatives to Mergers & Acquisitions

The challenge of integrating different corporate cultures and the fact that even the best due diligence cannot flush out every issue makes the growth by merger or acquisition not free from pitfalls. It is therefore unsurprising that more and more companies are actively seeking alternative strategies for growth (Meyer, 2016).

One possibility is to create internally the required capabilities by investing in research and innovation. By concentrating resources on internal business development, a company can become more competitive and thus obtain more opportunities for growth. This approach, on the other

hand, has an obvious disadvantage, a company needs to invest a significant amount of resources, including manpower and R&D spend, to this strategy, with no guarantee over the result. Innovation on new products and services can be slow and the road to eventual success is often paved with obstacles. In the meanwhile, investors may get nervous and rethink their investments if success takes too long to achieve (Meyer, 2016).

A middle way between acquisition and full reliance on internal capabilities could be strategic partnerships. A strategic alliance may be formed when two or more organization joint to develop new products or services, enter new markets, or improve resource conversion processes (Harrison, St. John, 2008).

When the agreement is contractual and the alliance operates independently of the organizations that form them, then the alliance is known under the name of joint-venture (Moretta, 2014). Through a joint-venture, companies pool resources in order to accomplish a specific project, and normal they form a separate limited company for the project, in order to protect the rest of their businesses in the case of failure (Meyer, 2016).

Through this type of operation, companies can obtain many of the same objectives sought with Mergers and Acquisitions, and also the reasons behind the decision of a strategic alliance are the same. It can lead to improved sales growth, increased earnings, or provide balance to a portfolio of businesses (Harrison, St. John, 2008).

As an example, Yahoo and Ebay have signed an arrangement in which Yahoo promote Ebay's Paypal payment services to pay for Yahoo, while Ebay display advertisement brokered by Yahoo on its online auction. Another case is the alliance between Google and Dell, where Dell agreed to install Google as a software for its personal computer.

In order for an alliance to be successful, the management should create a strategic plan that combine the views of the partners about market potential competitive trends, and potential threats. According to Harrison and St. John (2008), to increase the probability of a positive result, many steps should be taken into account:

- Identify a joint venture partner than can provide the required capabilities and not just combine with a firm because alliance-forming is a trend in the sector.
- Clarify the roles of each part, and be sure that every joint project is valuable for both.

- Maintain top management involved, so that middle managers will stay focused.
- Require often meetings at all managerial levels.
- Appoint a person in charge to supervise all aspects of the alliance, and require an external mediator when there are disputes.
- Guarantee enough independence to ensure that each company can develop its own espertise.
- Create a plan to deal with cultural differences.

Strategic alliances are an important instrument especially if a key growth objective is global expansion. Entering into a new market is though for small and medium-sized enterprises, which with a cross-border alliance can obtain a foothold in a foreign market without the commitment of sharing ownership.

As with the acquisitions, there can be tension because of different management cultures and styles, or incompatible traditions. However if a joint-venture is created and managed carefully, it represent a viable way to success, by leveraging the expertise of partners and gaining access to new markets and networks, a joint-venture can create quicker value for shareholders.

Franchises and licences are other types of strategic partnerships. They are used in case a company has already created an attractive product or service, and it can grow by selling a franchise or license to another company. This allows the franchisor/licensor to expand its activity using the capital and resources of the franchisee/licensee, while still exercising control over the brand and marketing (Meyer, 2016).

CHAPTER 2: The Global Eyewear Industry and its performance

The global eyewear sector is formed by prescription glasses, sunglasses, lenses, contact lenses and ready-readers and it is valued approximately USD 117.02 billion in 2017 (Global Market Insight, 2018). The market has increased over the years and is expected to reach around USD 182.42 billion by the end of 2023 (Zion Market Research).

2.1 Eyewear industry growth factors

According to Mordor Intelligence, the global eyewear market is expected to register a CAGR of 7.4 percent during the forecasted period 2018-2023. This constant increment is largely driven by the rise in disposable income that have prompted the demand especially for spectacle frames and sunglasses, which are increasingly considered as a fashion accessory and a status symbol. Furthermore, the growing preference toward luxury and branded sunglasses is contributing significantly to the eyewear demand (Market Insider, 2018).

There is a strong positive correlation between consumer wealth and spending on lenses, as the lens spending per capita increases as GDP per capita increases. The ability to afford vision correction is more often a limiting factor for emerging country consumers, and of the 2.5 billion people requiring vision correction worldwide in 2015, 95 percent were in emerging markets. Therefore the growing middle class and increase in the disposable incomes in emerging markets is a positive trend for the industry. Moreover, the development of the online channel opens up distribution and education, supporting growth.

Another growth driver of the eyewear industry is the favorable demographics. Based on a World Health Organization (2017), more than 253 million people live with vision impairment. In particular 36 million are blind and 217 million have moderate to severe vision impairment. Among them 81 percent are aged 50 year or above, so with an increasing population of older people, more persons will suffer of eye disease (WHO, 2017). Increasing myopia among young consumers and growing awareness about eye health are likely to drive growth of the market during the next years, Essilor estimates the number of people with presbyopia to increase at a CAGR of 2.5 percent between 2015 and 2030.

The significant increment in the use of smartphones and computers is intensifying cases of Computer Vision Syndrome due to the focus of the eye on a laptop or other display device for

many hours per day. This factor is strongly influencing the demand of spectacles eyewear. According to an Essilor estimation, the number of people with myopia or shortsightedness will increase from 1.7 billion in 2015 to 2.7 billion in 2020, a CAGR of 3.3 percent. To correct myopia, a single vision lenses is used, and as lens innovation turns to more preventative solutions, vision damage from screens has opened up a new category of lens innovation with anti-blue light properties.

The demand of sunglasses, has been influenced by the increased awareness of eye protection from harmful UVB and UVV rays. Moreover, the increased competition in sunglasses market has resulted on prices and product innovation. Celebrities ten to have major sway over consumers purchasing decisions, especially when it comes to sunglasses and key players are using celebrities for product endorsement. As an example, Italy-based Luxottica Group's Vogue Eyewear brand, has recently signed up a celebrity brand endorser in India, and has also launched a digital teaser campaign to unveil the star.

As shown in figure 4, Europe is the main eyewear industry player in terms of revenue share. This position is expected to be maintained over the next years, due to high demand for eyewear, according to Eurostat, the region accounts for more than 18 percent of the population over 65 years in 2016, coupled with the presence in this area of the major manufacturers. North America generate the highest profits, its market share constitutes over 30 percent of the volume. This percentage is largely attributed to high disposable income together with an increase in the consciousness regarding eye examination across the country. Asia Pacific represent the 20 percent of the total, with China capturing more than 30 percent of this share. The industry in this region is expected to grow, boosted by an improved demand for fashionable accessories due to growing population and higher standard of living. Finally, Latin America, with Brazil and Mexico as the major contributors, is expected to grow rapidly, with a 4,5 percent CARG (Compounded Annual Growth Rate) up to 2024 (Global Market Insight, 2017).

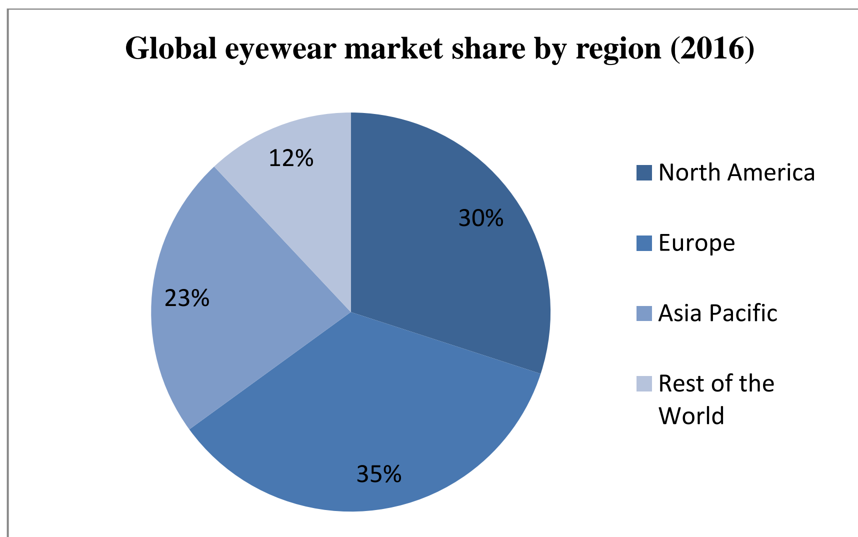


Figure 4 - Source: Global Market Insight (2017)

The global market is fragmented with the presence of few international players and many local vendors. The companies who drive the market, are established in Europe, especially in the North of Italy, while few others are located in US.

The world's eyewear production is valued more than 10 billion Euro, and Italy with revenues of 2.78 billion Euro is the main producer, with a market share of 27 percent of the total. If we consider only the luxury segment, the share rise up to 70 percent and 50 percent if we look only at licensed brand (Anfao, 2017).

2.2 Eyewear market's trends

As we said in the previous chapter, there are many growth drivers in the eyewear sector, the favourable demographic, the increased awareness of eye protection and the use of sunglasses as a fashion accessory are only the most important.

According to a Credit Suisse report (2017), the eyewear market is expected to grow at a 3 percent CAGR to 2019, and we can see in Figure the current size and expected future level of the overall frames, lens and sunglass market.

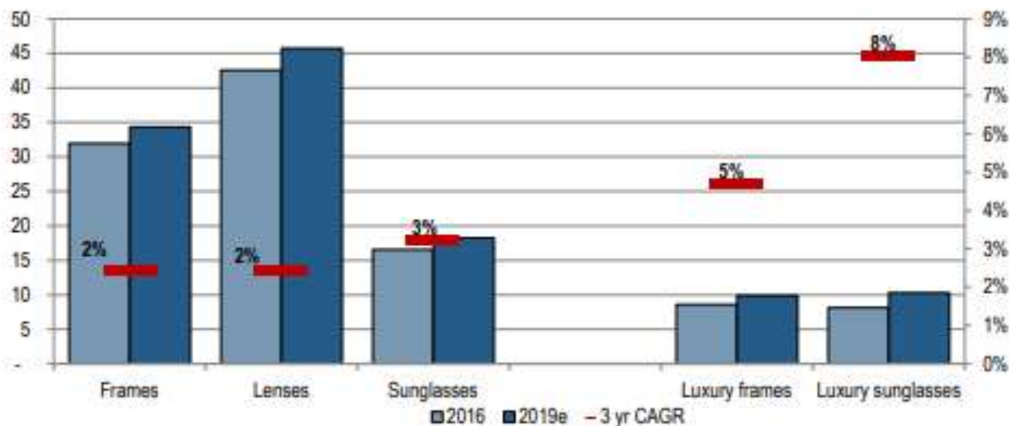


Figure 5 - Source: Euromonitor. Historical constant 2016 prices, forecast constant 2016 prices

Currently the frame market sits at Euro 32 billion based on retail value and the lens market at over Euro 24 billion. Both are expected to grow at an average CAGR of 2 percent over the period 2017-2019, according to Euromonitor. The Luxury segment (which include both luxury frames and sunglasses) is set to grow faster than the industry as a whole, favouring Luxottica's and partly Safilo's product exposure. Luxury sunglasses are forecast to grow at 8 percent over the same period, and luxury spectacle frames at 5 percent. Both of these markets currently sit at Euro 8 billion based on retail value.

Sunglasses continue to grow ahead of the prescription market, which, according to Essilor, are expected to grow by 6-7 percent per year to 2019. This is double Euromonitor's expectation, at 3 percent. The market can be split into three segments: luxury fashion, performance and entry/mid-tier. The luxury segment is the largest by value, it is estimated to worth Euro 8 billion in 2015, however if we look at the quantities the segment is the smallest with only 28 million units, while entry/mid-tier accounts for more than 500 million units and performance for 25-30 million units.

Although the sunglasses market is expected to grow at almost double the rate of the prescription market, it is more exposed to cyclical trends, such as the weather. As an example, both Essilor and Luxottica, generated weak results in the second half of 2016 due to unfavourable summer weather conditions in North America.

Figure 6 - Source Euromonitor, Credit Suisse research

However, this category is gaining importance to investors looking for exposure to the Luxury space given sunglasses fall under "affordable luxuries". Even if we look at the eyewear class in terms of GDP and disposable income, when we think of it in the context of the Luxury space we focus on wealth accumulation. The Credit Suisse Research Institute has recently reduced its medium-term forecasts for global wealth accumulation from 7 to 5 percent. For this reason the growth of higher-priced luxury goods will be lower, while affordable luxury will outperform high-end luxuries in the medium term.

2.2.1 The Italian Bellunese District

Toward the end of the 19th century, the industrial eyewear production started thanks to the collaboration between Angelo Frescura and Giovanni Lozza. In those years, they established in the Cadore area, the first laboratories which essentially assembled the glasses components, imported mainly from Germany.

Those factories, become the core of the productive fabric formed by many small craftsmen's shop, which over the years developed specific skills and techniques to realize lenses, frames and other related products.

Nowadays the Eyewear District is extended to the whole Bellunese province, where we can distinguish three main areas: Cadore, where the 50 percent of the firms are located, Agordo,

where the main player (Luxottica) is located and finally Longarone and Alpago, where many other firms operate, in particular Marcolin, among the big five eyewear companies.

The reason of the rise of the district in these places is mainly due to two factors: the first is the strong availability of natural resources, the second is the increase of knowledge and skills thanks to agglomeration economies and spill-over effects (Gambarotto, 2009). Many reasons have contributed to the success of the area, but if we should choose the most important, this would be the rise of the production of sunglasses, and the diffusion of branded glasses (Gambarotto, 2009). This new product, completely changed the dynamics of the sectors, since before, the production of glasses was connected with the prescription of an opticians, while sunglasses are more like clothes, hence costumers are more alert to aspects like brands, shapes and overall quality (Campagnolo, Camuffo, 2011). This implied that the main Eyewear companies, in order to compete, strive to obtained licences from main fashion names. This process favoured big and medium firms, more flexible and dynamic compared to smaller realities.

Currently, in the district live two different realities: from one side there are the major players of the sector, which with different grades of integration, tend to incorporate all the productive phases, from the designing and production to the distribution and marketing of the products, on the international channels through wholesales or retailers. On the other side there are hundreds of SMEs specialized in particular phase of the production of components or in special processing techniques that are influenced by the strategic decision of the leaders in the district and by the international competition in the cost of production. To maintain their competitiveness, those SMEs should develop specialized skills in high value added activities (Campagnolo, Camuffo, 2011). The relationship between the small firms in the district were focused on the division of the labor and in the specialization per phases of the production, ensuring the saturation of the resources; while the relations with the key players in the district were based on the “trust and reciprocal cooperation” (Camuffo, 2003).

As we can see in Figure 5, the majority of the industries in the district have less than 5 employees, with around 30 percent of activities with only one worker.

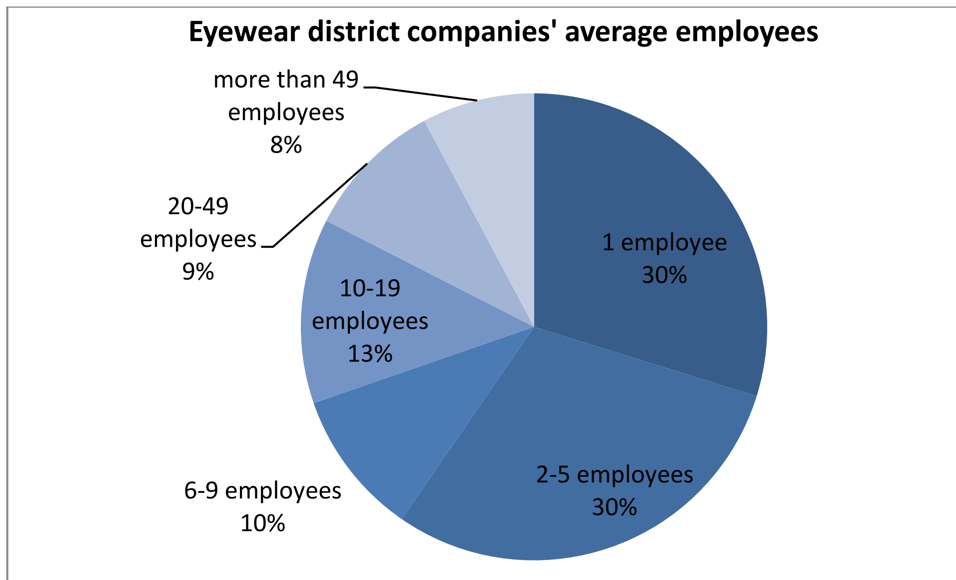


Figure 7 - Source: Confindustria (2017)

In the 1970s, the district boundaries expanded into new areas of the Veneto region and in cities adjacent to the Friuli-Venezia Giulia area. Later, in the 1990s, the performance of the district in Cadore decreased and a significant number of firms failed, against the international competitors, in particular China (Camuffo, 2003). The Chinese producers are still a threat for the Italian districts, in particular for the rapidity with which the Chinese, using German, Italian and Japanese know-how, are moving upscale.

Figure 6, explain the changes in the Belluno district from its formation until now, as we can see, in the left chart is shown change from the first internationalization, in the early 2000s, which has "dried up" the district. In the other chart, is highlighted the reabsorption of most of the workers of the small firms towards consolidated industrial companies; highlighting a very positive result for the labor market, especially in 2015.

Figure 8 - Source: Confindustria Belluno Dolomiti data

The leaders located in the district, responded to this changes in the international scenario, by integrating several stages of the production process, before outsourced to subcontractors of the local territory with the ability to maintain a certain margin of internal flexibility. In an increasingly concentrated and selected context, it started to increase the share of imports of inputs, components and semi-finished products.

Although the eyewear market is a low-tech industry, with the new intersection of fashion, the business model was radically changed, increasingly the integration downstream and sometimes also upstream. It resulted in an increase of the entry barriers and the necessity for the firms to re-organize their organizational structure with new investments and resources allocated in the commercial side.

During the financial crisis of 2008, which strongly affected the Italian territory, the value of exports dramatically decreased (Confindustria Belluno Dolomiti, 2010). In 2014 started the recovery with the growth of many start-ups oriented in the differentiation of the product by using different processes and by introducing new technologies. Those company have invested a lot in strengthening the relationship with costumer, by developing online sales, social media interaction, and with the development of techniques for the customization of the finished product.

These key elements are fundamental to compete in the global market, the concept to "personalize his/her products" is linked togheter at the delivery time of the finished products in the market, on the schedule settled by the fashion business. Under this condition, the production facilities in Asia, did not match the market demands. The companies focused on the delocalization of the

production to pursue cost advantages were forced to come back home. Other returns of delocalized production are instead attributable to the need to compete on the critical stages of the eyewear production as the quality control and the reliability of the supporting companies that allow a remarkable reduction of delivery time to market.

In this context, the proximity among the value chain activities and the knowledge spill-over of the Belluno area are key factors for the global competition.

To give an idea of the relevance of the Bellunese district, the report of Intesa San Paolo (2015), showed total annual revenues of Euro 1,305.9 million for the year 2014. 2014 was indeed a good year for the eyewear industry of the area, in which the economic performance have returned to the positive levels of the beginning 2008, before the crisis. Those profits, though, are not evenly distributed, the five manufacturers leaders of the market hold almost 85 percent of the total income.

2.3 The products

The eyewear industry is segmented on the basis of product type into plano sunglasses, spectacles, contact lenses and sportswear.

The main role is played by spectacles, which account for over 55 percent of the overall market share in 2016, due to rising geriatric population and increasing presence of visual problems, and to the increased fashion-consciousness of customers (Grand View Research, 2018). They are used to solve refractive errors in order to correct the effects of diseases such as near-sightedness also known as myopia, farsightedness also called hypermetropia, astigmatism or presbyopia. Corrective lenses are based on a prescription of an ophthalmologist or optometrist.

Plano sunglasses segment captures a revenue share of more than 13 percent in 2016 and is expected to reach USD 29 billion by 2024, compared with USD 16 billion in 2016. They represent an accessory used with no particular prescription, mainly for aesthetic reasons and for protecting the eyes against the dangerous ultraviolet rays. They can be further segmented into polarized and non-polarized lenses. The latter, represent the majority of the market share around 60 percent in 2016, and are expected to maintain its dominant position. This is mainly due to the lower production costs, and hence lower final price (Global Market Insights, 2017).

Contact lenses are lens placed directly on the surface of the eye and its segment is expected to witness steady, reaching USD 17.72 billion by 2024 (Grand View Research, 2017), due to a reduction in the use of spectacles to enhance visual appearance. Compared to spectacles they offer significant advantages, like a better peripheral vision and they do not collect the moisture from for example rain, snow or condensation, these characteristics make them perfect for sports and general outdoor activities.

Alongside those standard products, the eyewear industry also produce safety frames, used to protect the eyes during a variety of jobs, to shield the eyes form hazardous splatters or flying debris. Additionally, with the new technologies introduced in the industry, 3D glasses have been introduced, which create the illusion of three dimensions. Finally glasses can also provide magnification, that is useful for people with vision impairments or specific job, like for example bioptic telescopes used by surgeon, where glasses have a small telescope installed in the lense (Lucchetta, 2016).

