



Safilo®
GROUP



felmann

Is outsourcing a key success factor in the European eyewear industry?



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Semester Project- Spring term 2016

Roskilde University

Economics and Business

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1. List of Abbreviations

Acc.	According to
HDI	Households Disposed Income
M	Million
PR	Public Relations
UK	United Kingdom
US	Unites States
VC	The Value Chain
VIP	Very Important Person
Vs	Versus



2. Introduction

Outsourcing and In-sourcing, two words unknown from the majority of people before the 80's but now unavoidable because of Globalization. This phenomenon is not a real surprise, indeed the 2nd globalization is more focusing “on the international division of productive process” (*Berger, 2003*) contrary to the 1st globalization (1870-1914) which focused on financial exchange and “consumer good globalization”. During this new period of globalization, countries and companies are experiencing a world market, led by free-trade, huge economics areas and directs investment in foreigner countries. This way, this time correspond should be in total accordance with the classics theories as Ricardo's competitive advantage or even HOS (Hecksher – Ohlin – Samuelson). According to Ricardo's theory a in a free-trading period, a country need to focus on the production of the good the country owns the best advantage or the less disadvantage. In this theory, the goods are the only one able to cross the borders, production factors must stay in their own countries. Many years later, Hecksher, Ohlin and Samuelson went deeper, telling each country need to open its border and play the fair-trading game, specializing in the factors endowment they own the most. For example, Denmark owns a lot of forest so should totally focus on this exploitation and other resources' the country own the most, exporting them; in the same way, it will import the capitalistic need it doesn't have, allowing each country to fill the gap between their needs and resources. Still according to them, poor countries should only focus on labor forces. It appears that's what they wanted happen, countries as China specialized in producing with low-cost labor (*Thorie, 2016*), making the price of it increasing and decreasing the capital earned (*Le théorème, 2000*), the theory said. However, after a lot of wave of outsourcing, looking for less cost, quality or other resources, a new trend is increasing in company's mind: insourcing back. How this phenomenon is possible? It should make no sense on a practical and theoretical analysis.

Actually, this new trend is more rational; indeed, going abroad to produce may imply making profits and saving money but also leading to troubles. It's what Paul Krugman (Nobel Price 2008) says in his *New Geographical Economy*, according to him, going abroad to produce may be a bad idea. Indeed, it can be profitable in term of production cost, but less in term of transportation, furthermore, a company will earn more in being implanted near a big market, or a big area, more dynamic, with steady institutions, developed services and same culture. For



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example, a French company would earn more in staying and producing near the European dynamic area as the Rhin region than going in eastern Europe, Africa or even China where production cost are less expansive. In France, the company will profit of a big dynamic area with main companies, with little transportation, strong institution, freedom of entrepreneurship, near its main market than in the others area. This way, outsourcing may be profitable but companies must take in care all data. This feeling was reinforced by the CEPII (International Information Prospective Study Center) in 2005 (*Impot, 2005*), Agnès Begnassy-Quéré is telling in this report that having 0% taxes in a country is not a synonym of attracting companies, because, having no taxes it not a guarantee of success. A company needs goods infrastructures, a safe and profitable place to grow. Going in Kazakhstan would make no sense for a Spanish company selling on its own market. This way, outsourcing it's not an obligation, because staying in the country can avoid a lot indispensable cost.



3. Problem Area

Most of us believe that at the times of the economic crisis (Great recession) in 2007, many companies changed their strategies in order to survive in the operating market. Can it be that this trigger was pulled before? One of the strategies in order to reduce the operating costs and make a buffer into the capital fund, for many companies question –“make or buy?” aroused. When answering on the answer to “buy”, then traditionally the decision of outsourcing is made. Companies usually outsource such value chain parts as distribution, manufacturing, accounting and IT. On the other hand, when company chooses offshoring, they form the decision “make”, meaning, that the company produces the product itself, with lower labor costs, but in a country where there are location-specific advantages. When talking about offshoring, LEGO can be mentioned as an example, where LEGO made decision to move part of the production to Hungary (*LEGO, 2014*).

In order to make this strategic decision, companies had to make evaluation of different aspects, such as, costs of outsourcing, which product/service to outsource and why, should it be outsourcing or offshoring? After some time some companies chose to in-source back some of the activities as they realized that the quality of the product has decreased and there is higher risk of that the product will not be ready on time. Some companies did not made the decision of outsourcing, why was that?

In order to understand why these decisions were made with regards of the outsourcing and in-sourcing, some study cases will be analyzed.



4. Problem Formulation

The main focus of this project is to understand why a company makes the decision of outsourcing, staying back-home or in-sourcing back, knowing that each action will lead to specific issues. This way, outsourcing could bring cultural issues, in-sourcing has higher costs issues as staying in the country. In some cases outsourcing is a need in some others it can be a waste time, energy and sovereignty. In order to understand why the decision of outsourcing and in-sourcing were made for the three eyewear companies and how they affected their supply chains, the following questions shall be answered in the project:

- Why decision of outsourcing was made?
 - Which external factors affected the decision of outsourcing?
 - How did Global market influenced the phenoemen of outsourcing?
 - How does the companies operating market looks like?
 - When strategy- outsource or in-source was made and why?
 - Which parts of Value chain were disturbed by this decision?
 - What changed when outsourced?
 - What was influenced by this decision (its advantages and disadvantages)?
- Why decision of in-sourcing was made?
 - Which parts of Value chain were disturbed by this decision?
 - What changed when in-sourced?
 - What was influenced by this decision (its advantages and disadvantages)?
- Are there other options then outsourcing?
- What other strategies could the companies use and how they would affect the company?