2.4 The players

2.4.1 The big five

Any fashion brand nowadays has its own sunglasses line in its portfolio. The brands are in most cases not the direct producer of the glasses, but their rely on third companies to create and distribute their models, hence the companies in the eyewear industry gain the license to design and manufacture for the main fashion labels.

If we consider only the production of sun and prescription frames, and retailing, the Eyewear industry is largely driven by one single country, Italy. In the region are headquartered the four sector's leaders: Luxottica, Safilo, Marcolin, De Rigo and Marchon.

Luxottica

Luxottica Group S.p.A., was born in Belluno, in the small Agordo in 1961, by Leonardo del Vecchio. With net sales of € 9.036 million in 2016, it is the undisputed leader in the eyewear design, manufacturing and retailing (Luxottica, 2017). Among its strengths there is brands portfolio, which include many well-known label like the timeless Ray Ban, the classy Chanel or the sporty Oakley. Another important factor is its business model which is based on vertical integration, together with the internationalization which allow Luxottica to be active in all phases, from design, product development, production to distribution and post-sale assistance.

It operates in more than 150 countries, and the production is organized in six productive plants: one in Italy, another in Brazil, three in China and the last in United States, and is currently establishing a small production plant in India to serve the local market.

With regard to the distribution, Luxottica is present both in the retail and in the e-commerce segment, in particular the retail network is articulated in more than 8,000 shops around the world.

Safilo

Safilo Group S.p.A., founded in 1934 by Guglielmo Tabacchi, was the first Italian producer and distributor of frames and lenses. Nowadays, it is Luxottica main competitor, and second global eyewear manufacturer and distributor, operating in 40 countries around the world with more than 100,000 shops. It has more than 7500 employees, more than 1000 of whom are in the corporate headquarters in Padua. The company has its own brand and a series of licensed labels like Fendi, Mark Jacobs and Givenchy. The company has seven production plants around the world, of which 4 are located in Italy (Santa Maria di Sala (VE), Martignacco (UD), Longarone (BL) and Bergamo)The turnover in 2016 was € 1.255,9 million, around € 25 million lower than in 2015 (Safilo, 2017). The factors that represent Safilo's competitiveness and distinguish the company in the worldwide eyewear industry are:

- Design excellence, innovation and product quality;
- Extremely prestigious brand portfolio, with a presence in all major segments;
- Distributive platform on a worldwide scale;
- Excellent customer service and partnership model

The company is characterized by a wholesale business model which incorporates the entire value chain, from design, innovation and product creation, to global product supply and distribution, brand building and marketing, up to sales.

Marcolin

Marcolin S.p.A., is a small company, which generated less than a tenth of Luxottica's sales in 2016, around € 442 million (Marcolin, 2017). With a portfolio of 26 brands, it is well positioned in the luxury sectors, working for labels like Diesel, Roberto Cavalli and Guess. It was born in 1961 when Giovanni Marcolin founded the "Fabbrica Artigiana" in Longarone. Soon the company started to produce glasses' components, gaining success in particular in the United States' market. Nowadays the group gives work to 1750 employees and 161 retailers in more

than 120 countries. The company has been classified as the "fastest growing company" according to a Deloitte's report regarding the "Global Powers of Luxury Goods" (2017). In the period 2013-2015, Marcolin registered a CAGR of 43.1 percent.

A significant difference between Marcolin and its competitors is the choice to not operate directly in the retail sector but through partnership in the form of joint-venture, which allow to distribute worldwide without being exposed too much from a financial point of view (Crivelli, 2017).

De Rigo

De Rigo S.p.A., created by the brothers Ennio and Walter De Rigo, is a small reality, not quoted like the other. Since its foundation in 1978, it tries to spread the italian eyewear tradition worldwide, selling its products in more than 80 countries around the world. The business strategy of the group is based on a carefull management of its brands portfolio, which include some owned brands like Police, Lozza and Sting and brands licensed which are Chopard, Trussardi and Furla. The Company has grown significantly over the last years, in 2016 it generated net sales of Euro 413,6 million, with an increment of 2.6 percent from 2015 (De Rigo, 2017). With regard to the distribution, the company is similar to Safilo, it has 16 branches around the world, 5 retail divisions and more than 100 independent distributors.

Marchon Eyewear

Finally, among the main players in the eyewear industry there is also an US based company, Marchon eyewear, founded in 1983 and headquartered in New York. It can boast brands like Lacoste and Liu-jo.

Kering: a new number six

In September 2015, Kering announced that after having assessed the growth prospects of the Eyewear market and the business potential of its brands, Kering has started a strategic move aimed at building in-house eyewear expertise for its Luxury and Sport & Lifestyle brands. The eyewear market is growing double-digit in the premium high-end segment. The current size of the Kering brands is about 350 million Euros and it makes Kering among the top players in the sector. The company, is operating in 120 countries with more than 29,000 employees, is currently controlling 11 brands that are active in the Eyewear category, of which nine are managed through license agreements, those brands generate royalties of 50 million Euros. Kering had opted for a new strategic business model in order to maximize the potential of its brands, where it will fully

control the value chain, from design to product development and supply chain, and from branding and marketing to sales.

2.4.2 Components Producers

If we want to analyze the industry from a wider perspective, we should take into account also lenses and contact lenses producer, like Essilor, Fielmann and St. Shine.

Essilor

Essilor Internation S.A. is a French firm that exists since 1972. It is the result of more than 150 years of experience since it comes from the merger of Silor and Essel. This expertise is put at the service of good vision in designing, manufacturing and distributing quality lenses through an innovative business model, under the Varilux, Crizal, Essilor and Definity brands. It is the world leader in ophthalmic optics and a key player in visual health.

Fielmann

Fielmann, established in 1972, is a leader in the German market, with more than 720 subsidiaries around Europe. As a designer, manufacturer, distributor and optician, Fielmann covers the entire value chain. However the key activity is the supply of competitively priced lenses. It is continuing to expand at a sustainable pace with a focus on German speaking regions as well as the adjacent European countries.

St. Shine Optical Company Limited is an experienced contact lens manufacturer, founded in 1981 and listed in 2004. In Taiwan it is the largest supplier but during the 90s it expanded its operation also into Western European. But is Asia its main market, where it generates about 50 percent of revenues, with a strong position in Japan, the second largest contact lens market.

2.4.3 Comparison of the Italian big four

We have already said that the main companies in the eyewear sector are located in the North-East area of Italy, but their dimension are not comparable. The undisputable leader is Luxottica, while the other three, only account for a small portion of Luxottica's turnover. To have an idea of the different role of any of those firms in the market, here is presented an overview and comparison of their economic performances.

The first value we take into consideration for our comparison is the Net Sales of Luxottica Group for the Year 2017, the value rose to Euro 9,157 million (+0.77 percent from 2016), while the second company, Safilo only realized Euro 1,047 million with a decrement from 2016 of 15.5

percent at costant exchange rate, the total reduction is around Euro 194 million, and this is mainly due to the decision of Kering eyewear to revoke earlier than expected the license for some of Safilo's main brands like Gucci, Yves Saint Lauren, Bottega Veneta and Alexander McQueen. Another reason lies in the implementation of the new Order-to-Cash IT system in the Padua distribution center early in the year. That event negatively affected deliveries and , while operationally recovered from mid-year, impacted order taking and thus reduced sales and profit up to and including the fourth quarter. Things are not going better recently for Safilo, indeed in the first half of 2018 net sales fall at -4.3 percent, and the future expectations are even worse, largerly attributed to the joint venture announced between LVMH and Marcolin which means the loss of the licenses of some brands like Dior, Givenchy, Fendi and Marc Jacobs. Those brands, alone, represent more than one third of its turnover, Dior account for more than Euro 200 million. Safilo said the first half performance reflected the decline of the European sunglass sales in the second quarter and the continuing weakness of the business in North America (Moodie Davitt Report, 2018). Safilo expects business trends to improve in the second half, but said business seasonality would prevent a full recovery. At the operating level, 2017 EBITDA pre non-recurring items stood at Euro 41.1 million, with the margin at 3.9 percent of sales. This result mainly reflect the contraction recorder by the Company at gross profit level, following the effect of the change of the Gucci license into a supply agreement and the decline of net sales of the Going Forward Brand Portfolio. Safilo realized a net loss for the year 2017 of Euro 47.1 million, compared to the net profit of Euro 15.4 million of 2016. The group now expects a decline in net sales of approximately -3 percent at constant exchange rates in 2018 compared to 2017, and an adjusted EBITDA margin of between -4 and -5 percent of net sales compared to -4 percent last year.

Marcolin, on the other side has generated net revenues for Euro 469.14 million with a growth from 2016 of 5.8 percent, but it was between 2014 and 2015 that it generated an enormous increment of more than 20 percent. The reason lied behind the Viva Integration Plan, which entailed the reorganization of the distribution networks on an international scale, the review of logistic flows, the improve of the efficiency of business structures in the countries present, and consequentially to review the cost structures. Such activities ended on December 2015 with the sale of Via Canada's business to Marcolin USA Eyewear Corp. Thanks to Viva's products and markets complementing those of the Marcolin group, Viva integration has improved Marcolin's standing as a highly global eyewear company in terms of its brand portfolio products, geographic

presence and markets. The net result for the year is a loss of Euro 14.5 million, compared with a net profit of Euro 12.2 million for 2016. The difference is mainly due to non-recurring items, such as the Euro 8.5 million cost for early redemption of the previous bond notes, the Euro 7.6 million adjustment of the American affiliate's deferred tax assets to the new tax rate that will become effective in 2018, and the effect of consolidation with the equity method of the new associate, Thèlios S.p.A. From the deal with LVMH, we expect to see an increase in the company's turnover.

Finally there is De Rigo, with net sales of Euro 430.36 million, improved from 2016 of 3.9 percent. The results of the wholesale division present an increment of 7 percent, reaching Euro 254.5 million. Retail division revenues decreased 0.2 percent to Euro 189.5 million, from Euro 189.8 million in 2016, thanks to sales growth delivered by General Optica and partially offset by the contraction in De Rigo Opmar sales and the weakening of the Turkish Lira. On the financial statement of 2016 a strong influence has been played by the acquisition of REM Eyewear, among the most important eyewear distributor in the US market, which has significantly improved the distribution network of the Rigo in the American market. In the same year, it also acquired an Australian distributor, giving rise to De Rigo Australia. The EBITDA of the year decreased 31.5 percent to Euro 20.4 million, from Euro 29.8 million in 2016. This reduction is principally due to the drop in sales at like-for-like scope, with organizational costs not decreasing proportionally, in addition to lower earning on markets impacted by the weakening of local currencies and the specific difficulties affecting such economies. Moreover, some investments in some overseas branches has not delivered the return expected. The final result was a loss of Euro 10.2 million, compared with a breakeven (loss of Euro 0.3 million) in 2016.

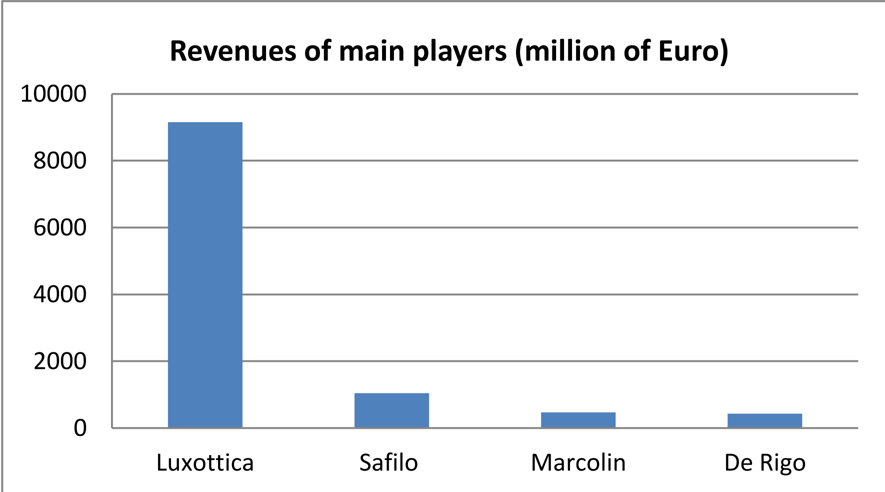


Figure 9 - Source: Company's reports

2.5 Porter’s five forces analysis of the eyewear industry

In order to understand the factors that impact on a firm’s profitability and adjust the strategy accordingly, a useful tool is the Porter’s five forces analysis. These forces are the elements that identify the industry’s and company’s possibilities under a certain competitive pressure. Based on the specific business structure and the specific characteristics of the sector, the influence of those forces changes (Martin, 2017).

In particular, the 5 aspects of the analysis are: competition, threat of new entrants, substitutability of products, bargaining power of suppliers and customers.

Competition in the eyewear industry

The main objective of companies operating in the eyewear industry is to produce and distribute sun and prescription eyewear with an high quality. This concept excludes the companies which only deal with the lenses or low end frames manufacturing. As a consequence the competition can be reduced at the only companies operating in the high end market, which design and create frames, and not only lenses. These companies are Luxottica Group S.p.A., De Rigo S.p.A., Safilo Group S.p.A. and Marcolin S.p.A..

Either one of these entities have an high capacity, which allow to create economies of scale and hence lower production costs, moreover almost all are vertically integrated. The presence of only a few real competitors, create the basis for an oligopoly market (Lucchetta, 2016). In an oligopoly, the players are able to find an agreement on prices and many other factors that significantly reduce the competiotion and increase the costs for customers. This could explain why sunglasses of luxury brands have such an high markup.

Moreover they all come from the same area in the North of Italy, hence there are the condition for the definition of an industrial cluster. That is defined by Porter (1998) as a group of interconnected companies, supplier and associated institutions.

On the other side, the size of these four companies is not the same. Luxottica is a giant compared to Marcolin, hence we can conclude that the eyewear industry is an oligopolistic market driven by a single company.

Furthermore, if we focus on the three quoted companies, for which public information are available and we try to depict the corresponding geographical percentage of total sales, we can

see how Luxottica is more concentrated on the US market. Safilo and even more Marcolin are instead focused on Europe. Hence they have partially different targets (Coppola, 2012).

Threat of new entrants

The threat of new entrants is affected by two elements: entry barriers and retaliation by incumbents. An ideal market has high entry barriers and a few competitors.

Potential competitors may be attracted by the eyewear industry, since it offers quite high margin when producing and selling sunglasses and spectacles, but on the other hand there are few big running companies, like Luxottica that enjoy scale economies, obtained through a worldwide operating industry, years of experience in this sector and a vertically integrated supply chain (Lucchetta, 2016).

Existing companies own many firms and producers, moreover they have a well branched retail network. A new company, instead, would need significant capital in order to start its own assembly line and gain the knowledge and the relationships with the suppliers. Even when an entity is able to cope with the entry barriers and prove its strength and capabilities, it would be bought by already existing giants, as soon as they perceive the menace, or it could suffer from the retaliation. For instance, when a brand enters the market with the same identity and target of one of Luxottica's brands, Luxottica may react by improving marketing activities in order to intimidate the new brand.

This market is hence quite profitable and with few competitors, but it is real tough to go through its entry barriers.

Substitutability of products

Prescription glasses can be partially substituted by optical surgery and contact lenses. However, with respect to optical surgery, even if laser method have considerably improved over the past 20 years, the hope of being able to live without glasses is not always fulfilled.

Contact lenses, on the other side are a suitable replacement. For that reason, many companies in the eyewear industry, have started to operate in this sector.

Sunglasses, instead are purchased for many reasons, they can be used as part of a sport equipment or just to follow a trend, but there is no demand for any other product different enough to be considered a substitute for glasses.

Bargaining power of suppliers

Many firms in the eyewear sector, enjoy a business model characterized by a strong vertical integration, hence the role of suppliers is marginal. Even if they need to obtain high quality raw material and components producers, those companies have a dimension and a production volume that are generally too big to give suppliers the possibility for bargaining, also considering that normally, inputs are only a small components of the whole cost. Moreover, the critical production inputs are similar, it is easy to mix and match them, and this give the possibility to the eyewear players to preserve a quite large supplier base, which help them to keep a strong bargaining power during the negotiations (Lucchetta, 2016).

Bargaining power of Buyers

Customers in this industry, have a very low bargaining power, their number in this industry is very big, and this in turn cause that no customer tend to have a significant role. The main eyewear brands are managed by few main producers, and this oligopoly situation give them the possibility to raise prices. This is true, in particular, in the B2B market, where single opticians and optical chain have to deal with four or five big players in order to hold in their store the most attractive brands.

Finally, many eyewear companies have their own retail networks, another factor that contributes to increase the prices and reduce B2B buyers' bargaining power (Lucchetta, 2016).

2.6 Eyewear Industry is changing

In the last few years the eyewear industry has been hit by important changes regarding the position and power of its major players. In particular there have been some main events which has shaped the industry over the last years: the tendency to bring back in-house eyewear distribution for the brands rather than operating through licenses, and the second is the merger of Essilor and Luxottica.

2.6.1 Kering internalization

Between Safilo and Kering there was a longstanding partnership of more than 20 year, which evolved in 2014 when Kering decided to internalize most of its Eyewear business, leveraging Safilo's unique craftsmanship capabilities in Eyewear product development, high quality Italian manufacturing and supply. Kering controls some well-known brands like Gucci, Yves Saint Laurent, Bottega Veneta and Alexander McQueen. Safilo together with Kering, anticipated the end of their Gucci license agreement by two year, in December 2016, to develop a strategic

product partnership agreement for four years until December 2020, and award to Safilo a compensation of Euro 90 million. This new partnership includes product development, manufacturing and supply, and may be renewed by mutual consent at terms to be agreed, in order to ensure a proper transition of the Gucci eyewear activities. By producing its products internally, Kering can control directly each detail, from the design to the distribution.

After three years from the creation of Kering Eyewear, the business is growing with a +32 percent in the first half of 2018. Moreover a report of Corriere del Veneto (2018) have shown that there has been a significant improvement of sales of single brands managed directly, rather than through licenses. Gucci's sales grown by 15 percent in 2017, Alexander McQueen by 100 percent and 200 percent for Bottega Veneta. In 2015, Kering Eyewear generated revenues for Euro 10 million which became Euro 74 million in 2016 and Euro 352 in 2017. Last year's net result is a profit of Euro 2.5 million compared to Euro 26 million losses in 2016. The future is expecting to be even better, with new investments and griffe, in 2019 in Padova will be inaugurated a new warehouse with more than 100 employees, while among the last brands obtained we have Montblanc and Balenciaga (both were before managed by Marcolin).

Safilo instead, in not going as well, and according to a Mediobanca Report (2017), the company is among the companies who generated the biggest losses over the last years and its rating has been downgraded fro neutral to underperform. As an answer to Kering's decision, Safilo managed to obtain the license for the brand Rebecca Minkoff. The famous America brand for the production of clothes, bags and luxury accessories have announced the new license agreement for the design, production and worldwide distribution of its eyewear collections. The agreement will last seven years, till December 2024.

2.6.2 Merger between Luxottica and Essilor

On January 16, 2017, Luxottica and Essilor announced their intention to merge in one single entity called EssilorLuxottica. This event undoubtedly changes the eyewear industry by creating not only a leading player in lenses, frames and sunglasses, but also a fully integrated company which can control and enhance the quality in every step of the supply chain. Significant synergies are expected to be created as well as cross-selling opportunities in all categories and channels.

The merger will give rise to a giant producer and distributor of glasses with more than 16 billion Euro of revenues and more than 150 thousand employees. The new Company will be co-managed by Leonardo Del Vecchio and Hubert Sagnières, and will introduce an Integration Committee

responsible for executing the synergies plan, the integration process and defining the two group’s targets.

2.6.3 The joint-venture between LVMH and Marcolin

Two weeks after the announcement of EssilorLuxottica, a second event in the sector came from Marcolin, which made official its partnership with LVMH, taking the form of a 10 percent stake in Marcolin and the creation of a design and manufacturing joint venture to manage the eyewear business for the LVMH brands. LVMG will own 51 percent of the joint venture, which has started at the beginning of 2018 with Céline and more important Louis Vuitton, and is then destined to gradually welcome the luxury group’s other brands. As part of the deal, LVMH will subscribe to a reserved 22 million Euro capital increase at Marcolin.

This event represent an important change in the eyewear industry: the tendency to bring back in-house eyewear distribution for the brands rather than operating through licenses. Kering, which owns brands like Gucci and Yves Saint Laurent, in September 2014, first moved away from the traditional licensing model, which boosts eyewear manufacturers’ sales while brand owners earn royalties. Bringing the eyewear business in-house, support profit margins with a direct presence in a steadily expanding 95 billion Euro market.

Safilo, which is the world’s second biggest eyewear maker, is the main player hit by this announcement, considering that it was LVMH’s privileged partner with five license agreements for sales around Euro 340 million, more than a quarter of its annual sales. In contrast, the scenario of a sudden halt to the partnership between LVMH and Safilo seems to be ruled out, as Safilo’s CEO conferment recently in a few interviews.

Brand	2017	2018	2019	2020	2021	2022	2023	2024	2025
Céline									
Dior									
Fendi									
Givenchy									
Marc Jacobs									

Figure 10 - Main LVMH licence expiry dates at Safilo

Source: Company data

This move is instead expected to have little impact on market leader Luxottica. It makes glasses for LVMH-owned Bulgari, but analysts estimate they account for less than 1 percent of Luxottica's 9 billion euro annual sales.

2.6.4 De Rigo new business model

De Rigo has introduced 54 new professional figures, 40 percent in the technical area, 10 percent in the administration, marketing, research and development and the remaining in the production activities. The firm is indeed experiencing a good moment, and it is looking for new possibilities of expansion. The new business model, Freedom, designed to answer in a better way to the needs of modern retail, looks at European and Asian markets, and before the end of 2018 also United States and Middle East are in the targets. Freedom was first introduced in 2016 only in European markets, and immediately gained a good feedback from clients. Its main characteristics are:

- Partnership between De Rigo and Opticians aimed at selecting the eyewear most suited to their customers needs.
- Setting up and customization of a dedicated space in stores, in which to display products appropriately.
- An automated IT system to replenish out-of-stock items in 48 hours throughout Europe.

Francesco Morelli, Freedom International Project Director said that the system seek to improve the profitability by increasing sell-out and reducing stocks and the risk of obsolescence. The strength point of this new approach is the flexibility that it offers to its client, through a partnership and a shared profitability.

Freedom is not merely concentrated on commercial aspects, but also touches on other areas of business such as Logistics and Marketing. The company has created a specific business unit to coordinate the logistic operations related to the project, to analyse and control sell-out, and to ensure observance of delivery times.

The company is also expanding its portfolio of brands, it has recently announced its agreement with Mulberry for the development, production and distribution of the spring/summer 2019's collection. A big deal for De Rigo, since Mulberry is experiencing one of its best periods in its history, always combining the passion for the design, innovation and craftsmanship. In 2017 it has renew also the collaboration with Chopard, which represent an example of how two companies can share the fundamental values: a constant quest for perfection and excellence. It

has recently opened a new branch in Australia, which follows the recent openings of branches in Germany the Middle East and the announcement of the new De Rigo REM in the US. It proves how the company is growing, not only on its national market, but worldwide, expanding its presence by new agreements and branches.

CHAPTER 3: The big deal

As we said earlier, in the last year many changes have occurred in the Eyewear industry, which change and reshape its dynamics and traditions. In this chapter we are going to deeply analyze the merger between Luxottica and Essilor, since it represent an enormous affair which create an undisputable leader by combining together the largest manufacturer and retailer in eyewear with a big lens producer. What is important in this type of operation is not the deal itself, but how it is managed afterwards, for this reason the focus will be on the post-merger integration between the two and particularly on the innovative Business Model of the combined entity.

Later, in chapter 4 we will analyze another important operation, the new joint-venture announced between Marcolin and LVMH, in order to compare it with EssilorLuxottica in particular in terms of Business Model.

3.1 Luxottica

Luxottica is the leader in the design, production and distribution of fashion, luxury and sports eyewear. It offers high quality products with a refined style and with the mission to provide eyes protection and to enhance the look of people around the world, by creating the best possible eyewear.

Created in 1961 by Leonardo Del Vecchio, over the years, Luxottica has obtained a brands gamma which includes some of the most wanted eyewear names, with a well-balanced portfolio between owned and licensed brands. The company works on maintaining and strengthening its position in the markets in which it operates, as well as on evaluating opportunities for a penetration in emerging markets.

Luxottica is vertically integrated and its manufacturing activity of sun and prescription eyewear is backed by a wide reaching wholesale organization and retail network across Europe, North America, Latin America and Asia-Pacific (Luxottica, 2018).

3.1.1 History

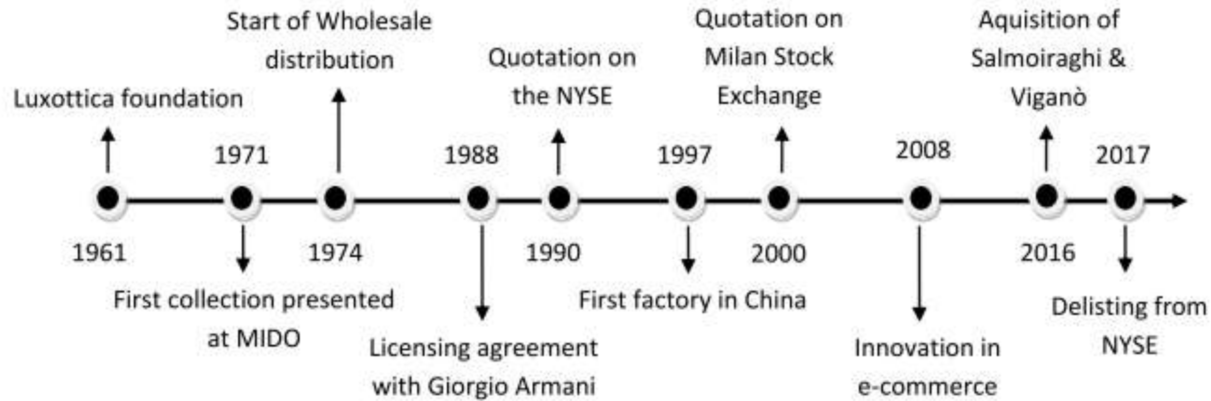


Figure 11 - Luxottica's crucial moment

In 1961, Leonardo Del Vecchio opened a small workshop which only produced eyewear components in Agordo, situated in the North of Italy. The location's choice was strongly due to the fact that at the time, the biggest eyewear companies were located in the near Belluno area. Del Vecchio was aged 26, when after having attended design and engraving classes in Milano, he founded the entity. Initially it was only a small contractor but already after few years, Del Vecchio understood the quality and potentiality of his products.

He gradually extended the range of activities performed by the firm, until, in 1971 he generated the first finished pair of glasses. In the same year it also participated at the MIDO, the international optical-industry trade fair in Milan, where the glasses gain the attention and interest for their excellent manufacture and design. To have an idea of the success of the products, their prices were increased several times in order to counter the rising number of orders.

Over the following years, the company continue to grow, selling its sunglasses through independent distributors. Del Vecchio was well aware of the importance of managing sales activities directly, in order to obtain more detailed information of the market, improve the products and improve relations with customers, for that reason the company started to pursue a strategy of vertical integration. The first step of this strategy was in 1974, with the acquisition of Scarrone S.p.A., which had marketed the company's products for 5 years, gaining an in-depth understanding of the Italian eyewear market, since it worked also for many Italian brands.

In the following years, the company started its internationalization by opening in 1981 a subsidiary in Germany, which had a strong tradition in the eyewear production. In the same year it also acquired Avant-Garde Optics Inc., one of the most important retailer at that time. Through

the acquisition of other wholesale distributors and the opening of subsidiaries, the Luxottica's vertically-integrated plan was taking shape.

Another important phase, occur in 1988 when Del Vecchio understood that glasses were not only a vision correction tool, but also a fashion accessory, it therefore immediately signed a license agreement with Giorgio Armani, a symbol of excellence and quality of the Made in Italy. This collaboration was only the beginning, it was followed by many other partnership with the most prestigious fashion houses across the world. Over the years, it has launched collection from names like Bulgari (1997), Chanel (1999), Prada (2003), Versace (2003), Dolce & Gabbana (2006), Burberry (2006), Ralph Lauren (2007), Tiffany and Co. (2008) and Coach (2012).

United States was a strategic market, for that reason in order to boost the international visibility and to obtain new expansion opportunities, in 1990 the company started to be quoted on the New York Stock Exchange, and ten years later, in 2000 its shares were listed on the Borsa Italiana Stock Exchange in Milan as well.

During the 90s it boosted the vertical integration project, through the acquisition in 1995 of The United States Shoe Corporation, which owned LensCrafter, one of the largest North America's optical chain, becoming in this way the first eyewear producer to enter directly in the retail sector. The operation allowed to have an in-depth knowledge of the market, in order to satisfy quicker and more effectively the requirements of the consumers.

In the new millennium it has continued its retail expansion project through the acquisition of some of the major optical chains, in particular OPSM group in Australia (2003), in North America Pearle Vision, Target Optical and Sears Optical (2004) and in China through the acquisition of Xueliang Optical, Ming Long Optical, Modern Sight Optics (2005), where Luxottica knows very well the market since it is operating through a joint venture in Guangdong (China), starting from 1997. 2009, was instead the turn of Latin America by the incorporation of GMO.

Over those years, the company observed a significant positive trend in the sunglasses segment. It decided then not only to invest in the brand portfolio with Oakley, in 2007, a leading sport brand which owned the Oliver Peoples and a license to manufacture eyewear under the Paul Smith name, but it also extended its retail offer by acquiring Sunglass Hut (2001), which was among the main retail chain specialized in selling sunglasses in North America and Australia. Lately, in

2005 Sunglass Hut started its expansion toward an international market, including Middle East, South Africa, India, Brazil, South-East Asia and Mexico.

The company is also socially active. In 2008 it founded the non-profit organization OneSight, which mission is to provide to people living in situation of economic, social or cultural difficulties, the possibility to access to quality eye care and eyewear. It offers help in needy areas, making disposable specialists and glasses in temporary clinics. Luxottica contribution is not merely financial, it provide specialized skills and the work of its employees who voluntarily participate to the organization activities.

But Luxottica, always looking forward, intercepted another new trend in the e-commerce, which offers unprecedented possibilities to connect with consumers, and decide to exploit this tendency, first in 2008 through the creation of a specific online platform for Sunglass Hut and Oakley, and then in 2014 by acquiring Glasses.com from WellPoint Inc., an advanced platform in the optical-digital sector, that allow consumers to try on glasses through a specific technology which capture people's face in 3D. The technology penetration in the eyewear market, went on with the collaboration in 2014 with Google and Intel. With the second, in 2016, it generated the Radar Pace, Oakley branded smart eyewear, with a real-time coaching system which help runners and cyclists to improve their performance.

In 2017 there were two significant events, the first is the acquisition of Salmoiraghi and Viganò, the first Italian optical chain with more than 400 stores and more than 150 years of story. The second is the announcement of the signing of an agreement to create an integrated player through the combination with Essilor, a French company, leader in the production of lenses and optical equipment. In the same year, Luxottica began and concluded its delisting procedures from the New York Stock Exchange, on which it was listed until June 16, 2017.

Over more than 50 years, Luxottica has demonstrated its abilities and expertise, building up a unique craftsmanship wisdom and innovation system. Moreover is always looking at new collaborations and projects, to pave the way for innovations and new category of products, unthinkable at the time the company was founded.

3.1.2 Business Model

In the previous paragraph, all the main stages for Luxottica's growth have been traced, and as it is said, at the heart of its Business Model there is the Vertical Integration, which represent one of the competitive advantages underpinning the Group's past and future successes.

The current organization, represented in Figure 6, covers the entire value chain as a result of a far-sighted choice made by Leonardo Del Vecchio, who immediately understood the importance of producing the entire frames rather than just components. This process was accompanied by the expansion of distribution, at the beginning only in the wholesale segment, and afterwards through the retail segment and e-commerce. Last step, was entering in the lenses sector, which can provide an high value added to the final product.

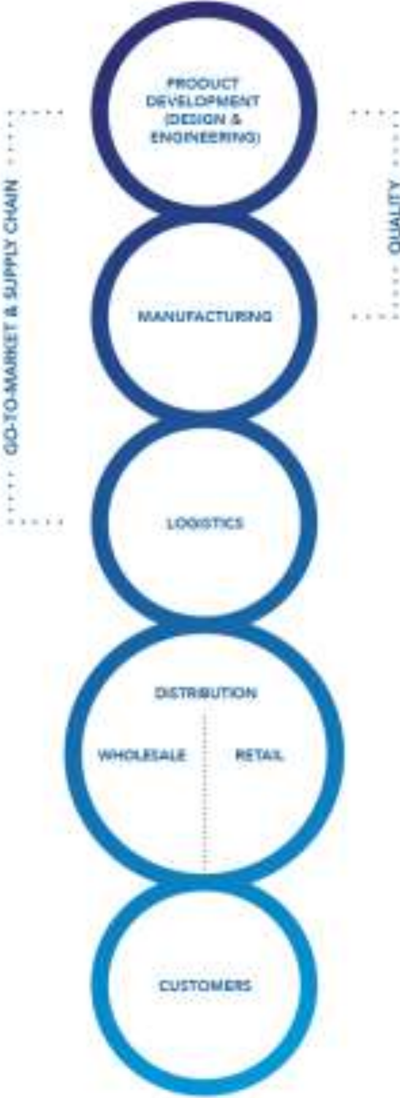


Figure 12 - Luxottica's vertical integration

Source: Luxottica's website

The main reasons of this choice can be represented from one sight by the possibility to guarantee high quality frames, since direct control of the entire production platform allows to check the quality of both products and processes, and also to identify synergies, to optimize time and costs, and a more rapid introduction of the innovations. On the other side, direct distribution, allows the Group's to deliver its products in major developed and emerging markets, achieving a good understanding of consumer requirements and tastes, both globally and locally. This possibility is considered an important strength by fashion houses that choose Luxottica to manufacture their eyewear collection.

Through the internalization of the components' production, the positive results obtained were far larger than expected, since it was easier and quicker to obtain synergies and innovation

throughout the whole process. Improving at the same time both the quality and the Company's organization. In an interview, Del Vecchio said that he understood that outsourcing has a positive aspect connected with the possibility to have regular pieces, without organizational problems and by paying a fixed price, but on the other side the contractor does not have any incentive to improve the product's quality and to search for innovation. By working from the inside, instead you are more committed to perform continuous improvement.

With regard to the internalization downstream, the main positive aspect is connected with the possibility to eliminate the uncertainty and opportunism connected to the strong differences in the interests between producer and distributor.

Design

This is the first, and among the most important points in the product development, where ideas, creative inspiration and technology converge. Each frame represent Luxottica's two core factors: the use of innovative materials, technologies and processes, and unparalleled craftsmanship. Specialized designers sketches the idea, working in an environment that stimulate originality, innovation and creativity, the concept is subsequently quickly transformed by prototype makers into one-off pieces. Designers are into a strict connection with the marketing and sales department, in order to obtain information on the demand for current models, as well as general style trends in the sector, in order to anticipate consumer needs and aspirations. Those information are then mixed with the results of the study of other sectors, like fashion, jewelry and technology. As an example, from the aerospace industry comes the special alloy that Luxottica molds and uses to create lightweight and indestructible eyewear. Those information are then mixed with the results of the study of other sectors, like fashion, jewelry and technology, for example, from the aerospace industry come the special alloy that Luxottica molds and uses to create lightweight and indestructible eyewear. The first prototype is then generated by using 3D technologies that print very unique objects, which prior the introduction of those machines was very difficult to create. During 2017, Luxottica added aroung 2,000 styles to its eyewear collections and over 1,000 patents (Luxottica, 2018).

Manufacturing

In 2017, Luxottica's production plants located among Italy, India, China, the United States and Brazil, produced a total output of around 93 million of prescription frames and sunglasses.

Italy represents the core of this production network, with six manufacturing facilities, five in the Northeast of the region (Agordo, Sedico, Pederobba, Cencenighe and Rovereto) and one located near Turin (Lauriano). These factories accounts for the 41 percent of the total output.

Over the years, the Company has assigned specific production roles and technologies to each plant, in order to improve both the productivity and quality of its manufacturing operations.

From 1997, Luxottica operated in China, in the province of Dongguan. Initially through a 50 percent owned joint venture (Tristar Optical Company Ltd.) with a Japanese partner, later in 2001 it acquired the remaining 50 percent. In 2006 the Group increased its manufacturing capacity in China through the creation of a new facility, where in 2010 it started to create plastic sun lenses to be coupled with frames produced in the same location. Those three manufacturing facilities in China, together with a small plant in India, account for another 46 percent of total production output.

In 2013, Luxottica developed a new stage of its manufacturing process, the state-of-the-art plant, dedicated mainly to decorations and details, using technique absorbed from other industries.

The Foothill Ranch facility in California, creates high-performance sunglasses, prescription frames and lenses and assembles most of Oakley's eyewear products. The Group's Campinas plant in Brazil, acquire in 2012, and the small Indian plant, serve the local markets, the first produces around 50 percent of the total eyewear sold by Luxottica in the Brazilian market, and 3 percent of the total output.

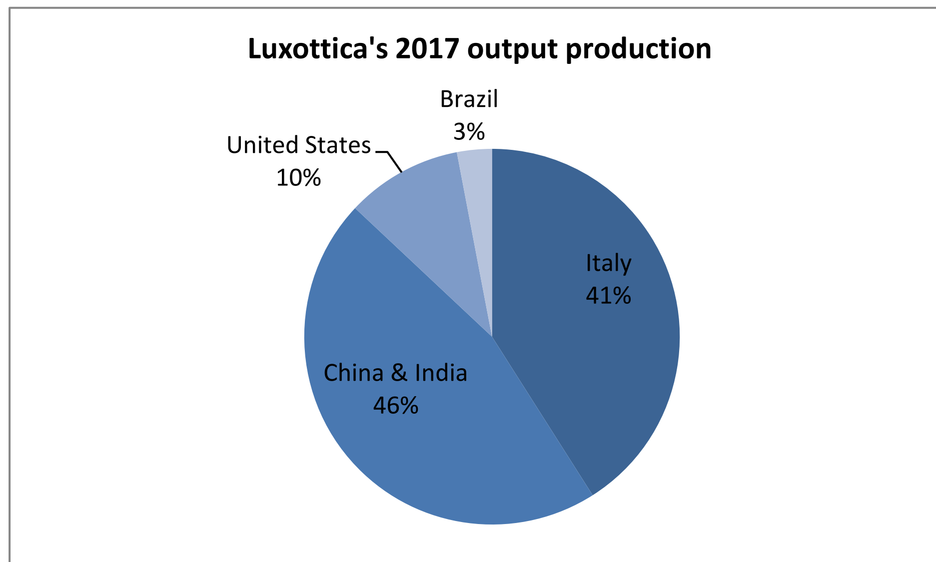


Figure 13 - Source: Luxottica's website

Luxottica is always investing in R&D to enhance quality, efficiency and productivity, progressively diversified its technologies from traditional metal and acetate slabs, to aluminum, wood, die casting, fabrics and the. Innovative LiteForce material coming from the aerospace industry, and graphene, the revolutionary material which Luxottica used first.

Logistic

Luxottica's distribution is carried out through 13 centers, and represents one of the Group's strengths with its efficiency and innovativeness. Globally integrated, it serves both the retail and wholesale businesses and links them to the production facilities. The system revolves around a centralized manufacturing platform that perform a daily monitoring of global sales and inventory levels to intercept local market demand.

The logistic is articulated into four main distribution hubs, located in strategic locations and serving the Company's major markets: Sedico (Italy) which serves Europe, the Middle East, Africa, select US markets and to the Group's distribution centers around the world, Atlanta (US) for the North America; Dongguan (China) for the Asia Pacific and Jundiai (Brazil) for the local market. They operate as centralized facilities thanks to a highly automated order management system, serving other Group distribution centers or, in some markets, shipping products directly to customers, further reducing delivery times and maintaining stock levels low.

Distribution

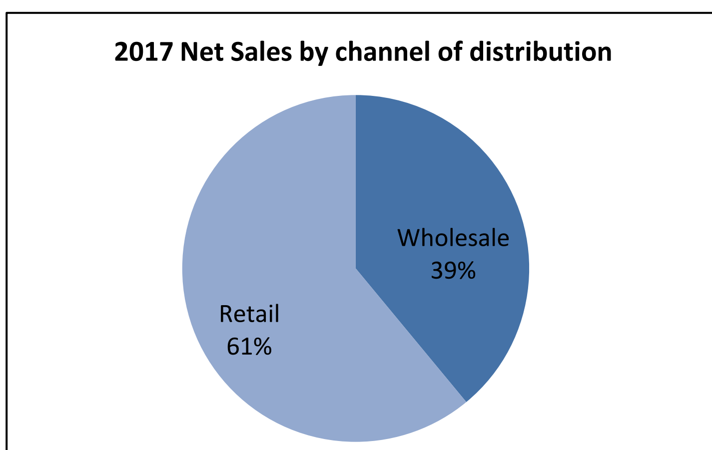


Figure 14 - Source: Luxottica's website (2018)

The distribution of Luxottica is among the strength point of the company and is articulated into two channels: wholesal and retail, which include the e-commerce sector.

The wholesale distribution includes more than 150 countries, with about 50 commercial subsidiaries in major markets an approximately 100 independent distributors in other markets. The clients of this channels are mainly retailers of mid and premium-priced eyewear. In addition of providing the models of the most famous brands, Luxottica provides to distributors some pre and post sale services to maintain a strong relationship with them, which also permit to monitor sales and the quality of the points of sale.