4.1. Motivation

The motivation behind this project lies in personal interest in to achieve the understanding of why the decision of the outsourcing and in-sourcing is done. When is the perfect timing for that and why companies thrive exactly for this solution! What drives companies to choose between “make or buy”. The analysis about three companies operating in the same sector in different European countries, will show how the same decision is made in similar companies. Was the



economic crisis in 2007 really the one that triggered this phenomenon was outsourcing the only choice of strategy?

As two of the group members are originally from France, the original idea was to focus on one company, which was located in France, Atol. We chose Atol, as they were the first movers in creating worldwide exclusive first smart glasses with geolocation device nested in the branch. Meaning, that if you lose your glasses, you can find them with a Téou® App, which is available on a smartphone (Soermel, 2016). However, after an encouraging meeting with a group's supervisor, the focus changed to wider approach, with 3 study cases instead of 1.

4.2. Delimitations

This project main focus of this semester project is on eyewear- glasses business in three European countries- Germany, France and Italy. The main actors that will be used as case study are- Safilo (Italy), Fielmann (Germany), Atol (France), however other related companies will be mentioned as well.

We will not focus only on one product group, as there are thousands of different products in this field.

During project, mostly secondary information will be used, as none of the group members has direct contact with the study case companies. Some financial data will be used, to cover main financial numbers.



5. Methodology

In this part we will present the methodological choices of our project.

“Methodology of a project work is concerned with criteria on how theories are reflected and tested and which research techniques are used to collect and analyze data. Additionally the focus is on how a subject of study has been defined (ontology) and how a phenomenon of a study can be explained (epistemology). The chosen research method defines what is ‘True’ and effects on how the results are communicated in a project report (*Olsen&Pedersen, 2008*).” Correspondingly, the papers primary or secondary data sources will be outlined.

5.1. Research Strategy

This section covers the relationship between the theories of our choice and the research that we will perform in our project. Commonly used research strategies are: Experiment, Survey, Archival, Case study, Ethnography Action Research, Grounded Theory and Narrative Inquiry. The Experiment and Survey strategies are mainly linked to the quantitative research, where the Archival and case study falls in between the quantitative and qualitative research methods. The rest- Ethnography, Action research, Grounded Theory and Narrative Inquiry are linked to qualitative research method. In addition, all strategies can be applied in mixed method combinations, meaning that to make a choice of which strategy is the best for one’s research is depending on a number of perspectives or situations (*Saunders et al, 2012, pg 173*).

As a starting point of our research on this subject has been based upon the knowledge from our previous studies, where outsourcing was involved in some of the courses and was briefly mentioned, but not fully examined.

The knowledge that we have gained from our theories enabled us to deduce whether our assumption of how the migration should be acting held up, or if it was not moving as expected. Our assumptions were created based on the aforementioned theories and our personal observations. The data for the project is mainly collected through internet sources, such as, company home pages, competitors home pages. The data that will be used in the project is mainly qualitative, as we are going to review massive amount of literature and will group this literature into the categories relevant to our research problem. The main source of the project will be the 3 study cases.



Based on the comments made earlier, the secondary data will be used to cover the theories used in this project.

The theories that are going to be taken into account for this project are utilized to analyze different aspects of the investigation of the paper. The knowledge from theories generated from previous courses, is the main frame for our project.

5.2. Structure

Over the courses gained from previous subjects, we have accumulated a large amount of knowledge, which is reflected in the analysis chapter as we pursuit to utilize this knowledge to the fullest.

We have started with the Global market economy analysis, which shows the Growth or decline of the three markets- US, China and Brazil. The time gap described is the within the last 20 years. Thereafter, introduction to the European eyewear market was conducted. Following by more detailed market research of the company's products and operating domestic market/industry-France, Germany and Italy. This is achieved with the help of PESTEL analysis and general information of the study case companies.

Second chapter is focused more on the companies operating market itself. As first step, we concluded a general introduction to the companies. We used Porters five forces in order to examine competition in the market. The chapter is concluded with a SWOT analysis, which focuses primarily on the company itself. Both analysis enrich each other in the terms of focuses closely on the industry.

To understand deeper the core functions of the companies, we made Porters Generic value chain. Here we tried to understand how the companies create value and find some elements of development of a competitive strategy. Where in the Marketing& Sales part we included 4P's.

Third chapter is the Analysis of the Strategy decisions- Long term strategy analysis. Where different strategy tools were used in order to get an understanding of the company strategic choice of outsourcing, in-sourcing or no-sourcing.

The summary part of this chapter concludes the main discussion points of the project.