Key figures in thousands of Euro	Manufacturing and Wholesale	Retail	Inter-segment transactions	Consolidated
2018				
Net sales	3,504,852	2,821,645		4,552,547
Operating Income	462,152	410,523	(109,989)	762,686
% of Sales	26%	14.5%		16.8%
2017				
Net sales	1,914,516	3,017,116		1,931,632
Operating Income	532,516	448,927	(112,905)	868,538
% of Sales	27.8%	14.9%		17.6%

Figure 15 - Segments' Financial data

The Group operates into the retail segment with a strong portfolio of brands, which allow to be active in every segment of the market with a variety of products and services, from a variety of high-performance frames, to high quality lenses and advanced eye care. As of June 2017, the Firm's retail network was formed by more than 9,000 stores.

Luxottica, finally, offers the possibility of a superior online shopping experience. Oakley, Ray Ban and Sunglass Hut are sold also through their websites which complement the Firm's retail and wholesale distribution. The online platforms enhance the brand awareness and permit clients to purchase products quickly and efficiently through an unique experience. These digital places offer the possibility to virtually try-on the glasses through an advanced 3D technology, and to choose among thousands of models. Oakley.com gives the fans the possibility to personalize their pair of glasses by choosing each detail, from frame and lenses color to customized etching. The Company is still looking to improve its e-commerce presence, by entering into additional markets as the business matures. As an example, it formed strategic partnership in Asia to open "O" stores within Tmall, the world's biggest Chinese online mall. In 2014 it also purchased Glasses.com which is used as an innovation lab to improve the online experience.

In the second quarter of 2018, the Group's income grew by 1.4 percent at constant exchange rates, driven mainly by a great performance of the Retail division and e-commerce platform, and a significant growth in North America and Asia-Pacific. The net sales of the Retail segment where about 4.3 percent at constant exchange rates higher than the first quarter and store sales increased by 1.3 percent. Those increment, as a confirmation of the effectiveness of strategic initiatives aimed at improving the operating model and the ability of the Company to perform them, permitted Luxottica to conclude the first six months of the year with slightly increased sales (+0.3 percent at constant exchange rates). Sunglass Hut, maintain its positive trend, with sales up by 5.5 percent. Also China and Australia confirmed the positive trend of the retail segment.

The performance of the Wholesale division were instead not so brilliant, with net sales reduced of around 3 percent over the same period, this slowdown is mainly caused by new commercial polices introduced in Europe, and a delayed sun season. North America and Asia-Pacific, on the contrary, present strong performance following the restructuring of their distribution network.

Finally the income generated by e-commerce segment were up by 16 percent, mainly due to Ray-Ban.com, which launched some online special collection, and a new brand campaign.

Eyewear and Retail brands

Over the years, Luxottica has done and is still doing many strategic acquisitions, which allow to create on of the largest portfolio of brands in the industry and to become the leader in the eyewear market.

From the beginning, Del Vecchio understood the importance of certain names of the fashion world and the acquisitions in many cases derived from brands that are in a crisis situation, that is when the brand has its strong base and notoriety, but is suffering due to an economic or distribution crisis. Luxottica takes the opportunity and offer a takeover price lower than the true value of the firm. This is the case of one of the world's best-selling brand of sun and prescription eyewear: Ray-Ban. Initially it was run by the lenses producer Baush & Lomb and were distributed as high range prices, accessible only to most affluent people. Under Luxottica the production increased and the cost lowered, allowing the brand to become the most sold sunglass in the world.

However the Company's portfolio is well differentiated as it is divided in two categories: the house brands and the license brands.

The first group represents glasses which are owned and managed directly and totally by Luxottica Group. In 2015, proprietary brands accounted for about 69 percent of total sales of frames. The biggest two are Ray-Ban and Oakley which account respectively for 27 percent and 12 percent of the Firm's 2015 income. Other important name are Persol, Vogue and Oliver People.

Licensed brands are produced and distributed through license agreements with the most important fashion names. These arrangements are exclusive contracts with a duration between four and ten years, and may contain options for renewal. Luxottica has to pay a royalty varying from 6 to 14 percent of the net sales of the respective collection and a marketing contribution of 5 to 10 percent of sales. The most significant licensed brand is Prada, which together with Miu-Miu accounted for 4 percent of 2015 net sales. In this group are comprised 19 brands among which also Dolce & Gabbana, Tiffany and Coach.

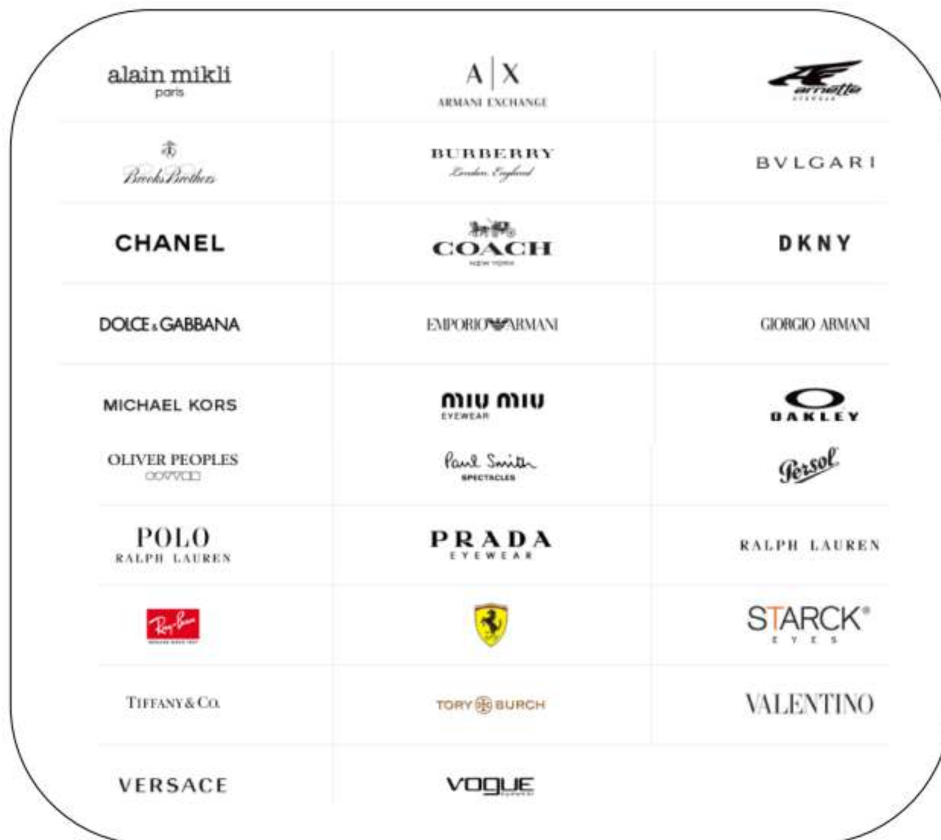


Figure 16 - Luxottica's Eyewear Brands

Source: Luxottica's website (http://www.luxottica.com/it/marchi-eyewear)

Other important acquisitions have been done in the retail stores, as we said before, one of the main competitive advantage of the Group is the extreme vertical integration which allow to control also the distribution of the items. Luxottica's optical retail operations are now anchored by leading brands like LensCrafters and Pearle Vision in North America, OPSM, Laubman & Pank between Australia and New Zealand. Sunglass Hut, have instead stores around the world, comprising Americas, Europe, Asia-Pacific which offers highly engaging in store and online experiences. In Italy the group is active since 2012, through the acquisition of Salmoiraghi & Viganò, that presents 380 corporate owned stores and 38 franchises spread throughout Italy.

Figure 17 - Luxottica's Retail Brands

Source: Luxottica's website (http://www.luxottica.com/it/marchi-retail)

3.1.3 SWOT Analysis

Strenght

- Product innovation: Luxottica over the years is maintaining its leader position by continuously offering innovative products with the use of high level of technology. Oakley brands, alone counts more than 850 patents worldwide. The Group is always intercepting new trends in the eyewear market, to address changing lifestyles and tastes of clients. In 2017 the group invested Euro 209 million in its R&D activities, which allowed the Group to develop new styles of eyewear collection, and to renew its product line on a regular basis. This helps Luxottica to differentiate its products from competitors and to broaden its customers base.
- Brands portfolio: another important characteristic of the Company is its wide portfolio of brands, known all around the world, which ranges from fashion, to luxury and to sports eyewear. This broad offer of brands has allowed Luxottica to play a strong role in setting and developing new trends, penetrating easily in new market, reaching new customers and achieve their loyalty.
- Vertical Integration: the Group has a strong vertical integration which allow to cover the entire value chain and monitor the quality of products sold. The Company has maintained a lean and agile organization which allow to manage fluctuation in the customers' demand efficiently, thanks also to the organization of the distribution, articulated in 3 main hubs, all located in strategic locations.

Weaknesses

- Luxury based: the Company is leader mainly in the luxury market, thanks to the high quality of glasses and their innovative design and features. Their characteristics and prices are adapt to developed areas, like Europe and North America, but not for new economies like Mexico, Brazil or India where the GDP per capita is low. North America is indeed the wider market, and this expose the Group to economic and political risks associated with the country, which could affect the demand.
- Currency: Luxottica is exposed to the weakening/strengthening of Euro versus other currencies, in particular USD, due to manufacturing costs incurred in Euro and revenues mostly received in USD.

Opportunities

- Acquisitions: the Group is particularly skilled in managing acquisitions. It is always searching for new possibilities to create synergies or to enter in new markets.
- Changing in habits: the increase usage of electronic devices cause an eyesight worsening and consequently needs for vision correction.
- Improve e-commerce: online shopping is gaining the preference of many customers. According to an analysis of MarketLine (2018), the global online retail market value is USD 929.8 billion in 2017 and is expected to increase at a CARG of 13.4 percent during the period 2017-2022, to reach USD 1,740.8 billion by 2022. Asia-Pacific accounted for 37.6 percent of the total global online sales, followe by US.

Threats

- Alternative prescription: the Company profitability may be affected in case people begin to prefer correction alternative to prescription eyeglasses, such as corneal implant, laser surgery or contact lenses. However eye surgery is still very expensive, hence does not represent a real alternative for eyeglasses. Moreover Luxottica does not produce contact lenses but sells them, moreover who uses contact lenses buys anyway glasses for a domestic use, and sunglasses.
- License loss: one of the main strength point of Luxottica is its wide portfolio of brands, but changing in consumer preferences or in trend could affect the value of fashion license and reduce the likelihood of favourable renegotiation.
- Intense competition: the mid and premium price categories of the prescription frame and sunglasses market is highly competitive. Moreover the demand for Luxottica’s products

could be impacted by competitive conditions, including the timely development and introduction of new competitive products.

3.2 Essilor

Essilor International S.A., is a French multinational firm which produce and sell lenses to correct or protect eyesight. Its headquarter is near Paris, precisely in Charenton-le-Pont. The company is the world's largest manufacturer of ophthalmic lenses and is currently operating in 70 countries worldwide. The activity of the group, is mainly focused on research and development, in particular the Company created the Varilux lens to correct presbyopia and collaborated at the creation of the well-known Transition technology.

3.2.1 History

The name Essilor, exists starting from 1972, but its origins go back to more than a century. In 1849, in a quarter of Paris, the Société de Lunetiers (Essel), an association of spectacle frame makers, was founded, which in 1861 obtained glass-cutting expertise with the dream to become one of the leading lens manufacturers in France. It rapidly expanded in the late 19th through the acquisition of factories in nearby neighbourhoods. Toward the end of the 19th century, the Company started to export to Europe, Middle East and North and South America. At the beginning of the First World War, the production reached 7,800,000 lenses a year, which were sold internationally.

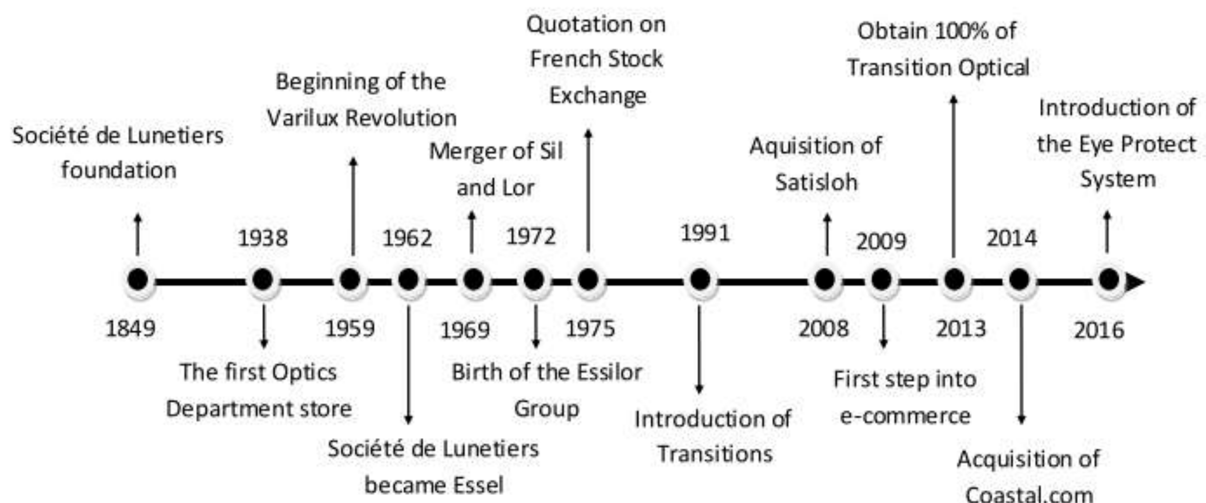


Figure 18 - Essilor's crucial moments

A big innovation was introduced in 1927, when with the Stigmal lens, for the first time, lenses combined mathematically calculated surface area and high quality glass to allow users to see clearly across the entire surface.

In 1931, the visionary entrepreneur George Lissac, established a first store of ophthalmic lenses in Paris, founding the Lissac Brothers company. Seven years later, he created a new concept of an optical department store, where customers can enjoy a free eye test. He also invested a lot in marketing, introducing modern promotions campaign.

With the beginning of the Second World War, American soldiers worn mirrored glasses with the aviator model, which demand increased significantly in the subsequent years, and to respond to this trend, the Company introduce the Amor frame.

Société des Lunetieres, was indeed a great observer of new trend and in the 1950s created a new type of glasses, with a lens held in the upper section of the frame for an elegant and ethereal look. It was in 1959, that Essel's breakthrough occurred, when Bernard Maitenaz, a young engineer who joined the Group in 1948, developed a lens with progressively stronger power that allow a more adapt correction of presbyopia: the Varilux Lens. Over the years, this technology has been improved with Varilux Ipseo that studies the area of the lens most used by the individual in their head and eye movement, which allows lenses to be more personalized to each client.

After a century from the foundation, the Société des Lunetiers changed the name into Essel. Silor, instead born from the merge of Sil and Lor, two components of the Lissac Group, after the death of George Lissac. Finally in 1972, after many years as rival, Silor merged with Essel, giving birth to Essilor Group, which at that time was the third largest ophthalmic optical company in the world. Essilor's first operation was the creation of Valoptec, a non-trading firm, formed by stock holder managers which held half of the Firm's capital stock. Two years later, Essilor equipped itself with another French network, BBGR., born from the union of Benoist-Berthiot, among the first optical lens surfacing companies dating back to 1846, and Guilbert_Toutit, specialist in glass lenses.

In the early 70s, Essilor was mainly an exporting group, with its international business accounting for 45 percent of its revenute. It had inherited Essel's presence in Japan and Silor's commercial development in the United States.

At the moment of the establishment of Essilor, one of the main objective of the management, was to be listed on the stock exchange within five years. This dream was achieved only three years afterwards, in 1975, and 40 years later, the Company's stock market performance are still exceptional, a Euro invested in 1975 in a Group's share, is around 400 Euro in 2015. Essilor is also part of the CAC40, a leading index in the French stock exchange.

Essilor has continued to pursue its international ambitions and a distribution network was rapidly built up, first in Europe and the United States and then in Asia. 1979 marks the transformation into a true international group, with the establishment of the first lens manufacturing site in Asia, precisely in Philippines. Twenty years later, SEOCL, the first Company production facility in China, produced and distributed organic lens across the growing Asian market.

The 1980s began with an intense competition, and in order to cut costs and enhance efficiency, the Group purchased four new plants in Mexico, Puerto Rico, Brazil and Thailan.

In the early 90s, the ophthalmic optics industry was reshaped by a wave of mergers and acquisitions and to maintain its position as a world leader, Essilor started to reduce its frames operations to focus more on corrective lenses. But a turning point was in 1991, when by establishing a joint-venture with the America Group PPG, the French Company created the world's first organic photochromic lens under the Transition brand, a special lens that becomes darker when the light is more intense. Another important innovation was created through the acquisition of Gentex Optics, that allowed Essilor to operate in the high-growth segment of plastic lenses, which are more light and resistant. In this context the Group introduced Airwear polycarbonate lenses.

Essilor, which until the mid 1990s had earned most of its earning in Europe, began to create a global network by establishing roots in China and India and by acquiring more independent prescription laboratories, mainly in the United States and Europe.

Another significant joint-venture was established with Nikon, at the beginning of the new millennium. The two Companies decided to combine their research and development capabilities to create new and leading-edge high index corrective lenses. But Essilor, did not stop there, its continuous search of improvements, led to the acquisition of Satisloh, a global leader in lens creation and precision optics equipments. This allowed the Group to enhance its field of activities and to offer new products and services to industrial optics manufacturers. Innovation has

continued to stimulate the Company's growth, which over the same period introduced Mr Blue, a digital edging system for opticians, Xperio a new polarized sun-wear lenses and Crizal Forte, a super resistant lens. It also started to explore the online world by acquiring the American Framesdirect.com. Following this path it also acquired Coastal.com to sell optical equipment through an e-commerce platform.

The acquisition did not stop, and in 2009 with the purchase of FGX International, North American leader in the design and distribution of non-prescription reading glasses and sunglasses, it expanded into a new and promising segment, which is growing at a pace twice as fast as that of prescription lenses. A year later it acquired StyleMark with more than 80,000 sales points, strengthening its presence in the sector.

Starting from 2007, Essilor is also socially active, through the establishment of the Essilor Vision Foundation in the US, which fights against impaired vision and its lifelong consequences. In 2013, the French Group launched the Eye Mitra program, which increased the access to vision care for underserved Indian people. So far the program helped more than 2.5 million people to see more clearly. It also created Vision for Life in 2015, in order to donate funds for visual health, to develop access to good vision for unprivileged people worldwide, who are not yet correctly equipped. In March 2018, Essilor announced it will invest a further 19 million of Euro in its philanthropic and inclusive business activities.

The Company acquired the Swiss company Satisloh in 2008, which manufacture optical laboratory equipment and two year later it obtain FGX International, the American leader in non-prescription sunglasses and reading glasses, whose brands include Foster Grand.

In 2011 50 percent of the Chinese firm Wanxin Optical was purchased, in that area the aging population and the introduction of reimbursement for eye care, drive the eyewear market.

As a confirmation of the central role of innovation for the Firm, in 2012 the Center for Innovation and Technologies was inaugurated and over the same period, the 100 percent of Transition Optical was acquired with the goal of enhancing the photochromic lens activity.

In May 2013, Essilor and Safilo found an agreement for a 10-year licensing accord, where the latter allow the use of its Polaroid brand for the creation of polarized lenses. Later, in 2015, the

Group strengthened its ties with independent eye care professionals in the United States with the acquisition of Vision Source, a network providing independent optometrists.

Then, in 2016 a major innovation was introduced: the Eye Protect System. This new technology allowed the lens to filter blue-light on completely transparent lenses.

3.2.2 Essilor's core businesses

Essilor operates in three sectors: corrective lens, equipment, readers and sunglasses. The Group estimates its position to be approximately 25 percent in volume terms across the segments combined.

Figure 19 - Revenue by business segment (in million of Euro)

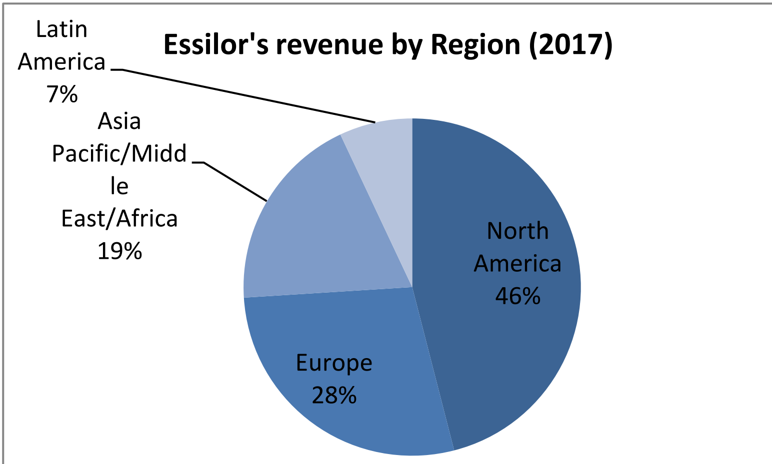


Figure 20 - Source: Essilor's website

The Company is particularly active in North America, which represents the major market with 46 percent of revenue generation, followed by Europe.