5.3. Philosophy of Science

The purpose of the Philosophy of science is to explore different stages which are undertaken, taking in account thinking and reasoning behind every step in solving our research



problem. Our chosen Methodology involves following: Interpretivism (Epistemology) and Constructivism (Ontology), Qualitative research method (not quantitative), deduction research approach, three case studies research strategies, mostly secondary data collection and documentary research techniques. To start up this chapter, we have started with the exploration of the ethical issues and the quality of the research in terms of data validity and reliability.

5.3.1. Validity and Reliability

“Objective view is supported by reliability and validity of the study. Shortly described, reliability means that methods used in a research can be tested and proven by other researchers (*Olsen&Pedersen, 2008*).”

“Validity set framework for whether the measures of the theory are actually a measure the theory itself. In other words a statement is only valid if the premises of the statement imply its conclusion (*Bryman, 2008*).”

We are going to collect the empirical data from the previous researches as well as other secondary data in the field of outsourcing and in-sourcing. As already mentioned in the text before, in a comparison among the different theories, empirical studies and the secondary data will be the basic support for our analysis. This qualifies our research to be deductive by and in nature.

As the main data (information) collected for this project is going to be from different internet sources, the validity and reliability of the data depends on the internet source. Such direct sources as company homepages are valid and reliable sources. On the other hand, such sites as Wikipedia cannot be named as a valid and reliable source. Theories for the project are mostly used from academic books, which is direct source and is valid and reliable.

5.4. Ontology

Ontology and Epistemology are the two forms of research Philosophy. Saunders et al. “...defines research philosophy as the development of knowledge in a given area of interest and the nature of that knowledge. Research philosophy is important in research methodology as it forms the basis for assumptions on how the researcher views the world. These assumptions will guide and influence the research strategy and the corresponding methods the researcher chooses in answering the problem question (*Saunders, 2012, pg 128*).”



Ontology is the study of being that brings out the building blocks of existence (*Moses and Knutsen, 2012*). From the ontological point, constructionists challenges the suggestion that categories such organization and culture are pre-given and therefore confront social actors as external realities that they have no role in fashioning.

As part of the ontological position, we have chosen Constructionism. "...As it asserts that social phenomena and their meaning are continually being accomplished by social actors. It implies that social phenomena and categories are not only produced though social interaction but they are in a constant state of revision. The researcher always presents a specific vision of social reality, rather than one that can be regarded as definitive (*Bryman, 2012, pg 33*)."

5.4.1. Epistemology

"An epistemological issue concerns the question of what is regarded as acceptable knowledge in a discipline. A particularly central issue in this context is the question of whether the social world can and should be studied accordingly to the same principles, procedures, and those as the natural sciences (*Bryman, 2012, pg 27*)". Even though, there exist two epistemological perspectives: positivism and interpretivism. In positivism, "...the researcher takes the philosophical position of natural scientist to make studies and conclusions on social reality and beyond (*Bryman, 2012, pg 28*)". Yet, we have chosen to not to adopt the positivism epistemology, as we are not going to be focusing on taking the natural scientific position to create conclusions.

Therefore we have chosen Interpretivism, "...which is a term given to a contrasting epistemology to positivism. The clash reflects a division between an emphasis on the explanation of human behavior that is the chief ingredient of the positivist approach to the social sciences and understanding of human behavior... (*Bryman, 2012,pg 28*)."

Meaning that Impertivism allows the researchers to take an empathic position to study the social world by incorporating own feelings, sensibilities and interests into researchers work (*Saunders et al. 2012, pg 137*).



6. External Market analysis

In this part we will look into the Market situation outside three study case companies. Furthermore, we will make an overview of the Global markets from financial side of China, United States and Brazil in the economic happenings within last 20 years that could have had affect of some of the strategic choices of the three companies. Following by the PESTEL analysis that will help to get the “big picture” of the environment, in which the study case companies are operating in- France, Germany and Italy.

6.1. Global market economics

As mentioned previously, we will look into the Global market happenings in order to see what historical milestones in between years 1994 and 2014 have pushed for companies to make the strategic choices, such as outsourcing and in-sourcing.

Directions of country’s economy direction can be easily determined based on different activities as, for example the signal that the economy is on an upswing, if the car and house sales are growing, then the unemployment rate is most likely going down, where the job gains and stock prices are budding up. This data is usually checked by nonpractioner for the coming quarters. The activity where the nonpractioner is exploiting the fact that many economic variables move together, is as well known as- comovement. Which is the key in several areas of economics and finance. *“Comovement is important because the economy’s natural state in positive growth stage, as this growth is depending on the economy’s fundamentals. At any point in the time, then, the economy will be growing below or above this trend rate of growth, which will then affect important variables, such as, inflation, interest rates and the unemployment rate (K.L.Kielsen, 2014)”*

The Global Market Economic fluctuation timeline for US, Brazil and China includes such key aspects as- Real growth of domestic product (GDP) rate, inflation, interest rate, the unemployment rate and balance of trade.

6.1.1. Growth of domestic product (GDP) growth rate

As following, we will continue with the growth of domestic product (GDP) growth rate for period 1994-2014, which can be seen in *Figure 2* below.