Lenses and Optical Instruments

The Lenses and Optical Instruments Division accounted for 86.7 percent of consolidated revenue in 2017, close to Euro 6.5 billion. The Company designs, develops and customizes corrective lenses to meet each person's unique vision requirements.

In addition, inside this segment, the Company create, manufacture and sell a variety of optical instruments in two areas: lens edging and mounting instruments for opticians, and vision screening instruments for eyecare professionals.

In addition, inside this segment, the Company create, manufacture and sell a variety of optical instruments in two areas: lens edging and mounting instruments

The global ophthalmic optics industry represents a total of about 1.35 billion lenses, a production worth close to Euro 12 billion. The industry is highly fragmented and served mainly by small local competitor. The major competitors are Hoya (Japan) and Carl Zeiss Vision (Germany). The segment present a long-term growth trend of 3 to 4 percent per annum, due mostly to the fast-growing economies' demand, the aging of the world's population and the development of new offering intended to meet an increasing number of visual needs.

Over the year, Essilor has created and developed many brands, each incorporating the quality and the innovation which represent the Company.

Varilux is a brand producer of the first modern progressive lenses to correct presbyopia, which allowed sharp vision at every distance, even in dimly lit conditions. They are characterized by the possibility to correct near to far vision through the same pair of glasses. The idea born after that Bernard Maitenaz, engineer working for Essel, tried on the father's glasses with a bifocal lens. The strong transtition of power seemed so unnatural to him that he consider more useful to introduce a lens that serve the far distances on the upper portion, intermediate distances in the middle and near vision in the lower part.

In 1951, Maitenaz deposited an envelope at the National Institute of Industrial Property which included some drawings and mechanical data to create the progressive lens, two years later he submitted the first patent for this innovation. After some years and many calculations, the lens

appeared to be feasible and the engineer with his team started to produce progressive lenses, testing many different techniques. Finally in 1958 a machinery able to manufacture them was developed and in January of the following year 46 people tested the product. The lens was officially launched in May of the same year. In 1959, around 6,000 lenses were sold, but only 10 years later the volume sold was more than tripled, reaching 2,000,000.

After the merger of Essel and Silor, new innovation were introduced on the technology, delivering Varilux 2, which provided increased comfort and more ease of adaptation. Over the years, many innovation have modified the lens initial design, till the introduction in 2008 of Varilux Ipseo New Edition, the first lens design and tested by using a virtual simulator.

The last version has been done in 2017 with the Varilux X series, rewarded with an innovation award in the same year.

Another important brand is Crizal, launched in 1992, which offers a complete range of high performance treatments to fits wearer's everyday life. It is estimated that a Crizal coating pair of lenses is choosen by a customers every second. The brand focus on strong innovation, continuous research and development of new optical technologies to improve and maintain people's visual clarity. The studies have led to the registration of 10 patents, which have permitted the creation of a lens which acts as a shield against elements that might impact or harm vision. In 2017 the Company launched Crizal Sapphire 360° with an advance technology that reduces reflections from any angle of light, for less distracting glare.

A significant changes in the life of glasses users was introduced with the Transition lenses, which automatically adjust to changing light conditions and create a barrier from the dangerous UV rays. This innovation have simplify the everyday life of visual impaired people. The brand Transition Optical Inc., started as a joint venture between Essilor and PPG Industries in 1990, but in 2014 the 100 percent of the brand has been acquired by Essilor. In 2018, the French company announced a partnership with Johnson & Johnson Vision to develop the light adaptive photochromic technology on contact lenses.

In 2009, the Firm introduced Xperio polarized prescription lenses, which provide a superior clarity of vision, while providing the highest level of UV protection with an SPF of 50+.

Another brand that Essilor has launched more recently, in 2015, is Eyezen. Researchers have analyzed the reading distance, which in the past was estimated at 40 cm, discovering that with the introduction of digital tools the distance is between 23 and 43 cm. They developed glasses thought for digital users which are exposed to the harmful blue light, small characters, different reading distances, which may cause headache, neck pain or eye issues.

Figure 21 - Essilor's brands

Source: Essilor’s website (https://www.essilor.com/en/brands-and-solutions/our-brands/)

Equipment

The Equipment Division represent 3 percent of consolidated revenue in 2017, equal to Euro 226 million. The world’s market for prescription laboratory equipment and consumables is valued about Euro 600 million.

Sunglasses & Readers

This segment represents the 10.2 percent of consolidated revenue in 2017, or Euro 766 million. It markets non-prescription sunglasses and reading glasses. This division is formed by many companies, each with its portfolio of known brands:

- FGX International and its subsidiaries, which sell readers and sunglasses under both proprietary and licensed brands. Owned brands include: Foster Grant, Freedom Polarised and Magnivision.
- Xiamen Yarui Optical, that design and create sunglasses in China.
- Merve, which serves the Turkish market.
- Photosynthesis Group, selling sunglasses and corrective glasses in China and Southeast asia.

By 2018, Essilor estimates to obtain Euro 1.1 billion of revenues from the Sun segment, which includes the Sunglasses and Readers division for the sunglasses business and the Lenses and Optical Instrument division for the prescription and non-prescription sun lens business.

Sunglasses industry account for 630 to 680 million pairs, which represent aroung Euro 7 billion in sales yearly. The reading glasses market counts around 330 million pairs and close to Euro 1.5 billion in sales yearly.

3.2.3 Essilor's strategy

At the heart of Essilor's strategy there is the Innovation, which embrace every aspect of the Company's life, from products and services, to business model and even the governance. Innovation as a guiding principle, differentiate significantly the way in which the Group operates commercially as well as how they achieve their objectives. The Company has been ranked by Forbes among the 100 most innovative companies in the world, for seven consecutive years. It invests more than 200 million Euros in research and development of new technologies and only in 2017 it applicated for 143 new patents.

Meeting the different visual needs is a challenge, the Company seeks to anticipate the main social trend, like population aging, the increase of middle class clients in high growth places, or new digital habits. Its innovations are in some cases related to the final product, like the Eyezen lenses, design after the confirmation that three in four people suffer from visual fatigue connected to the massive use of technological devices. In other cases, instead, innovations are connected to the equipment used for eye care services. These include connected devices that help meeting the increasing demand for personalized glasses to users' lifestyle, sport activity or physiological parameters. M'Eye, as an example, is a measuring device designed for Eye Care Professionals in search for quick and reliable solutions to take standard lens fitting parameters.

The innovation is reflected also in the inclusive business model which allow to make services available in emerging countries where people suffer from the presence of financial, cultural or geographical barriers. The “2.5 Vision New Generation” division, use innovative business models, designed to be scalable and sustainable, to allow people to get the opportunity to benefit from vision care adapted to their needs and resources. Essilor’s goal is to create 25,000 primary vision care providers by 2020. At the end of 2017, the Group has attained over 23 percent of its target.

The Company is an innovator also in the governance model, which is represented by diversity, balance and openness, reflecting the strong corporate culture. Essilor’s employees are the largest group of shareholder, holding more than 8 percent of its share capital, one in four workers is a shareholder and more than 9,000 are members of the Valoptec Association. Its Board of Directors is committed to share the value generated in its business, with a significant inclusion of stakeholders, in particular employees, in main decisions.

This involvement of employees is one of the core pillar of Essilor, a key to its sustainability. It permits an original style of governance, and promotes dialogue when it comes to decide on important Company’s aspects. The company has launched an international plan to reach 35 percent of employee shareholding by 2020, this operation initiated in 2017 across 14 countries, saw a record of subscription, with more than 50 percent of employees which are currently shareholders.

3.2.4 Swot Analysis

Strenghts

- Brands Portfolio: Over the years, the Group has developed a strong portfolio of brands, among the most important there is Varilux, the first progressive lenses to correct presbyopia and permit clear vision in the wearer’s near, intermediate and far vision.
- Strong presence: It operates in over 100 countries and in 5 continents, through 34 plants, 481 prescription laboratories, and It covers a world’s leader position in the production of ophthalmic lenses, dominating the market on every continent.
- Innovation: at the core of Essilor’s strategy there is the continuous innovation, the Company allocates more than Euro 200 billion to research every year. The Group has four research and development centers around the world.

Weaknesses

- Emerging markets: the Group has still a limited presence in developing countries.
- Currency risk: the Company's businesses expose it to risks related to the fluctuations in the foreign currencies in which sales and expenses are denominated. Essilor seeks to reduce the currency risk by focusing on natural hedges and then by hedging its residual transactional exposure through forward currency purchases and sales or currency options.
- Liquidity risk: Essilor's activity exposes the Company to the possibility that the sources of liquidity may be insufficient to cover the financial needs.

Opportunities

- Acquisition: the Company is always looking to new opportunities of Merger or Acquisition in order to generate synergies, widen its presence or improving the quality of its products. In 2017 the Group has concluded nine transactions, representing combined full-year revenue of close to Euro 87 million.
- Innovation: continue to invest in research and development of new innovation to maintain its leader position in the world's ophthalmic market.

Threats

- Innovation and customer's expectations: the Group can fail to innovate and to develop new vision correction therapies and changing customer needs, which could affect the product's demand. The Company must be able to anticipate changes in fashion and trends, which are subject to rapid changes.
- External growth: if Essilor fails in completing and integrating acquisitions to expand and complement the business, this could negatively impact future profitability and growth.
- Health care: changes in the health care reimbursements policies can adversely affect the demand for glasses.

3.3 Economic and Financial Analysis

3.3.1 Luxottica

Amounts in millions of Euro	FY 2015	Var. %	FY 2016	Var. %	FY 2017
Net Sales	8,836.58	2.82	9,085.71	0.79	9,157.29
Gross Profit	6,001.15	-1.14	5,932.443	-0.97	5,875.19
Income from Operations	1,376.45	-2.27	1,345.27	-3.32	1,300.60
Ebit margin	15.58	-----	14.81	-----	14.20
Net Income	806.87	5.63	849.93	22.07	1,040.41
Net debt/Ebitda	0.5	-----	0.6	-----	0.4
EPS (basic)	1.68	-----	1.77	-----	2.17
EPS (diluted)	1.67	-----	1.77	-----	2.17
Equity	5,417.72	6.77	5,784.38	0.38	5,806.55
ROE	14.89	-----	14.73	-----	17.92
Investments	6,559.50	8.56	7,120.74	-6.36	6,667.96
ROI	21.43	-----	19.33	-----	19.87

Table 1 - Luxottica's information of the years 2015-2017.
Source: Luxottica's website

Over the three years period 2015-2017 Luxottica shown a Revenue growth of 3.6 percent. The Income from Operations is decreased of 5.5 percent during the same period but the Net Income is significantly increased, passing from 806.9 to 1,040.4 million of Euro, showing a growth of 28.9 percent, strongly due to less taxes compared to the previous years.

The Return on Investments is declined, resulting in a 19.9 percent, while the Return on Equity is increased by 4 percentage points, from 14.9 to 17.9 percent.

2018 is expected to be another year of growth and important investments for the Group. The growth pillars remain unchanged: product quality, strong brands, efficient factories, widespread distribution and an increasingly direct relation with customers through retail and e-commerce. In the first half of 2018, Luxottica’s revenues reached Euro 4,553 million (+0.3 percent), in particular the wholesale division sales were Euro 1,731 million (-3.6 percent) with the strong growth in North America, which partially offset the European slowdown due to new commercial

policies and unseasonal weather conditions. The Retail business net sales accelerated in the second quarter and were Euro 2,822 million in the first half of the financial year (+2.8 percent). Net debt as of June 30, 2018 was around Euro 900 million, significantly reduced by 19.2 percent compared to the same period in 2017.

Figure 22 - Luxottica's shares pattern (2015-2018)

On June 16, 2017, Luxottica Group ADRs were delisted from the New York Stock Exchange (NYSE), remaining quoted only on the Borsa Italiana. The shares are part of the Ftse Mib index and shown a riskness lower than the market average (beta lower than 1), which is due to the lower correlation between revenues and economic trends, and to the geographical diversification. Over the last three years the shares shown a negative performance of -12.7 percent. On October, 2016 it registered the period's lowest level, afterwards it slowly recover its position by May 2017, but since then the pattern is uncertain and is moving into a quite narrow range. At August 28, 2018 the title is quoted Euro 57.40 and the outstanding shares are 485.15 million

3.3.2 Essilor

Amounts in millions of Euro	FY 2015	Var. %	FY 2016	Var. %	FY 2017
Net Sales	6,716	5.94	7,115	5.27	7,490
Gross Profit	4,009	4.34	4,183	3.90	4,346
Income from Operations	1,263	4.59	1,321	3.48	1,367
Ebit margin	18.81	-----	18.57	-----	18.25
Net Income	757	7.4	813	2.5	833
EPS (basic)	3.57	-----	3.79	-----	3.64
EPS (diluted)	3.50	-----	3.71	-----	3.57
Equity	5,714	23.21	7,040	7.61	6,504
ROE	13.3	-----	12.5	-----	14.18
Investments	780	-9.49	706	-52.91	334
ROI	0.9		1.24		2.76

Table 2 - Essilor's information of the years 2015-2017 .
Source: Essilor's website

Over the three years period 2015-2017, the Revenue from sales have increased of about 11.52 percent growing at a constant pace of about 5 percent. Gross margin, reached Euro 4.346 million in 2017, or 58 percent of revenue, compared with 58.8 percent in 2016. The contraction is due to two main factors: a shift in the mix of distribution channels, reflecting the growth of the online segment, where gross margin tends to be lower than the Group average, and a decline in sales of Transitions lenses to manufacturers outside the Company. Income from Operations, which measure the operating performance, shows a growth of 8.23 percent and also the Net Income has followed this path with an increment of 10.03 percent, strongly occurred during the financial year 2016. Euro 833 million, include Euro 89 million in non-controlling interests, up from Euro 67 million in 2016. This increase resulted from the consolidation of Photosynthesis Group beginning in January 1, 2017. The Return on Equity, slightly reduced in 2016, has recovered soon its path showing a 14.18 percent value in 2017. In 2017, like in previous years, the Revenue are mostly driven by lenses and optical Instrument (87 percent), with sunglasses and readers accounting for only 10 percent and optical equipment for less than 3 percent. Financial Investments amounted to Euro 334 million in 2017, compared to Euro 706 million in 2016. These investments include, the

acquisition made during the year, in particular Vision Associates and Partners in Vision in the US as well as Creasky in China, Opticas Exclusivas in Guatemale. The Company did not buy back any of its own shares in 2017.

The good performance in 2017 and the ongoing deployment of growth initiatives, enable Essilor to target, in 2018, revenue growth aroung 4 percent and a contribution from operation greater than or equal to 18.3 percent of revenue.

Figure 23 - Essilor's share pattern (2015-2018)

Essilor is quoted on the Bourse de Paris and is part of CAC40 Index. Over the last three years, the Company reached its lowest quotation on February, 2016, then, it gradually recovered its position, before another fall in October 2017 since then the Group is showing a positive pattern with occasional negative spikes. At the annual meeting of April, 2018, shareholders approved the payment of a dividend of Euro 1.53 per share, an increase of 2 percent from 2016. At August 28, 2018 the quotation is 124.55 and the number of outstanding shares are 219.15 million.

3.4 Dreams come true: Luxottica and Essilor to merge

On January 16, 2017, Italian eyewear leader Luxottica SpA and French lens-maker Essilor International SA announced their intention to merge, creating one of the largest cross-border mergers ever in Europe.

Luxottica and Essilor are the two biggest companies in the eyewear and lens sector. The first approaches started before, when Luxottica explored a tie-up with French lens maker Essilor in 2013. At that time, they renounced for many reasons, including shareholding governance issues

and significant differences in the business models of the merging company, which would have caused difficulties in the post-merger integration. But after an internal reorganization performed by Essilor, it was high time to go on with the deal interrupted years ago.

With the sign of the agreement the two companies will combine their activities to create a global and integrated player in the eyewear industry. With this combination, for the first time lenses, frames and distribution are under one single roof.

Both company's history has been characterized by a continuous search for excellence and by the constant desire to innovate, not only their products but also every aspect of their work. Once again this is a proof of their ability to look forward, beyond the normal scope of their business in order to address the evolution of the industry to the advantage of customers and consumers.

The idea is that together they will offer opticians and end consumers high quality products, with no rivals on the market. The agreement indeed should allow to speed up the implementation of their integrated model, combining all the phases of the supply chain.

Leonardo Del Vecchio and Hubert Sagnières, chairmans of Luxottica and Essilor respectively, have reassured employees that all decision were and will be taken in the common interests of the companies, with the goal to create an European champion and to keep the national roots strong. They will continue to invest in Italy and France, developing their excellence in the field of production, as well as integrating and jointly enhancing our organizations at an international level. Among the 4.5 billion people which require vision correction, only 1.9 billion use the proper corrective tools, while there are 2.5 billion people that still need vision correction. The main reason is the lack of awareness and accessibility, indeed the uncorrected people live in poor and under developed areas, 1.6 billion in Asia, 530 million in Africa and the remaining spread between Middle East and Latin America. So what Leonardo Del Vecchio and Hubert Sagnières are trying to do is to change this by offering top vision solutions with the most suitable lenses fitted in the most suitable frames and by overseeing their timely delivery to all those who need them.

3.4.1 Deal rationales

As we said before the world's biggest disability today is poor vision. So far the global eyewear market does not properly respond to all the existing issues. First of all, technologies and equipments to correct visual problem are available only to a limited number of people, secondly

there is a lack of awareness of poor vision in the world and finally the number of points of sale across the globe does not match the needs of the population, particularly in fast growing markets.

Those are the main problems which Essilor and Luxottica will try to address through their combination. In this context the deal rationales can be essentially five:

1. **Two pure players joining forces:** the companies are leader in their respective sector and share common values. Their combination can provide new solution for both the increasing unmet needs in visual health and the growing appetite for premium branded products. The combination would create a key player, operating across all segments of the industry, with superior manufacturing capabilities and a wider distribution network to better reach customers all over the world.
2. **Complementary businesses:** Luxottica Group and Essilor International would bring together complementary expertise in ophthalmic lenses, prescription frames, and sunglasses and develop comprehensive product and service offerings for consumers. Finally, two products which are naturally complementary, will be designed, manufactured and distributed from the same company. Both companies are very active in the research and development activities, with a strong obsession for innovation, both have been at the forefront of the development of the global eyewear market for decades, Essilor with regard to ophthalmic lenses, while Luxottica for sunglasses and frames. Essilor has introduced two of the three major innovation in the market, first the organic lens which has almost completely replaced the glass lenses today, and the second is the progressive lens, famous under the name of Varilux. Luxottica, on its side, first produced frames as necessary equipment, and was able to turn them into indispensable fashion accessories with a strong brand identity, all across generations. This change has created a rising demand for premium frames with a positive impact on the entire industry all around the world. Each company, has developed a strong expertise, each in its own field of activity, but at the same time they have a sound understanding of each other business model, which in turn will help to create common solutions and outstanding offerings for current and upcoming needs. Eventually the companies will benefit from each other competitive advantages across all three segments of ophthalmic lenses, sunglasses and frames. Moreover the complementary is clear also by looking at the portfolio of brands, the operation will combined some of the highest quality lenses with well-known sunglasses

and frames brands, and by selling them through a wide retail network and a well-developed e-commerce channel. An integration committee would also be created to ensure smooth and successful integration of the two companies which present limited overlap

Figure 24 - Complementarity of Essilor and Luxottica

Source: https://www.essilor.com/essilor-content/uploads/2017/01/Presentation-January-16-2017.pdf

3. **High growth potential**: the new company, will present combined sales of Euro 16 billion, and will operate in more than 150 countries worldwide, it would represent a growth platform with capital soundness and enhanced financial capabilities, ideally positioned to enjoy from future opportunities. Both companies have a global presence, which allow to seize growth opportunities and to accelerate the development in all areas, in particular with regard to fast growing market where the combined entity's presence is still below the group average. But also with respect to US market or to the global market, more generally, the room for growth is still significant. The eyewear market demand has increased over the years due to the increasing need for corrective and protective eyewear, the market is valued 95 billion Euro and according to Bloomberg (2018) is growing at between 2 and 4 percent a year. With the transaction the group will be better able to address all these growth opportunities. The group will benefit also from a sound balance sheet and strong cash flow generation, giving it the financial flexibility to invest in both external and internal growth opportunities.