“Labor productivity is measured as output per working hour, where output is the total value of the real GDP. As example, real GDP measures the inflation-adjusted dollar value of goods and services produced by labor and property located in the United States; these are known as factors of production. A “real” series has been adjusted to remove the effects of changes in prices over time. This adjustment better accounts for increases in the production and consumption of goods and services (i.e., volumes) in response to underlying factors that most affect supply and demand—such as changes in population, productivity, and technological innovations. These real factors are the ones that lead to increases (or decreases) in living standards, what economists term “economic growth.” (Gutierrez et al., 2007).”

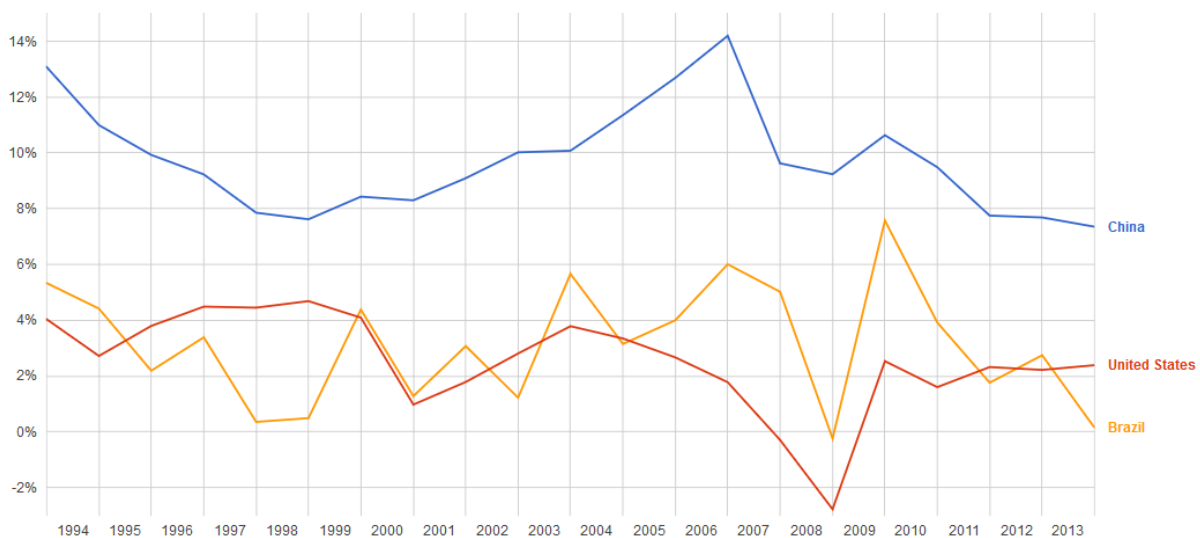


Figure 2, GDP growth rate US, China & Brazil 1994-2014 (source: <https://www.google.dk/publicdata>)

Based on the *Figure 2*, it is clearly more visible that there have been fluctuations. Chinas GDP growth rate in 1994 is 13,08%, where it kept decrease until 1998 (7,62%), then turned around and gradually increased until 2007, where it reached its highest rate 14,19% and then experienced approximate 5% drop in year 2007 to 2009, where it dropped to 9,23%. In between years 2009 and 2010, the GDP growth rate increases slightly to 10.63% and then continued to drop since 2010 and until 2014, where it felt until 7.35%, which is -56% difference in 20 years. *“China joined World Trade Organization (WTO) in the end of 2001. China’s membership contributed to a major growth in investment and international trade; operations both in China and overseas have widened and grown increasingly sophisticated (Dong, 2013.)”*



Where on other hand, GDP growth rate for Brazil started with 5,33% in 1994 and has been unstable since and reached a bottom of 0.35% first time in 1998 and the peak of 6.01% in 2008 before the dramatic decline, where it reached its bottom rate of -0.24% in 2009 and its peak rate of 7.57% in 2010. The end rate of 2014 is 0.14%. The difference between 1994 and 2014 is about -38 times.

As the last, we have US GDP growth rate. In 1994 the growth rate is 4.04%. The growth rates have tendency of waves, where it goes up and down, reached its highest in 1999 at 4,69% and its bottom in 2009 at -2,78%. In 2014, the growth rate reached 2,39%, that is -59% lower than the rate in 1994.

The difference between the rates in 1994 is as follows: US vs Brazil- 1.31 times, US vs China- 3.23 times, China vs Brazil- 2.45 times. At the year 2014, the difference between the rates is as follows: US vs Brazil- 0.05 times, US vs China- 3.07 times, China vs Brazil- 52.5 times. Based on the *Figure 2*, shows that there is a tendency, when the US GDP growth rate went down, the rate for China went up and opposite, where at the same time, the rate for Brazil, tends to have similar growth and decline as China. As an example between China and US relationship affect to nations GDP- *“In 2004, Wal-Mart was America’s largest corporation with the revenues that made up to 2 % of the nation’s GDP. Of Wal-Mart’s 6000 suppliers, 80% (4800) were in China (Dong, 2013)”*