4. **Synergies creation**: significant synergies may be realized from the combination since some activities will be optimized and the efficiency of the entire supply chain will be enhanced. Synergies will come in the following 3-4 years, and the first part of them will be to make sure that consumers and customers are pleased with faster service, with a much better supply chain. Estimated synergies are up to 600 million Euro in EBIT yearly, obtained in part through cross-selling. The synergies may be classified in revenue and cost synergies and will materialize within the next four years. The first category derives from an acceleration in the market growth obtained by creating new lenses and frames, increasing sun mix and sun prescription penetration. New revenue will be obtained also by improving online platforms and customer engagement. Finally the emergence of developing country will also contribute to increase the demand and hence the volume of the industry. Those synergies are estimated to reach a level between 200 and 300 million Euro per year. With regard to cost synergies, they derive from an optimization of the supply chain obtained through insourcing under the same roof many activities which before were carried out outside the group and by streamlining the network of laboratory. Finally there will be a reduction in the General and Administrative costs by eliminating redundant activities. The first cost reduction is estimated to be between 150 an d 200 million Euro per year, while the second will be around 90 million Euro per year.

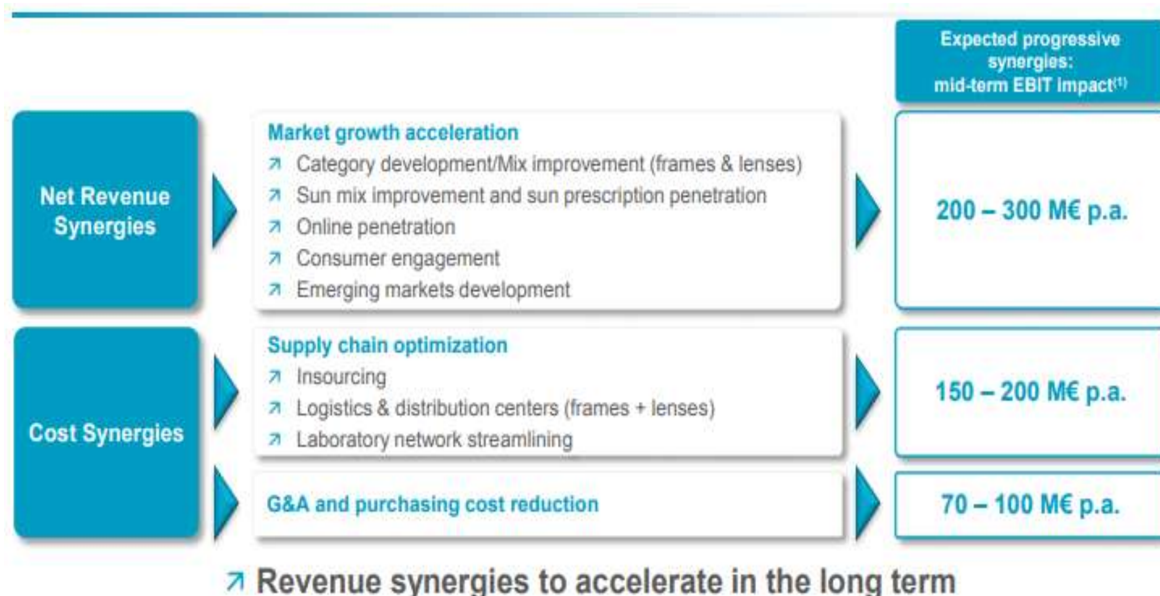


Figure 25 - main synergies determinants

Source: Essilor's website

5. **Luxottica's succession**: the deal, at least for now, remove the uncertainties over succession at Luxottica, which has changed 3 CEOs since 2014, due to rifts with Del Vecchio. Del Vecchio, 82, returned to chair Luxottica as executive president in 2014 and has since presided over an overhaul of the business he founded. Massimo Vian had been appointed CEO for products and operations within a dual-CEO structure put in place in October 2014, after Luxottica lost two bosses in six weeks. He had remained as the only CEO after co-head Adil Mehboob Khan left in January 2016. After 13 years in Luxottica Vian decided to exit and the CEO role passed to the vice-president Francesco Milleri.
6. **Accelerate online and emerging markets**: considering that in the next ten years, 3 billion people in the middle class in Asia, Africa, Latin America that will need to get better vision to improve their lives, emerging and fast growing markets need to be closely monitored. The combination want to make sure that EssilorLuxottica R&D teams, will design frames and lenses together, so they will be everywhere, in premium brands but also in accessible products and will be delivered in the best in class stores, among all the networks of physical opticians, but also online. They expect to speed up the distribution, and speed means online also. By joining together their forces, they will be able to design and deliver the product extremely fast to the consumer through all the stores of the world and all the network of online activities.

3.4.2 The combination of two profitable players

The new Company will be able to drive the market development through a focus on innovation as a key to generate value in the market, the products mix will be improved and lens quality enhanced. The acceptance of premium branded frames will be fostered and the ability to mobilize customers increased.

The new firm incorporates a better capacity to serve the industry through a leaner and faster supply chain and an enhanced consumer experience. Finally the consumer reach is going to be enhanced by leveraging existing retail footprints and online platforms.

2015 financials	ESSILOR SEEING THE WORLD BETTER	LUXOTTICA	Combined pre-synergies
Sales	€6.7bn	€9bn(1)	€15bn+
EBITDA (% margin)	€1.6bn 25%	€1.9bn 21%	c.€3.5bn
Net Debt	€2.1bn	€1.0bn	€3.1bn(2)
Net Debt / EBITDA	1.3x	0.5x	0.9x
Market capitalisation	c.€23bn	c.€24bn	c.€47bn(3)

Figure 26 - The combination of two growing players

Source: https://www.essilor.com/essilor-content/uploads/2017/01/Presentation-January-16-2017.pdf

The firm will show a very sound financial profile and enhanced financial capabilities resulting from the combination of Essilor and Luxottica and this would ideally position the future entity to fund its growth, be it organic or external.

With combined sales of more than 15 billion Euro in over 150 countries and more than 140,000 employees, the new group would represent a growth platform ideally positioned to seize future opportunities.

The major market will be still represented by North America, which in 2015 accounted for 54 percent of the combined revenue, reaching 8.4 billion Euro (3.2 from Essilor and 5.2 from Luxottica). The second market is Europe with 3.5 billion Euro, followed by Asia-Pacific, Middle East, Africa and Latin America.

Figure 27 - Source: https://www.essilor.com/essilor-content/uploads/2017/01/Transaction-Deal-Sheet-January-16-2017.pdf

The company will have all the assets, and all the strengths, to find the opportunities in the 95 billion Euro global market, which according to Confindustria is growing at around 3-4 percent, not only for one year, but for the next 20 and 30 years. This new group is in an outstanding position to propose a comprehensive offering combining a strong brand portfolio, global distribution capabilities and complementary expertise in ophthalmic lenses, prescription frames and sunglasses.

But the value created through this operation will not only benefit the firm itself, but it create outstanding value for shareholders, customers and employees.

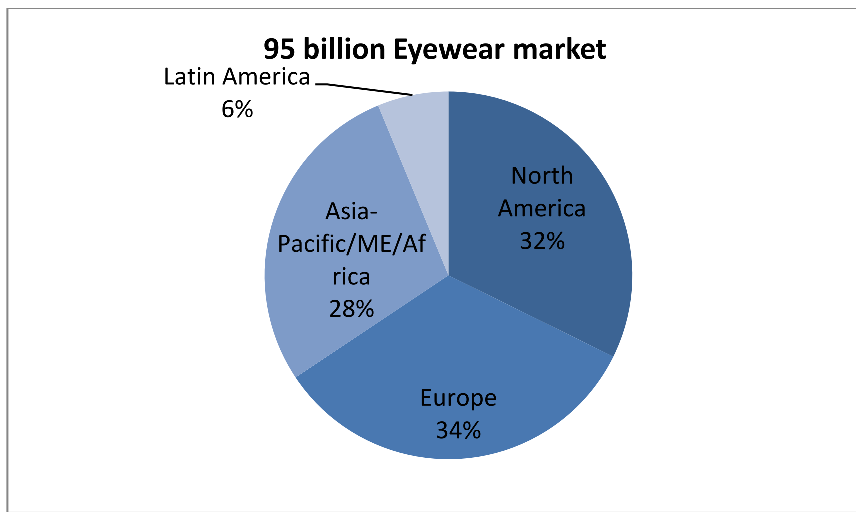


Figure 28 - eyewear market per region

Source: https://www.essilor.com/essilor-content/uploads/2017/01/Presentation-January-16-2017.pdf

For the first category a solid growth will be accompanied by operating profitability prospects through a more diversified and balanced operational profile. They will benefit also from a sound balance sheet and cash generation, and from the significant potential for synergy.

Customers will have access to a more integrated, diversified and qualitative offering, also the innovation level of the products will be enhanced, together with an increased involvement and engagement of costumers through on-line shopping and some new electronic devices.

Finally, employees interests will be always considered as a priority, with organizations sharing common values and attributes. Moreover they will benefit also by the creation of a stronger and more sound company.

3.4.3 Structure of the deal

The transaction will create a strategic combination between Essilor's and Luxottica's businesses consisting of Delfin contributing its entire stake in Luxottica, approximately 62 percent of the firm's capital, to Essilor in exchange for newly issued Essilor's shares, with the exchange ratio of 0.461 French company's shares for 1 Luxottica share. Essilor, later will acquire all of the remaining issued and outstanding Luxottica's shares, in accordance with the provision of Italian Law, pursuant to the same Exchange Ratio, with the objective of delisting Luxottica's shares.

Essilor, will hence become the new and only holding company and it will change its name into "EssilorLuxottica" through a hive-down of all of its operating activities into a wholly owned Company, called Essilor International, and the contribution by Delfin of its shares in the Italian company.

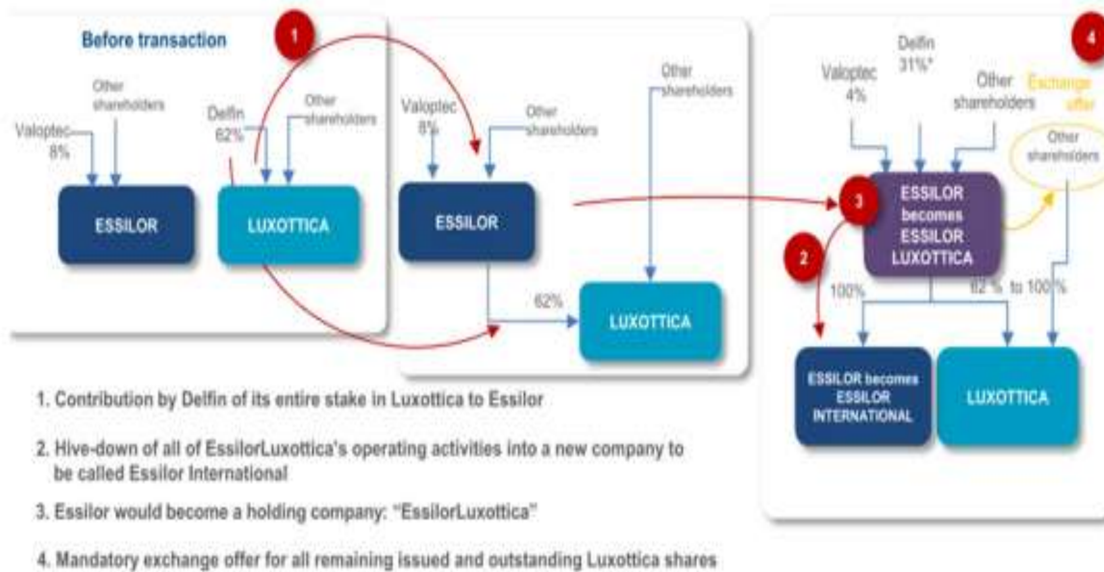


Figure 29-main stages of the operation
Source: Essilor

In the end, Delfin with an amount between 31 and 38 percent of the combined entity's shares, is the largest shareholder, with Del Vecchio holding the lion's share. The voting rights of any shareholder of EssilorLuxottica would be capped at 31 percent and the possibility of double voting right would disappear.

The deal is submitted to Essilor's Works Councils' information and consultation procedure according to French Law.

On January 15, 2017 the Essilor's Board of Directors unanimously agreed on the deal with Delfin, which it considered to be in line with the best interests of shareholders, employees and other stakeholder, and decided to initiate the information and consultation of its works councils on the basis of such proposed transactions.

On the same day, also the Board of Directors of Luxottica was hold, and as the other it unanimously approved the deal considered in the best interest of the company.

Leonardo Del Vecchio, Luxottica's Executive Chairman, would act as Executive Chairman and CEO of EssilorLuxottica, while Hubert Sagnières, Essilor's Chairman, would cover the Executive Vice-Chairman and Deputy CEO of the new Company with equal power as Del Vecchio. Both will also maintain their Executive Chairman position in their respective Company.

The new Board of Directors will be formed by sixteen members, half appointed by Essilor, including Sagnières, two employee representatives, one Valoptec representative and four independent members. The remaining half will include Del Vecchio, three Delfin representatives and four independent members. Essilor International, after completing the hive-down mentioned, and Luxottica would maintain respective Board of Directors. An integration committee will also be created to guarantee smooth and successful integration of the two companies.

EssilorLuxottica will be listen on the Euronext Paris and will be part of the CAC 40 index.

3.4.4 Leadership, governance and structure of the new entity

The new entity will see Luxottica's Executive Chairman, Leonardo Del Vecchio, as Executive Chairman and CEO of EssilorLuxottica. Essilor Chairman and CEO, Hubert Sagnières, would serve as Executive Vice-Chairman and Deputy CEO of EssilorLuxottica with the same power as Del Vecchio. Both will maintain their positions of Executive Chairman of Luxottca and Chairman and CEO of Essilor Internation respectively.

The EssilorLuxottica Board of Directors would consist of sixteen members:

- Eight members nominated by Essilor, comprising Hubert Sagnières, two employee representatives, one Valoptec representative and four independent members.
- Eight members nominated by Delfin, comprising Leonardo Del Vecchio, three Delfin representatives and four independent members.

Essilor International, after completing the hive-down, and Luxottica will maintain their respective Board of Directors, but an integration committee would be implemented to ensure smooth and successful integration of the two companies.

During a conference call Hubert Sagnières said that: "both companies share the same values, the same vision and interest into the product. Frames and lenses have to be together and in order to provide the best product to customers, Del Vecchio and I, we have to co-manage, with equal power, 140,000 people to design the best product in our plants and to deliver them to al the opticians and the optometrists for the benefit of the consumer".

3.4.5 Antitrust's approval

As global M&A activity continues to grow, so too does the merger review timeline for complex multinational deals. In the most articulated cases, the process of review can take over a year.

Companies which are considering to embark on a merger transaction must be prepared for a lengthy, and potentially costly, period of uncertainty. Pending regulatory approvals, the businesses normally cannot be integrated, creating challenges for managers while competitors seek to exploit the uncertainty by targeting key employees, customers and suppliers (Bodrug, 2018).

The main reason of these delays is that competition authorities are increasingly looking beyond the typical “horizontal” competition issue, which focuses on whether the parties are direct competitors and whether the merger will allow the new entity to raise prices in the markets in which the parties compete. They are now also more closely analyzing “vertical” mergers between a customer and a supplier, as in the case of Luxottica and Essilor. While the firms each have some retail operations, their businesses are largely complementary: Luxottica sells eyewear while Essilor makes lenses. For this reason, the focus of global competition regulators appears to have been on whether the transaction would allow the merged entity to foreclose competition in lenses or frames by tying or bundling their products together or otherwise restrict access to their products by downstream competitors.

Nevertheless the acknowledged rationales of increased and more efficient competition for vertical mergers, the Essilor-Luxottica transaction was a protracted process. The Canadian Competition Bureau only took 10 months to clear the merger, without. Publicly commenting on the extent of its review. Even if the transaction could have contributed to a detailed advocacy statement it issued calling for less restrictive regulation of prescription eyewear to enable increased competition from online retailers. The U.S. and European Union antitrust approved the transaction in more than 13 months, the U.S. government analyzed more than one million documents and interviewed more than 100 market participants, it also reviewed extensive data from 20 plus third parties. The EU’s investigation instead included market test feedback from nearly 4,000 opticians. After a long investigation, started in September 2016, the EU’s Commission have agreed that the operation will not have injurious effects on the competition. Their main concern was that the new company could use the famous Luxottica’s brands to force the opticians to buy only Essilor’s lenses.

In contrast to the Canadian, U.S. and EU authorities, the Chinese competition authority determined that Essilor and Luxottica products were essential for competitors in China. Its clearance therefore prohibits the merged firm from imposing unreasonable supply conditions on

optical retailers in China, or pricing its own products below cost. The two companies have agreed to inform the Chinese's antitrust authorities about future acquisitions and to give equal access to their products and services to all clients in the country. The green light of China was the last suspensive condition to finalize the transaction. The deal is still waiting a nod from Turkish authorities.

3.4.6 Market reaction

The market reaction on the day of the announcement (January 16, 2017) was positive, and an increment of 11.9 percent in Essilor's share price and 8.2 percent rise in Luxottica's. Both shares extended gains after Chinese competition authorities cleared their plan to merge. As of September 27, 2018, both share prices have declined from the peak reached upon the announcement, but are still higher then pre-deal levels, signaling investors confidence in the merger.

3.4.7 The beginning

On October 1st, 2018, Essilor and Luxottica have successfully completed a Euro 48 billion merger, 20 months after news of the deal first broke. This combination creates a giant player with more than Euro 16 billion of annual revenues, and about 150,000 employees.

The merger was officially completed after Luxottica's major shareholder, Delfin, authorized during its Board of Directors the transfer of its entire 62.42 percent stake in the company to Essilor on October 1st. This made Essilor the parent company of Luxottica, in exchange Delfin received nearly 140 million new ordinary EssilorLuxottica shares through a capital increase (Exchange rate 0.461 Essilor's shares for one Luxottica's.

The result is that Delfin is the main shareholder, 38.3 percent, with voting right capped at 31 percent, EssilorLuxottica employees will hold 4.9 percent and the remaining 56,9 percent will be publicly held, while the company announced it would launch a Mandatory Exchange Offer for the remaining issued and outstanding Luxottica shares, that if it will be accepted will make the free float share rise to 63.1 percent.

On October 11, the company will send to Consob the prospect about the Mandatory Exchange Offer on Luxottica's remaining shares. Consob's green light is expected within October 26, and the offer will be between October 29 and November 27. The gradual squeeze-out of Luxottica's capital could be between January 28 and March 4, 2019.

The first firm's meeting will be on November 29, and Essilor and Luxottica have agreed that, if the Board of Director will not decide otherwise, the future dividend will not be higher than the 50 percent of the consolidated net profits.

Starting from October 2, EssilorLuxottica is traded on Euronext Paris with a new ticker, from Ei to El of up to 221,019,490 new shares, but for the moment it remains also quoted on Milan Stock Exchange. Admission to listing and trading on the regulated market of Euronext in Paris has been sought for 139,703,301 new ordinary shares of the Company as consideration for the Luxottica shares contributed by Delfin to Essilor. Offer and admission to listing and trading on Euronext Paris has been sought for up to 81,316,189 new ordinary shares of the Company as consideration for up to 176,276,154 Luxottica shares (including 42,000 new shares of Luxottica to be issued in the event of timely exercise of all of the 42,000 outstanding Luxottica stock option) tendered into the mandatory public exchange offer, subject to Italian law. Also the headquarter of the new entity will be transferred to Paris, while the Board of Directors will be evenly formed by Italian and French components.

Sagnières in an interview said: "EssilorLuxottica now has the means to give this important cause a much stronger voice and is in a position to grow the entire eyecare and eyewear industry thanks to its presence in all major segments, from lenses to frames to physical and online distribution".

3.4.8 Post merger integration

M&A are undoubtedly powerful tool to achieve corporate growth, and if done well, they provide a strong basis for the firm's success and survival. An important aspect is that mergers enable the combining firms to reconfigure their business. Through addition, redeployment, recombination or divestment (Karim, Capron, 2016). Done badly, they can create decline and failure, some studies suggest that 70 percent of deals fail to achieve their objectives (Haleblian, 2009, King et al. 2004).

The acquisition or the merger are a means to obtain resources, but often there are many unneeded assets that the firms have to restructure and divest during the Post Merger Integration (PMI) phase. Those resources need to be redeployed across the firms to yield synergistic benefits.

So the PMI process is the most delicate and important part of the whole M&A operation, since it is in this phase that the firms need to combine their resources, avoiding wastes and creating synergies.

Luxottica and Essilor operate in two complementary sector, hence they need to combine rather than to divest, since the operations are different and the overlaps are reduced. Luxottica spokesman have announced that the two companies will operate separately as two independent player for what concern the production phase. Essilor, on one side will continue to be managed with the same team, with the same ambition, and on the other side, Luxottica will be administrated by Leonardo Del Vecchio with the same spirit of openness in the distribution. The expected synergies will be created from the integration of marketing and advertising, since they will not need two departments. Moreover, they expect significant savings from the administration offices combination. Of course some administrative departments will be maintained in both headquarters, but the main activities will be centralized at Essilor's offices. Another important aspect is that both companies are leader in research and development activities, of course the skills required to create new lenses' technologies are not the same for frames design, but they expect to create an integrated R&D department where information are exchanged and shared in order to deliver a final product which is excellent under every point of view. Finally the new entity will leverage the widespread distribution network to better serve clients and deliver value to all stakeholders.