6.1.2. Inflation rate

Henceforth, the *Figure 3* shows Average Annual Inflation rate from 1994 to 2014 for all 3 countries. The most well known measures of the Inflation rate is the Customer Price Index (CPI), which helps to measure consumer prices, and the GDP deflator, which measures the inflation in the whole of the domestic economy. The best rate that the Governments all over the world, strive to achieve is around 2.5-3% per annuity. *“Such low inflation is beneficial for the economy. Low inflation encourages consumers to buy goods and services. Delaying will mean that they would have to pay more for the same product. Low inflation also makes it more appealing to borrow money, since interest rates are usually also low during periods of low inflation. Maintaining low inflation is therefore an important goal for governments and central banks because of the economic benefits.*

Where the high inflation is less beneficial and less appealing for foreign investors to invest in the country and has a harmful effect on economical growth. If inflation gets too high, a country’s

central bank will often intervene by raising its interest rates and thus discourage the creation of money.

If the inflation is negative (deflation), then the price levels falls, by what it is possible to purchase more and more products with the same amount of money by time going. By this, customers will postpone their purchase because they will expect to buy more products for less money. In periods of deflation governments and central banks often seek to stimulate the economy, for example by lowering interest rates.

CPI is measuring the average price that consumers spend on goods and services in a market-based 'basket' of goods and services. In order to calculate the CPI, the prices of a collection of goods and services need to be collected. These prices are then weighted on the basis of the share that they have of average consumer spending. The index is usually calculated annually, but in some countries it is also done quarterly. For most countries the inflation based on the CPI is viewed as the most important inflation figure for the country. The CPI can be used to adjust things like wages/salaries and pensions.” (Inflation DK, 2012)

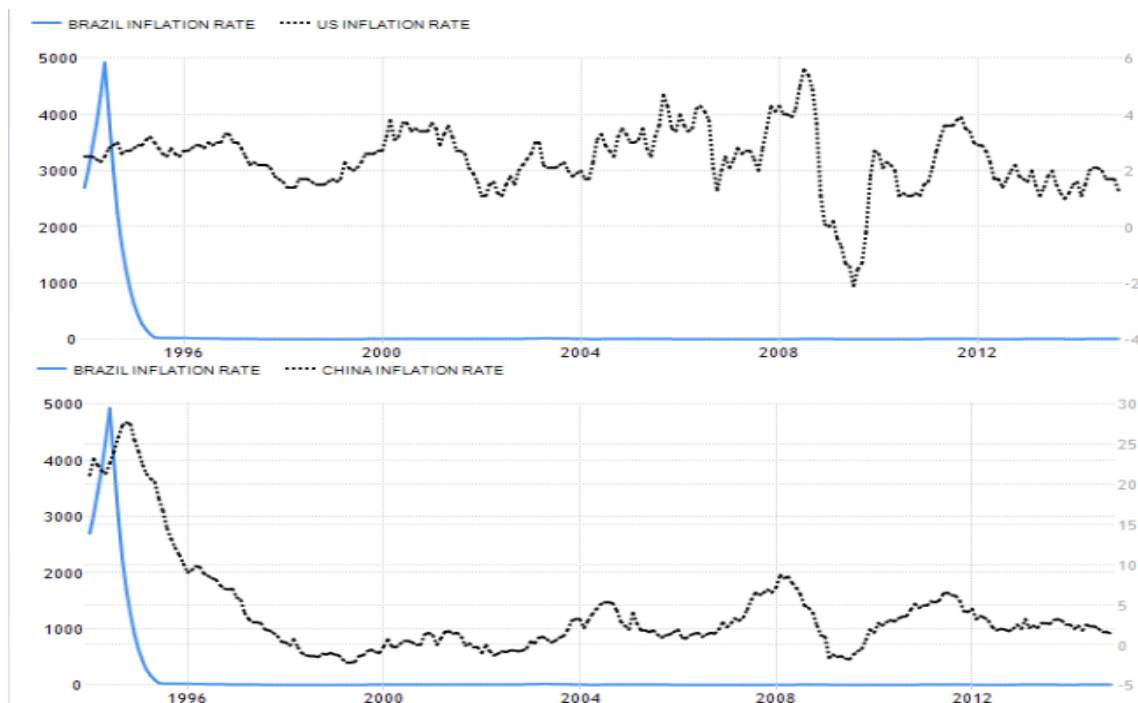


Figure 3, Average Annual Inflation (CPI) rate (source: <http://www.tradingeconomics.com/brazil/inflation-cpi>)



Based on the Average Annual Inflation rates for China and US, they seem to be changing constantly, what is opposite to Brazil, where it had its highest in 1994 (916.46%), 1995 (22.41%) and since 1996 has remained under 10% (*Inflation BR, 2016*). The US Inflation rate had its peak at about 3.85% in 2008 and the bottom at -0.34% in 2009. For China, the average inflation rate (CPI) had its highest point at 24.17% in 1994 and is low in -1.4% (*Inflation CH, 2016*). Growth of domestic product (GDP) growth rate for US and China, seems to be having the same impact in recession in years 2007-2009, as it was long and deep, and might have been the most severe economic contraction since 1930s. Economic recovery began in middle of 2009.