In order to ensure a successful integration process between the two companies, an integration committee would be implemented to manage all the operation for a smooth combination. The committee will also go through all the agreements that along the years have been done by the two parts, in order to evaluate whether to continue them or negotiate depending on the other parties.

3.4.9 Risks of the transaction

Any merger and acquisition operation represents both an enormous opportunity to grow and create value, and at the same time a potential disaster which destroys any potential expectation. The risk connected with the combination change from one deal to another and in a recent press release (September, 2018), Hubert Sagnières has reported which are the main risks and problems connected with the EssilorLuxottica deal:

- The post merger integration (PMI) of the Essilor Group and Luxottica Group activities could fail and therefore destroy operations or incur costs. This problem is quite common in the M&A activities, since the PMI is one of the most critical phase of the entire process. The two parites need to specifically define and clarify in advance any aspect of the PMI, trying to take into account all the potential problems that will arise.

- Another issue is represented by the possibility that the combination may not lead to the achievement of some or all of the synergies expected in the medium term.
- The uncertainty associated with the proposed transaction could have a negative impact on relationships of the companies with their strategic partners, suppliers, customers and employees. Indeed a deal alter radically the way how a company used to work and this significantly impact how it deals with its main partners, in particular how the workforce will operate, how the transaction with suppliers will be carried out and so on.
- The group resulting from the combination may not be able to retain key executives and staff or put in place the proposed governance structure.
- The results of operations and financial position of EssilorLuxottica can be materially different than those presented or implied by the unaudited pro form financial information prepared during the pre-closing phase of the operation.

The main risk connected with the new shares are as follows:

- Dilution of the existing shareholders of the Company as a consequence of the issue of the New Shares.
- The volatility and liquidity of the Company’s shares may fluctuate significantly.
- Differences between French corporate law and Italian corporate law and changes to the voting rights of EssilorLuxottica shares adopted in connection with the transaction.

CHAPTER 4: Business Model changes in the Eyewear sector

4.1 Introduction

In recent years, the term Business Model has gained widespread use in the literature in various context and with different meanings. The term has been misinterpreted and misused, and it is often confused with other popular terms in the management literature such as strategy, economic model etc.(Dasilva, Trkman, 2013). No generally accepted definition of the term has emerged, but at strategic level, the model represents an architectural configuration; the focus is on internal processes and design of infrastructure that enables the company to create value and to the overall direction in the firm's market positioning, interactions across organizational boundaries, and growth opportunities (Morris et al. 2005). It have attracted increasing attention since the end of the 1990s (Osterwalder et al., 2005), in particular in relation to the transition from tradition commercial activities to e-commerce. According to Hedman and Kalling (2003), the Business Model serves two interlinked purposes: first it provide a stability for the development of a company's activities and, second it is flexible enough to allow for change.

Osterwalder et al. (2005) define a Business Model as a blueprint for how to run a business and this way can be changed during the life of a company. The process of implementing organizational changes is often fraught with difficulties (Tripsas and Gavetti, 2000) and we can distinguish four types of Business Model changes (Cavalcante et al., 2011):

1. Creation;
2. Extension;
3. Revision;
4. Termination

Each type of change involves specific challenges and difficulties.

1. Creation: it refers to the transition from "business ideas" to the implementation into a new venture. The initial idea for a Business Model resides in the mind of the entrepreneurial agent and it normally passes through several modifications before being put into practice. There are several challenges during the initial stage of a new Business Model, including the need for products to be accepted by customers and succeed in a market that is profitable enough to guarantee survival (Cavalcante et al., 2011).

2. Extension: it means adding activities or expanding existing core processes to an existing business model. A key motivational driver for extension is to explore opportunities for enlarging the existing business and to exploit associated commercial opportunities. Extension implies expanding the business without affecting existing processes within the Business Model (Cavalcante et al., 2011).
3. Revision: it involve the removal of something that modifies an existing business model and to replace it with a new process. Revision implies intervening in existing processes, which in turn implies following a different direction and exploring alternative ways of doing business. Many can be the reasons behind this decision: new commercial opportunities, ineffectiveness of the current Business Model, the competitors are developing new processes or new entrants have introduced completely new ways of meeting existing demands (Sosna et al., 2010). Revision implies that existing working practices are subject to change.
4. Termination: it refers to abandoning/removing processes. It is represented by the closing down of a business area or unit, or closing the entire company. If it involves only an area or unit, then the remaining activities of the company will continue to be developed.

Type of change	Characterization	Key challenges
Business model creation	Creation of new processes	Uncertainty and ambiguity (failure and inefficiency) Lack of knowledge and skills Lack of resources
Business model extension	Adding new processes	Controlled risk Some shortage of resources
Business model revision	Changing existing processes	Uncertainty and ambiguity Lack of knowledge and skills Path dependence, inertia Blinders, cognitive manifestations Resistance
Business model termination	Terminating existing processes	Resistance

Figure 30 - Key challenges in different Business Model changes
Source: Cavalcante et al. (2011).

Business Model's changes are sometimes necessary in order to maintain the competitivity of a firm or to get through a tough situation, but sometimes it is a decision of the management that see

some potential gains from the changes. The reasons that lies behind this decision can be very different and they change from one case to another.

In this last chapter we are going to analyze how some events that have occurred in the eyewear sector, have impacted on the business model. The model is indeed completely changed, compared to the past one and this is a phenomenon that many industries have faced, partially due to many factors among the very important is the emergence of the e-commerce.

4.2 Eyewear Industry's Business Model is changing

The Business Model describes how a company operates, both internally and externally, how it manages the relations with the various shareholders, and how it structures the job among different areas and workers in order to profitably operate the business in a specific marketplace(Morris et al. 2005). In the last few years many events have occurred in the Eyewear Industry, which have changed the way to operate, the common practices and the Business Model; among them we mention the merger between Luxottica and Essilor, which we have dealt with earlier, the internalization of Kering, with the creation of Kering Eyewear and finally the joint-venture between LVMH and Marcolin. In the next paragraphs there will be an oversight over how the Business Model of those major players have changed over the last years.

4.2.1 EssilorLuxottica

The Business Model of the Eyewear Industry has been subject to significant changes over the years, which allowed the leader players to become increasingly integrated and to monitor all the production phases, from design to distribution. Luxottica has been the forerunner of this phenomenon, which nowadays boasts a completely integrated Business Model, built over the decades and culminated with the merger with Essilor, bringing together two complementary business, one in advanced lens technologies and the other in the craftsmanship of iconic eyewear, to create a vertically-integrated business that is uniquely positioned to address the world's evolving vision needs and the global demand of a growing eyewear industry.

Luxottica's founder, Leonardo Del Vecchio, understood immediately the potential of vertical integration. In the past if we look at the Business Model of the sector's leader, we can see how it was completely different from now. The Company at the beginning of its life, produced only components and tools for firms in the Eyewear sector. Over the years it has obtained the licenses to produce for some of the most important and known brands in the world, as an example they collaborate with Giorgio Armani, Bvlgari and Chanel. Other brands, instead were acquired by the

firm, among them the famous Ray Ban or Vogue. For years they only receive the orders by the fashion houses, they produce the frames and sell them to retailer or wholesale chain.

It was only around 1980 that Del Vecchio understood the importance of selling the products directly and to start a vertical integration strategy with the acquisition of Scarrone S.p.A., a wholesale distributor with an important know-how in the Italian eyewear market. Later, in 1995, with the acquisition of LensCrafters, one of the major optical retail chains in North America, Luxottica became the first manufacturer to directly enter the optical retail business. Thanks to the choice to produce entire frames rather than just components, Luxottica can oversight the entire production process, which in turn allows to guarantee and verify the highest level of quality across its products. These advantages have been key in attracting the most prestigious fashion houses to Luxottica's portfolio.

In Chapter 3, it is already described in detail the Business Model of Luxottica, so now there will be only a report of the main points. The vertical integration start with the product development phase where the focal point is played by the design where vision, creative inspiration and technology converge. Then prototype makers transform designs into one-off pieces, crafted by hand with meticulous precision and later. At every stage of the process, Luxottica performs rigorous and accurate quality tests. Every year the Group adds around 2,000 new styles to its eyewear collections. After the ideation of the design Luxottica combines the tradition of Italian craftsmanship with the speed and efficiency of modern automation. Over the years, the Group has consolidated its manufacturing processes and allocated specific production roles and technologies to each plant. this has enabled the Company to improve both the productivity and quality of its manufacturing operations. In 2010, the Group integrated a new state-of-the-art plant, primarily dedicated to frame details and decorations. Luxottica's Campinas plant in Brazil and a small plant in India serve the local markets, the Company has created a worldwide network that allowed to reach many areas with short delivery times. The Group's distribution system, comprised 13 centers and is one of the most advanced and efficient in the industry. Globally integrated, it serves both the retail and wholesale businesses and links them to the production facilities. The system is fed by a centralized manufacturing platform that perform a daily monitoring of global sales performance and inventory levels to meet local market demand. There are four main distribution hubs in strategic location. The Italian one in Sedico serves Europe, the Middle East, Africa and some US markets, the one in Atlanta (US) for the North American market, Dongguan

(China) for the Asia Pacific region and Jundiai (Brazil) for the local market. Moreover, the Sedico hub manages services, providing direct global deliveries. The overall structures operate as centralized facilities under a highly automated order management system, which services other Group distribution centers and, in some markets, ships products directly to customers, thereby further reducing delivery times and keeping stock levels low. As we said earlier, the distribution hubs serves both wholesale and retail distribution. The first category covers more than 150 countries, with around 50 commercial subsidiaries in major markets and approximately 100 independent distributors in other markets. Luxottica does not only give wholesale customers access to some of the most popular brands and models, the Group provides them with pre and post sale services to enhance their business and maintains close contact with distributors in order to monitor sales and the quality of the points of sale. On retail distribution, Luxottica is well positioned to serve every segment of the market with a variety of differentiation points, including the latest designer and high-performance frames, innovate lens options, advanced eye care, everyday value and high-quality vision care health benefits. As of 2017, the Company's retail business consisted of around 9,000 stores. The Company also offers to consumers around the world a superior online shopping experience. Oakley, Ray-Ban and Sunglass Hut e-commerce websites serve as important sales channels that complement Luxottica's retail operations and wholesale distribution. The Group plans to bring its e-commerce strategy to additional markets as the business matures, in 2014 Glasses.com has been acquired which serve as an innovation lab focused on improving the eyewear e-commerce experience for consumers and patients and lending its capabilities to Luxottica's other retail brands.

Whit the recent merger between Luxottica and the French Essilor, the value chain is now fully-fledged complete, the new giant EssilorLuxottica, a fully integrated player, is a global leader in the design, manufacture and distribution of ophthalmic lenses, frames and sunglasses and will have the control on every production phase. For the first time in this sector, one single player can ensure the quality of the final product since it incorporates all the steps, from research and development to the design of the frames, and from the production of the lenses and frames, to the distribution both through wholesale and retail channels. The company brings together the complementary expertise of two industry pioneers. This 360 degree view of everything from design to distribution, gives the company a unique understanding of consumer trends and tastes, welcomes synergies and encourages cross-functional innovation. Luxottica, from a pure producer

of component, has developed in a complete Company where, for the first time, all the glasses' value chain is under the same name.

4.2.2 The joint Venture between LVMH and Marcolin

At the end of 2016, LVMH, a French multinational luxury goods conglomerate, announced its intention to make a serious investment in the eyewear segment through a partnership with Italian frames producer group Marcolin. Sixteen months later, the project has taken physical form, following the inauguration of an ultra-modern factory called Thelios, in Longarone, in Northern Italy's eyewear district, Belluno, where Marcolin has its headquarter. The French leader in the luxury segment, with Bernard Arnault as Chairman and CEO, will hold the 51 percent of the joint-venture, and the Italian eyewear producer, previously managed by Giovanni Zoppas, which on the other side will hold 49 percent of the total. According to Marcolin, the initial injection is around 50 million Euros, which would be made over "four to five years" and be split equally between the partners. Starting from January 25, 2018 Thelios projects, creates and distributes glasses under the brand Céline with the objective, for Marcolin, to become a privileged partner of LVMH in the eyewear sector.

This agreement, said Giovanni Zoppas, which has brought all his experience as a CEO of the joint-venture, is the result of a long analysis, started in 2015 when the two companies began to study each other, and to examine deeply the market, elaborating a strong shared project, for a sector that is increasingly challenging and continues to change. In order to guarantee the best performance, as well as continuity without conflict of interests between Marcolin and LVMH, with the conferral new position in Thélios, is no more CEO of Marcolin, of which has been nominated as vice executive chairman, maintaining some strategic delegations connected with some licenses, international affairs, human resources, and institutional communications. The role of the CEO is now taken by Massimo Renon, which has been working for Marcolin since January 2017 as commercial general manager. Hence, Marcolin group will remain autonomous, with objectives parallel to those of Thélios, continuing to work in order to enhance its brands portfolio.

Thélios represents an ultra-modern factory, a corten steel and glass structure designed by Designgroup Architetti, but at the same time it maintains its traditional craftsmanship. The joint-venture will follow all the eighty steps required to create a pair of glasses or sunglasses, from the creative brief to the 3D design, to the final realization, going through the prototype elaboration. A strategic and operative area is maintained also in Paris, in order to create between the companies

a partnership relationship and enhance the potential synergies. The production facilities will be formed by many automated machines for the production, all highly specialized. Thanks to state-of-the-art tools and machines, the factory, will reduce the production time of a pair of glasses by 30 percent. The Company objective is to reduce the entire process, for production to delivery, from 20 weeks to 16. When the 23,000 square meter plot was acquired in April 2017, there was nothing there, today there is an 8,000 square meter building, 5,600 square meters of which are set aside for production, with the rest used for offices. There is also an extra 10,000 square meters at their disposition, because if today Thélios produces glasses for Cèline, Loewe and FRED, it is not difficult to understand that soon the Company could become the LVMH's privileged partner, for all its well-known luxury brands (Louis Vuitton and Dior as an example). Obviously, they would like to expand beyond these three brands, but as Zoppas said, they. need to fine tune their machine before, especially the communication with their brands, who are free to make their choice. Marcolin will not force them to come to Thélios to produce their glasses. Currently Thélios employs 250 people with an average age under thirty. The facility's full production capacity is currently 1.5 million pairs of glasses a year, which could potentially boost to 4.5 million pieces a year in the future.

Italy is the second home of LVMH, they have 9,500 associate there, a figure which has doubled in the last five years, as well as 23 production sites, compared to five only a short time ago. In five years they have invested 600 million euros in the peninsula. LVMH has seven Italian houses in its portfolio, Emilio Pucci, Bulgari, Fendi, Loro Piana, Acqua di Parma, footwear manufacturer Rossimoda and Cova cafès, which together register 694 years of existence, and a number of the group's 70 brands also operate factories on the country. The luxury giant's eyewear operations are currently very diversified. A number of collections are manufactured through licenses with a variety of different partners, including Luxottica, which produces Bulgari's glasses, or Safilo, which holds the license for Dior, recently renewed until 2020, as well as for Fendi. Some of the most important licences are due to expire in 2020 and in the following two or three years, which is a timeframe consistent with Thélios' learning curve. As for Louis Vuitton, the brand manages its own eyewear collections internally through suppliers.

With Thélios, which takes its name from Theia, Greek goddess of sight, and Helios, god of the sun, Bernard Arnault's luxury group hopes to implement a new business model, similar to that adopted by rival Kering, which internalized all of its eyewear operations through Kering

Eyewear. The objective is to "construct and ecosystem of innovation and excellence built around expert craftsmanship, industry and new technology, while also guaranteeing the high-end distribution appropriate for the product". In this spirit, an office has also been set up in Paris to help tighten the bonds between brands.

There are fewer and fewer operations carried out through licenses, and eyewear is one of them, because it is a very complex business. LVMH did not want to take any risks in this segment, which is why they have partnered with an expert in the sector.

Giovanni Zoppas said that the challenge for the future is to keep the brand modern with no compromises on quality, and to built the best glasses with ambitions and humility, by listening to what the market requires. To train Thélios' craftsmen, the joint-venture relied on Marcolin sites, which will make disposable all the infrastructural, design and manufacturing areas of the company.

4.2.3 Kering internalization

Kering is a world leader in apparel and accessories, which has developed an ensemble of powerful brands: Gucci, Saint Laurent, Bottega Veneta, Alexander McQueen, Balenciaga, Brioni, Christopher Kane, McQ, Stella McCartney, Ulysse Nardin, Tomas Maier, Sergio Rossi, Boucheron, Dodo, Girard-Perregaux, JeanRichard, Pomellato, Qeelin, Puma, Volcom, Cobra, Electric and Tretorn, as well as Kering Eyewear. Present in more than 120 countries, the Group generated revenues of 10.816 billion in 2017 and had nearly 29,000 employees.

After assessing the growth prospects of the Eyewear market and the business potential of its brands in this category, Kering has initiated a strategic move aiming at building in-house eyewear expertise for its Luxury and Sport & Lifestyle brands. The global eyewear market for frames and sunglasses is significant and growing double-digit in the premium high-end segment.

The current size of the Kering brands' businesses is roughly 350 million euros and makes Kering one of the top five players in this industry. The 11 Company's brands that are active in the Eyewear sector, of which nine were managed through license agreements with five different partners, generated consolidated royalties of approximately 50 million Euros. In order to maximize the extraordinary potential of its brand portfolio, the Group in 2014 set a new business model through which, together with its brands, Kering fully control the Eyewear value chain, from design to product development and supply chain, and from branding and marketing to sales.

The Company's objective is to better support its brands in accelerating their development in the Eyewear category, leveraging on the unique appeal of each of them, in full alignment with each brand's strategy, positioning and potential. All brands continue to control separately their creative process under the leadership of their respective Creative Director.

The project have led to the creation of a dedicated entity specialized in luxury, high-end and sport Eyewear managed by a skilled team of experienced professionals under the direction of Roberto Vedovotto, CEO, called Kering Eyewear. Vedovotto and his team are co-shareholders of this new entity. The CEO, formed Kering Eyewear with the clear intention of challenging the established order and pushing a new business model for the industry. A report by Exane BNP Paribas called the launch an "eyewear revolution".

The business model is a significant part of an industry, it impact how the product are created and distributed by the company and it can strongly impact on the value generation.

The luxury goods industry has long licensed out its fragrance, eyewear and beauty businesses, even though these are the real money-spinners. They are also "entry products", the point where younger customers especially get their first experience of a brand and hopefully develop a taste for more.

This arrangement is counter-intuitive, particularly when it comes to eyewear. The premium fashion segment of the eyewear market is an area with massive growth potential. Licensing arrangements mean not only a loss of creative control, but also a loss of pure profit. The brands pull in huge royalty payments, but they are only a percentage of the possible return. At the time of the launch of Kering Eyewear, Vedovotto said the Kering Group's eyewear business was worth 350 million Euro, generating royalties of 50 million Euro.

However, while the luxury goods giants have been buying back licences in other categories, most have considered producing and distributing eyewear too far out of their comfort zone. "Eyewear is a very technical product" said Vedovotto, "it also has a completely distinct distribution model". Supplying thousands of independent opticians around the world is definitely not part of the luxury goods group's skill set. Through this project, Kering have put in place an innovative way of managing its Eyewear operations, which will in turn enable the Group to fully capture the sheer growth potential of its brands in this category. It has also led to significant value-creation

opportunities, notably through the implementation of both revenue and distribution synergies. The growth drivers comprise:

- Gradual full activation of the brand portfolio in both Luxury and Sport & Lifestyle.
- Best talents within both the brands and the Kering Eyewear entity for internal design, product development and sales force.
- Full control over a network of external manufacturing suppliers.
- Enhanced distribution across all channels with specific focus on Kering brands directly operated stores network.

Kering Eyewear is based around what Vedovotto calls a mixed-model. Essentially, it has taken back control of design and product development, working with the creative teams of each brand, marketing and brand management, logistics and distribution. The only link of the "value chain"that it has not internalized is manufacturing. But instead of being locked into deals with the licensed manufacturers, it is now free to deal with a whole range of specialist makers. This new model means that Kering Eyewear can create products that are fully aligned with the brands' DNA, as Vedovotto puts it. It will also look at upping quality without ramping up prices and undermining the ranges' entry product promise.

The man charged with making all this happen is Kering Eyewear's creative director Massimo Zuccarelli, formerly of Safilo like Vedovotto. He heads up a 25 strong team in Pauda which managed to put out nine eyewear collections less than a year after Kering Eyewear was launched.

These launch ranges included a debut eyewear collection for the Milan based jewellery brand Pomellatio. Since then, collection by Tomas Maier and Christopher Kane have also been added. The creative relationship with the brands varies, says Zuccarelly: "some teams come up with a very full briefing with shapes, designs, technical drawings and materials. Others present more of a vision. We do not have a rule. We have the right support for anyone". But what seems to most excite Zuccarelly, though, is the range of manufacturers, and thus finishes, materials and effects, he can now show the brands. He seems particularly excited about the Japanese makers that Kering is now working with, even if costs mean he has to use them sparingly. He said that the finishing of the Japanese makers is different because they are so obsessed with vintage, the galvanic treatment, the polishing, the raw materials they use, the acetates, all of those characteristcs really recalls vintage eyewear.