6.1.3. Interest rate

Further we will discuss the Interest rate, see *Figure 4*. The interest rate periods are following- US 1994-2014, Brazil 1996-2014, China 1996-2014.

Interest rate is measured in the percentage charged, or paid for the use of money. The percentage is charged at the point when the money is being borrowed and is paid out when it is loaned. This rate is charged to the lender, which is the percent of the total amount loaned. (*Interest rate, 2015*)

A country's central bank is responsible for setting the interest rates, whereas US use the U.S. Fed funds rate, which is the amount that banks charge each other for the overnight loans.. Central bank for US- The U.S. Federal Reserve Banks (Fed), Brazil- Banco Central do Brasil, China- Central Bank of the Republic of China.



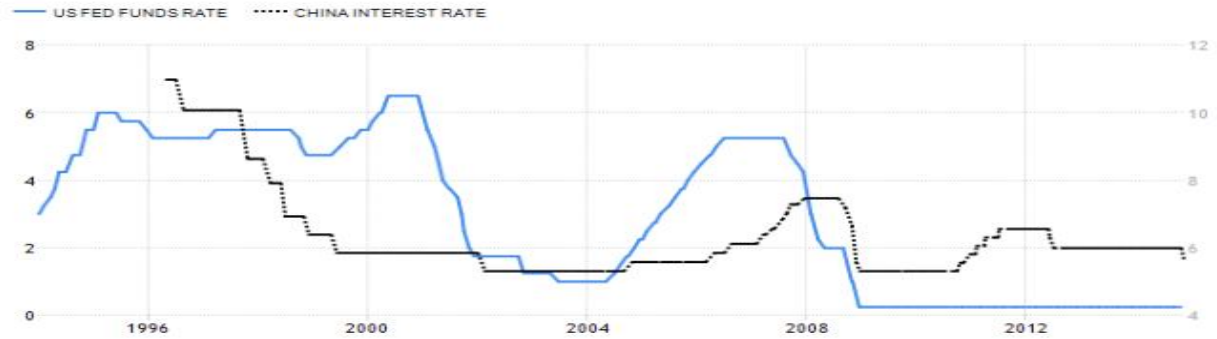


Figure 4, Interest rate US, Brazil & China (source: <http://www.tradingeconomics.com>)

Based on the graphs, from *Figure 4*, the interest rate for Brazil is experiencing sharp fall in 1999 to about 19%. Brazilian interest rate has tendency to have this wavy float during the period from 2000 to 2014. On the other hand, Chinese markets interest rate has experienced similar tendency to Brazilian Interest rate, where it plunged from 1996 (11%) to 1999 (6%) and has not been this high since. In the years 1999 to 2006, the rate remains more or less steady-about 6%. Following by slight grow in 2007 to 2008, where it experienced another sharp drop (from 7.5% to 5.5%) in between 2008 and 2009. It has remained steady in 2009 and 2011 (5.5%), and 2013 to 2014 (6%), then versed a gentle growth from 2011 to 2013 (5.5% to 6.5%). Looking at the US Interest rate seems to be changing dramatically several times in the period. There has been 2 major drops and peaks. Firs peak was in 2001 (6.5%) and drop until 2003 (1.9%), where it experienced sudden growth from 2004 (1%) to 2007 (5.5%) and sudden drop in between 2007 and 2009 (0.1%). Since 2009, the Interest rate has remained stable since.

In between 2007 and 2009, the US was hit by the crash in its housing and banking sector. The Fed funds rate is to be targeted between 0.25% and 0.5%. Prior this target rate, it was effectively zero combat the financial crisis of 2008. Fed uses the Fed funds rate as a tool that controls US economic growth, which makes this rate the most important interest rate in the entire world. (*Fed funds, 2015*) As example, when the Fed lowers the federal funds rate, the banks can borrow money for less, where in turn, they can lower the interest rates that they charge to their individual borrowers, by doing this, the loans become more attractive and competitive. The more money the consumer spends, the more the economy develops. (*Interest rates & Economy, 2014*)



6.1.4. Unemployment rate

Next we will look into the Unemployment rate, which is reflected in *Figure 5*. This rate measures the amount of persons that are unemployed in the certain time frame. Who are willing and are able to work, but cannot find a job. This number of unemployed persons includes people age 16 and older who are without the job but looking for it. Unemployment is a cost to the economy in terms of the deficiency in the production, meaning, that the people without the jobs are not able to produce and therefore the economy produces less. (*Defining, 2016*) The acceptable unemployment rate is between 4,5 and 5,5%, sine that is the rate of the people or work force who are in process in changing the jobs at any given time. There are 4 types of unemployment- cyclical, structural, seasonal and frictional. (*Economic-policy, 2016*)

Brazil unemployment rate started at its lowest in 1994 at 6% and grew slightly until 1998 (8.9%), then turned around and went down until 2002 (9.1%). After reaching its peak at 9.7% in 2003, rate went up and down, then again it went more down, when it reached 7.1% in 2008, where the rate went up again a bit until 8.3% in 2009, but then again it sank to 6.1% in 2012. Since that it has gently stabilized. During this period, the average unemployment rate was 7,94%, which is 2,44% above the accepted average.

The unemployment rate for US had the start rate in 1994 at 6.1%, which is similar to Brazilian start rate. The unemployment rate for US seems to be curvier than Brazilian and Chinese graph line. It has reached its peak 3 times- 1994 (6.1%), 2003 (6%), 2010 (9.6%) and its low- 2000 (4%), 2006/2007 (4.6%), 2014 (6.2%). The average unemployment rate is 6.01%, which is slightly higher (0.51%), than the accepted average. Chinas' Unemployment rate has remained in steady line during the whole period, with some minor fluctuation in 2007 and 2008 to 2010. The highest rate was 4.7% and lowest rate 3.8%. The average unemployment rate is 4.4%, which is 0.1% below the accepted average, which is good for Chinese economy.

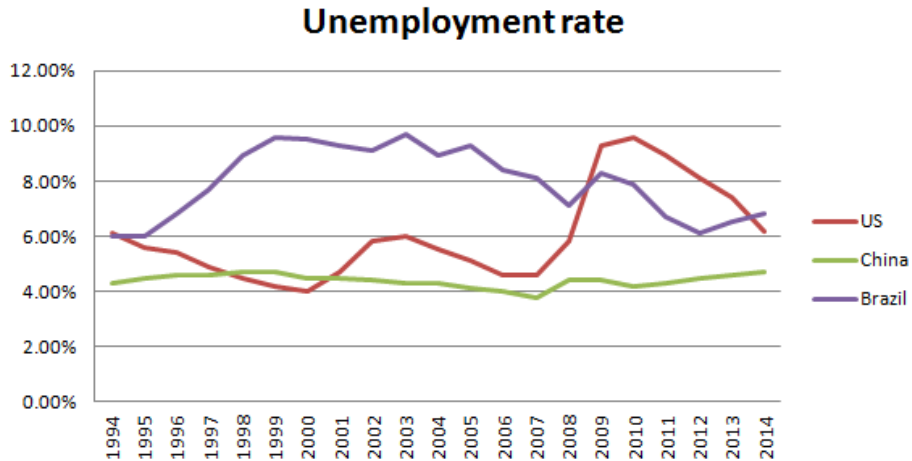


Figure 5, Unemployment rate US, Brazil & China (source: data from <https://ycharts.com/indicators> & self illustration)

To have better understanding of unemployment rate, we will add a self illustration of the Population at the 1994 and 2014, and the difference in % between the start year and end year. See Figure 6. Even though this Population includes all country’s population in age of 0 to 100+, however, we have assumed that for all countries 30% of population are under or above working age. The calculations still can show the idea about how many people are unemployed.

Population in Billion			
	US	China	Brazil
1994 (actual)	0.263125	1.1918	0.160261
2014 (actual)	0.318857	1.3643	0.206078
1994 (-30%)	0.184188	0.83426	0.112182
2014 (-30%)	0.2232	0.95501	0.144255
Difference	0.039012	0.12075	0.032072
Difference %	21%	14%	29%

Unemployment rate			
	US	China	Brazil
1994	6.10%	4.30%	6.00%
2014	6.20%	4.70%	6.80%

Unemployment population			
	US	China	Brazil
1994	0.011235	0.035873	0.006731
2014	0.013838	0.044885	0.009809
Difference in unemployment population	0.002603	0.009012	0.003078
Difference %	23%	25%	46%



Figure 6, Unemployment rate vs Population US, Brazil & China (source: data from <https://www.google.dk/publicdata> & self illustration)

Taking US as an example, the actual Population rate for 1994 was 263.125M., where after reducing the 30% mentioned above in the text, the working population rate 1994 was 184.187M, out of which 6.10% were unemployed, which was 11.235M people. In the 2014 the actual Population for US was 318.857M, after 30% reduction- 223.199M people were at working age and 6.20% were unemployed which is 13.838M. The difference in unemployment rate between 1994 and 2014 is 2.602M, which is 23% growth.

6.1.5. Balance of trade

Least but not last, we will discuss the Balance of trade (BOT). BOT measures the difference between the value of the goods and services exported out of the country and goods and services imported into the country. BOT is an official term for net exports that makes up the balance payments. When the exports exceed imports then BOT can be a “favorable”-surplus and when imports exceed exports (this is producing the income for the country and is contributing to the total GDP) then it turns into “unfavorable”-deficit (here the country sends some of its income abroad in order to pay for the services and goods, consequently, imports decrease the GDP). BOT surplus can be seen from two sides- domestic producers responsible for the exports see it as most favorable and domestic consumer who pay the higher prices of the exports, see it as unfavorable. (BOT, 2008) *“Alternatively, a balance of trade deficit is most unfavorable to domestic producers in competition with the imports, but it can also be favorable to domestic consumers of the exports who pay lower prices”*(BOT, 2008)

We have chosen to discuss about the Balance of trade, as we believe that it can be used to show the impact of the outsourcing, as when the goods and/or services are imported from abroad, the country using this product is the one paying for it (import vs export).