The group now works with over 30 different suppliers. But, as Vedovotto says, this is not just fancy and indulgence on their part. This wealthy of materials and finishes means they can produce ranges with distinct looks and identities.

With Pomellato, the job was to create a range that somehow built on the brand identity without doing the obvious, like simply putting jewels or stones on the glasses. They worked on the acetates to replicate the colour of the stones and the polishing and the finishing to replicate the feeling of the stones. With other brands there were different challenges. For Stella McCartney, the team worked with acetate specialists Mazzuchelli to develop a sustainable bio-acetate. And Zuccarelli is determined to use sustainable materials across all ranges within a few years. Material development is key, he says, and he is keen on using new and unique materials when economies of scale allow.

Kering Eyewear struggle at first, startup costs have been significant, and a renaissance villa, where the headquarter is, full of the right kind of talent does not come cheap. Moreover as part of this strategic move, Kering and Safilo have agreed to evolve their 20 year long partnership. They jointly terminated the Gucci license agreement two years in advance, by December 2016, whit a total compensation payment to Safilo of 90 million Euros, in three instalments between 2014 and 2018. In order to benefit from Safilo's expertise and production capabilities in high quality Italian manufacturing, the two Groups have agreed to put in place a strategic product partnership agreement for four years, started in 2017, renewable upon mutual agreement. This agreement covers the product development, manufacturing and supply of Gucci eyewear products by Safilo

What Luxottica and Safilo offered, apart from manufacturing know-how, is a huge distribution network and sales force. An Exane BNP Paribas' report on the launch of Kering Eyewear identified getting to grips with distribution as probably its biggest challenge. Vedovotto, on the other side, is convinced he can prove them wrong. Distribution will be handled by a dedicated sales team, rather than agents on commission, which is how the license holders handle it. And though the opticians, department stores and airport outlets will not be neglected, there will be more accent on Kering's directly operated boutiques.

Kering's model is not something Safilo and Luxottica will want to see prosper, especially Safilo, which is far more reliant on its license deals, but Vedovotto insists that the market is big enough to allow for happy commercial co-habitation. Nor does he see other groups and brands rushing to

follow the Kering Eyewear example, “the business model we have decided to go for is not for everyone. There are only a few groups that can potentially afford an initiative like this.”

4.3 Understanding the industry’s evolution

Understanding industry’s evolution and its implications for strategy, can provide the firm’s survival over the long run. The payoff of this comprehension is in generating strategic option ahead of the competition. Achieving and sustaining superior performance depends on prepraring the organization for forthcoming change (McGahan, 2004). In order to make smart investments in an organization, understanding how the whole industry is changing is of fundamental importance.

The need to understand changes in an industry might seem obvious, but such information are not easy to come by, companies sometimes misread clues and reach wrong conclusions. The evolution of an industry, reflects changes in the way a business is conducted, and it is driven from hundreds of sources and normally triggered by multiple drivers simultaneously. To affect the way how a business is conducted, a shift in the environment must influence at least one of the five fundamental elements, listed by Porter (1979), of industry structure, each of which has consequences for all firm in a sector: buyers’ bargaining power, suppliers’ bargaining power, competitive rivalry, threat of new entrants and threat of substitute products or service.

Shift in technology, demographics, regulations, trade barriers and political circumstances, represent some of the main drivers of change in the five forces, and Porter’s model is essential for understanding industry average profitability and it leaves open a number of important questions about where changes come from, when the changes are likely to be systemic, and how firms chan respond most effectively (McGahan, 2004). It is built on the idea that the key to achieve sustained superior performance is not in trying to isolate a particular driver of change, but rather to understand the rules of industry change in the environment. Developing a winning strategy depends on understanding the implications of change for industry structure regardless of the driver (Schacter, 2005).

In her book, “How Industries Evolve”, Anita McGahan (2004), a professor of strategy at Boston University, introduce some studies on industrial evolution, conducted with competition guru Michael Porter, to delineate the landscape of change that every company faces. “By understanding the trajectory of industry change, you can make faster decisions, avoid distractions, and ultimately improve the firm’s returns on investment”, she writes.

According to her model, industries fall into one of four evolutionary trajectories, based on what is happening to core activities and assets. Activities represent actions performed with the intention of creating or managing costs, such as purchasing, human resources management, or distribution. Asset can range from factories to intellectual property, they are defined as items with durable value that are property of the firms in the industry. Activities or assets are considere core if profitability in the industry as a whole would be materially diminished by the eradication of the asset or activity (Schachter, 2005). Core activities and core assets are threatened with obsolescence when some sort of new approach carries the potential to make them irrelevant to value creation (McGaham, 2004).

The evolutionary trajectories are: Progressive, Creative, Intermediating and Radical, each of them involves a different pattern in threats of obsolescence. When threats occur to core assets and core activities in the same period, then the industry faces a Radical change. On the contrary the absence of both threats, means that the industry changing progressively. If only core assets or core activities are under threat, then the change is respectively Creative or Intermediating, as table 3 explains.

Progressive change, is the most frequent category of Industry evolution, it is reached through incremental innovations. Creative, on the contrary, is the least common type, it occurs when relationships between the industry and its buyers are stable, but the resources necessary to survive have a rapid turnover. Intermediating change, less frequent than progressive but more common than Creative or Radical change, occurs when the relationships at the heart of the industry structure are jeopardized while old resources retain some of their value. Radical change, which is uncommon, occurs when fundamentally new approaches for creating value arises and threatens to aìmake obsolete all of the core assets and activities in the business.

Core Activities	Core Assets	Trajectory
Threatened	Threatened	**RADICAL**
Not threatened	Threatened	**CREATIVE**
Threatened	Not threatened	**INTERMEDIATING**
Not threatened	Not threatened	**PROGRESSIVE**

Table 3 - Trajectories of Industry Evolution.
Source: McGahan (2004).

The most important criteria for identifying the trajectory of change in a particular industry involve assessing different levels of threat from new technology, globalization, buyer tastes, and other factors. Where threat exist, they motivate change by exerting pressure on existing elements of the industry's revenue and costs. Innovation in an industry is vital to profitably under all trajectories of change, and innovation is vital to survival when treats are broad and intense. Moreover, a firm's program of innovation, which means its plans for investing in the business, becomes more productive if it takes advantage of the opportunity that arise as obsolescence occurs.

Progressive change

Progressive change, as we said, is the most typical of the types of industry change. On this trajectory, both core activities and core assets are stable, and firms within the industry tend to build on their established capabilities over time, rather than abandon old ways of doing things to embrace new methods. Under this category, the innovations are small, and do not rock the core positions in the firms (Schachter, 2005).

According to McGahan (2004), in progressive evolutionary paths, innovation typically revolves around constant feedback from buyers and suppliers. Growth usually involves geographic and product-line extensions by firms that seek to dominate the competition in their local areas. Companies do not need to invest large amounts of capital at risk before understanding if an innovation has staying power, nor there are threats of obsolescence to core activities or core assets. Two fundamental capabilities are able to impact the performance in a progressive evolutionary path: the development of a highly efficient set of interlocking activities and the ability to respond quickly to feedback from buyers and suppliers.

Progressive changes, normally occurs through a long industry life cycle that spans many decades. Usually it ends when the industry is thrown into architectural change by a threat to core activities.

Core activities and core assets must be robust, as we said, they do not face the obsolescence, hence the relationships with suppliers and buyers are relatively stable. Activities evolve in an incremental way which ensure that the core of the industry's approach is not impacted. When an incremental change occur, its value is quickly tested thanks to constant feedbacks from buyers and suppliers. Finally the value created for the change is shared, so that buyers, the industry and suppliers can benefits. The roboustness of assets permits the firm in an industry to plan its investments carefully, without a race with competitors to make their commitments first. As a result, the terms of competitions tend to change in ways that are predictable.

Progressive industries do not deliver either very high or very low profitability. Over the long run, however, the leading firms in Progressive industries often generate high long-term returns on investment, once the fact that the initial investments are not very risky is taken into account. Investments are relatively inexpensive to reverse if they prove ineffective, investors can recoup their investments even when experiments fail.

Creative change

Under creative evolution, core assets in the industry are threatened with obsolescence but core activities continue, hence the relationships with buyers and suppliers remain stable. Threats to core assets do not come directly from buyers or suppliers, but rather from competitors or new entrants. This path is the least common form of industry evolution (Schachter, 2005).

Profitability tends to depend on two types of innovation in industries following a creative path: first, organization must innovate in modules to generate a series of commercially viable projects, each commercialized project reflects the development of unique new assets owned by the company. Second, companies tend to cultifate core activities that allow them to commercialize new projects successfully. These activities normally involve developing key relationships with consumers, merchandisers, distributors, and vendors.

This in turn imply that the success of an industry on a Creative evolutionary path, depends on several primary capabilities: project management skills, that allow a firm to develop a new asset efficiently, risk assessment capabilities for managing across a portfolio of projects, and the development of a network of complementary upstream and downstream relationships for commercializing a new product efficiently (McGahan, 2004).

According to McGahan (2004), core activities are crucial to the stability of industries on a Creative evolutionary path because core assets are threatened. It is exactly the stability of the industry's core activities that holds the industry's leader in place, for this reason firms tend to expand and develop core activities over time. Core assets, on the other side, need to be renewed in firms that seek superior performance. Industry's leaders maintain a complementary system of core activities, hence they have the greatest incentive to create new core assets that can form the basis of newly commercialized products and services. Considering the risk of each new core asset, the industry's leader normally develop systems where projects are modularized.

Industries on a Creative evolutionary path, generate in general better profitability than industries on the other trajectories. However, those profits are tied to risks. While leaders and some breakthrough entrants achieve outstanding performance, the majority of firms may struggle financially.

Intermediating change

Intermediating industry evolution occurs when a new approach threatens and industry's core activities and thereby jeopardizes the firm's relationships with buyers and with long-time suppliers. However the core assets are not threatened with obsolescence, although their value depends on new buyer and supplier relationships (Schachter, 2005). Under intermediation, the threat of obsolescence commonly originates with some sort of change in information flow that causes buyers and suppliers to become disenchanted with old ways of doing business. Core assets, on the other side, retain their ability to create value in the industry, but they must be reconfigured to support new kind of transactions that involve different activities. However, over the short term they deliver their greatest value in traditional use.

Under Intermediating change, performance depends on reconfiguring activities to create value in unprecedented ways, companies need to be able to unbundle old assets, to unwind established relationships without alienating buyers and suppliers unnecessarily, and to redeploy old assets in new ways, all whil building new buyer and supplier relationship (McGahan, 2004).

The results of industries undergoing intermediation is typically volatile and deteriorates over time. Leading firms might initially dominate the business but the threat form reconfigured competitors eventually becomes significant.

Radical change

Under radical change, a new approach threatens both the core activities and core assets in an industry, and is usually motivated by a massive technological or regulatory breakthrough. Buyer preferences change completely, supplier capabilities become obsolete, and old scale economies become fixed commitments that lock firms into outdated ways of doing business. As a result, the relationships between established companies, their buyers, and their suppliers are restructured. Shift in the distribution of value lead buyers and suppliers to reevaluate their incentives to continue to invest in dealing with the industry (McGahan, 2004). Core assets are threatened with obsolescence, which creates instability in the terms of competition. Firms within the industry are constantly confronted with questions about whether to recreate core assets to remain competitive or whether to scale back their commitment to the business. The critical challenge is, once the firm recognizes what is happening, to avoid deepening the firm's commitment to the old business. In an industry undergoing Radical change, performance ultimately depends on the ability to avoid redoubling investment in the business while continuing to extract value out of established assets and activities.

Under Radical change, buyers and suppliers to the industry become less inclined to continue dealing in traditional ways.

The profitability of industries facing radical change is often high until the transformation become advanced. Initially, the leading firms within the industry usually fend off the threat of obsolescence temporarily. As the threat become significant, consolidation begins to occur but surviving firms can often keep their profitability high by avoiding too much investment in the business.

4.3.1 Eyewear industry's evolution

Every industry follows just one single model of evolution, the changes that occur shape the industry toward the creation of a dominant model that exists when the leading firms in a sector organize their activities similarly because a single basic approach emerges as particularly efficient and effective and gains greater legitimacy than the alternatives (McGahan, 2004).

The Eyewear industry, over the years have followed the path of progressive evolution, a slow process characterized by many incremental changes. The core assets and core activities were not threatened with obsolescence, and the leading firms managed to maintain stable relationships with their respective buyers and sellers. The fact that buyers and sellers are largely satisfied, allows the industry to innovate by building on established activities. When an effort to innovate

fails, the results are not devastating, in fact companies quickly learn about the failure using feedback from buyers and from suppliers and can retrench without more than a temporary hit to performance.

This slow progresses have resulted in the creation of a dominant model in the industry, characterized by a strong vertical integration, where all the phases of the productive process are under the control of a single company or few companies. This model, has indeed been adopted first by the industry's leader, Luxottica, and subsequently to a series of other companies.

The initial model was very fragmented through a number of different suppliers and companies for each production phase and according to Fine (1998),it moved toward vertical integration because when an industry has a horizontal structure a set of forces push toward more vertical integration. Those forces are:

1. technical advances in one subsystem can make that the scarce commodity in the chain, giving market power to its owner.
2. Market power in one subsystem encourages bundling with other subsystems to increase control and add more value.
3. Market power in one subsystem encourages engineering integration with other subsystems to develop proprietary integral solutions.

On the other side the model of Fine (1998), called Double Helix, does not stop here, cause when an industry structure is vertical, the forces of disintegration push toward a horizontal configuration. These force include:

1. The relentless entry of niche competitors hoping to pick off discrete industry segments.
2. The challenge of keeping ahead of the competition across the many dimensions of technology and markets required by an integral system.
3. The bureaucratic and organizational rigidities that often settle upon large, established companies.

In the Eyewear industry, hence, the progressive change might not have reached the end with the vertical model. The evolution might follow the double helix and shift slowly again toward an horizontal configuration.

Summary and Conclusions

This thesis aims at analyzing the different ways for firms to create value, which according to Conca (2010) can be classified in internal and external operations. The first category implies that firms rely on their resources in order to expand their businesses, for example through the creation of an innovative product (Chari, 2017). External growth regards instead the use of resources and capabilities obtained through different kind of combinations.

This second alternative includes different operations: takeover, acquisition, joint-venture and strategic alliances (Bruner, 2004). Mergers and acquisitions are considered the most category among the value creation activities, since they can increase a company's growth by extending the available resources, creating new products and giving access to innovative and promising technologies (Larsson, Finkelestein, 1999).

Any M&A activity occurs for different reasons, hence one single theory is not enough to explain the determinants for M&A, however among the most important models, stand out the Synergy theory based on the idea that two entities pool their resources in a way that increases the aggregate value (Sudarsanam, 2010) However, defining the value creation is not a simple task, since mergers have an impact on a range of stakeholders, including managers, shareholders, employees, investors. According to Lazonick and O'Sullivan (2000), the corporations should primarily be run in the interest of shareholders, and managers decisions should be taken to enhance shareholders wealth. Several studies have tried to analyze if mergers in general create value, Gugler et al. (2003) concluded that mergers generate significant profit increases for the combined company, in particular the projected profits are above actual profits in the first 5 years after the deal. However on single and definitive conclusion is not possible, since other studies have found different results, for example Ravenscraft and Scherer (1989), which concluded that there is a decline in the profitability of acquired firms, that can be due to the loss of control and the more complex organization.

The outcome of any M&A operation depend from many factors. Many empirical studies have tried to define what determine the performance and success of such transactions, but the results were heterogeneous. In particular, according to Braggion et al. (2012), the acquirer's gain is higher the lower the target's ROE. Moreover the business relatedness, in products, markets or technologies, based on the research of Singh and Montgomery (1987), is positively related to higher gains, since it creates economies of scale, economies of scope and market power. However

an Harvard Business Review report of 2016 states that the failure rate for mergers and acquisitions sits between 70 and 90 percent.

Mergers and Acquisitions are articulated in different stages which Conca (2010) classifies as: analysis and strategic evaluation, deal structuring and negotiation and finally the post merger integration. The latter, according to Whitaker (2013), is the most important phase. Integration is not just a matter of establishing a new management and organization, merging firms have to redefine their activities by adding, redeploying, recombining or divesting assets with the aim of adapting the resource base to the new context (Karim, Capron, 2016). Haspeslagh and Jemison (1991) defined the post merger integration as "the process of creating value with a new bundle of resources that is obtained when two organizations merge, while balancing the economic benefits and organizational costs involved". In particular, companies must establish the extent to which the capabilities of the two entities are merged together within the same structure or maintained separate within the boundaries of the firms. Haspeslagh and Jemison (1991) defined an "integration matrix" with four possibilities for different degrees of autonomy or interdependence: preservation, absorption, symbiosis and holding. Many studies show that the possibility for mergers to fail is larger during the integration process, in particular in a research of Sudarsanam (2010) the 80 percent of managers interviewed sustain that unsuccessful acquisitions are due to a lack of an accurate integration plan.

In the Eyewear Industry, mergers and acquisitions have been of fundamental importance, in particular for companies in the sector to obtain the possibilities to work for many famous brands. But their importance has increased in the last few years since the eyewear sector is a dynamic and prosperous segment. It is valued approximately USD 117.02 billion in 2017 and is expected to reach around USD 192.32 billion by the end of 2023 (Zion Market Research). This growth is due to many factors, among which the most important are the increased possibility for people to afford vision correction, as well as a favourable demographic. Europe, specifically Italy, is the main Eyewear Industry player in terms of revenue share, and it is the base of the most important companies of the sector: Luxottica, Safilo, Marcolin, De Rigo and Kering Eyewear.

Luxottica, in particular, is the undisputable leader, characterized by its business model strongly vertically integrated. Together with Essilor, leader in lenses production, they have been the protagonist of the most important combination in the sector.

EssilorLuxottica, a fully integrated player, is a global leader in the design, manufacture and distribution of ophthalmic lenses, frames and sunglasses. The company brings together the complementary expertise of two industry pioneers, one in advanced lens technologies and the other in the craftsmanship of iconic eyewear, to create a vertically-integrated business, uniquely positioned to address the world's evolving vision needs and the global demand of a growing eyewear industry. The company is expected to generate over Euro 16 billion of Revenue with more than 150,000 employees. EssilorLuxottica has a combined two centuries of innovation and human endeavor behind it, it is the culmination of two very complementary and inspiring business stories, equally rich in their successes. The combination would create a key player, operating across all segments of the industry, with superior manufacturing capabilities and a wider distribution network to better reach customers all over the world.

The EssilorLuxottica creation, is an example of a real successful combination, accurately analyzed in the pre-merger phase, during the negotiation and in particular in the post-merger integration. The two businesses are complementary, hence the overlaps in the processes, specifically in the production phase, are very few. They need to combine, rather than to divest.

For the first time in the history of the sector, all phases are united under the same roof, from R&D for lenses technologies to distribution of frames. This represents the strength of EssilorLuxottica, since it permits a major control over the whole value chain, delivering a better final product, which in turn attract more important brands, moreover it increases the spread of information and knowledges from. Different but complementary departments, it improves the stability and the possibility to meet the increasing needs of the eyewear market and it finally allows to enjoy a widespread distribution network to better serve clients and deliver value to all stakeholders.

A business model should be designed to help a company to build a competitive advantage, and that is exactly what EssilorLuxottica has done. It has completely changed the way how the companies in the eyewear industry used to work.

Historically the steps that composes the productive process were implemented by different parts, not under the same control. In most cases there was a brand which gave the licenses to produce under its name, there was a supplier for lenses, another for glasses' components, then the company that received the license, assembled the parts, and a retailer or wholesale distributor to finally sell the final product.

Luxottica initially operated in this way. Most part of its brands were not owned but obtained through a license agreement, the lenses were provided by external companies as well as the components. They only dealt with research & development, manufacturing, and distribution to opticians. With the recent events we told before, Luxottica has internalized the lens production under the same company, EssilorLuxottica, moreover over the years it has moved toward an increasing internalization of the brands in order to develop and design the model autonomously.

But EssilorLuxottica is not the only example of how the Eyewear market is changing. Kering Eyewear is born for the same reason, when Kering decided to stop licensing its brands, since it implied a reduction of the control over the design, the quality and all the productions steps, and started through Kering Eyewear to produce glasses itself. Another player moved to the same direction, Marcolin, with the joint-venture with LVMH is obtaining the possibility to direct produce for a number of significant brands.

These events have reshaped the Eyewear Industry, which is become even more an oligopoly, with extremely integrated players with innovative business models. This allows more control over the value chain in order to serve and satisfy the growing and sophisticated needs of the market, which is growing thanks to better economic conditions, population growth and more brand consciousness, and need companies which can rapidly keep the pace with that.

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