Balance of trade for US, China and Brazilian market can be found in *Figure 7*. There are 2 graphs, one is showing the BOT for the US vs China and other one is showing US vs Brazil.

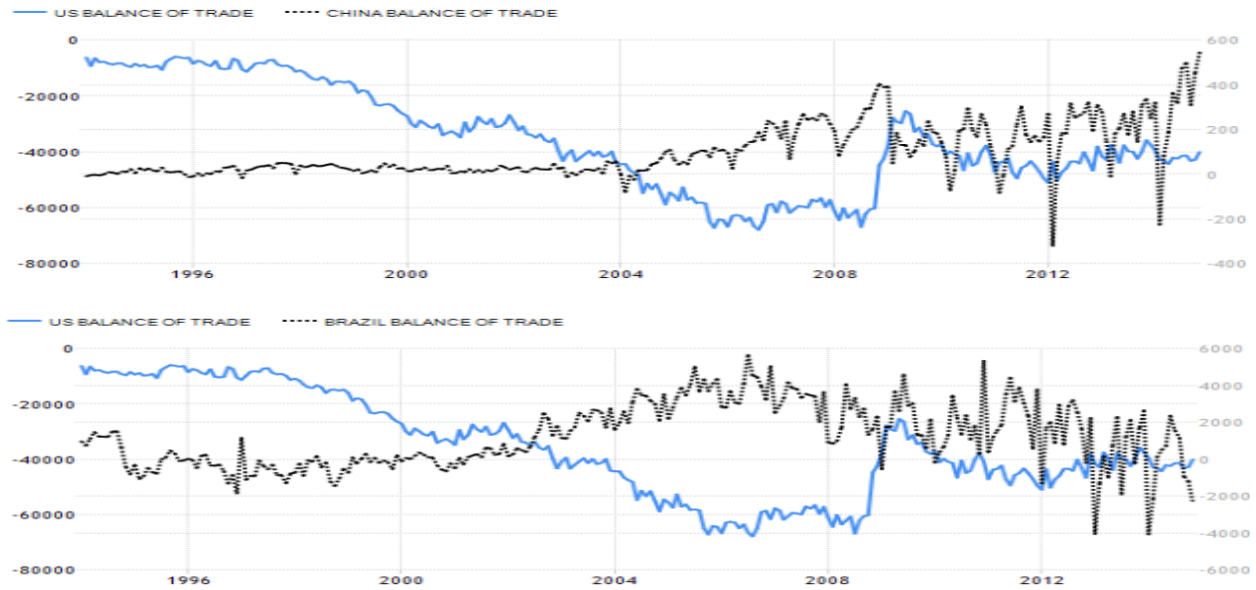


Figure 7, Balance of trade US, Brazil & China 1994-2014 (source: data from <http://www.tradingeconomics.com/united-states/balance-of-trade>)

Looking at the US BOT, it is clearly shown that it has been negative the whole period, whereas, it was decreasing smoothly until 2008, when it raised dramatically from about -67000 M USD , to -27000 M USD and has fluctuating up and down as in previous years. Based on different internet sources, an increase on the productivity can be explained in the increase of the investment rate and lower the savings rate and the low national savings. Nevertheless, the exchange rates between two countries can affect the current account balance (*Is, 2007*)

When comparing US BOT with Brazilian BOT, the graph shows that there has been growth in the exports in the times when US has experienced import growth and negative BOT. Especially in years 2003-2009, where there is a big gap. On the other hand, Brazil experienced regular trade surpluses, primarily due to increase in the exports of mining and agricultural products. (*BOT BR, 2016*). However, in the period of 2008 and up to 2014, Brazil had some deficit periods, which were sharp and high amounts. In the end of the 2014, Brazil had deficit of about -2000M USD, where on the other side, US had reached almost 0 point. China is the country that has experienced consistent trade surpluses, which in period from 2004 to 2009 has increased almost ten times. During the period, China’s BOT has been mostly positive, when comparing with Brazil, it seems that their BOT in this period has been similar (positive) in contrast US has experienced deficit the whole period. “[...] In 2005 China was 3rd largest



trading nation after the US and Germany. In 2012 China exceeded the US as the largest trading nation in the world, and the United States became China's largest export market. [...] (Dong, 2013)" China's trade surplus mostly comes from its trade with the US. (Dong, 2013)

To sum up the chapter about the Global market economic indicators, regardless the many other economy indicators, we chose the ones that in our opinion were most related to this paper, as these are the primary indicators, when examining the activity in certain country's current account. Changes in GDP usually goes hand in hand with the consumer income, when it rises, purchases of the goods and services increase respectively. Consumer ability to purchase products depends on his income, where the higher the unemployment rate is the lower ability to purchase more products the customer has, hence the weaker the economy is; what can lead for a cut in the interest rate and inflation rates and opposite when the unemployment rate is low- inflation rate and interest rates grow alongsides As part of the increase in the consumption, the level of imports and exports grows alongside, depending on the demand and product or service availability. High Inflation rates increase the prices of the goods and services what leads to decreasing value of the money and is creates issues in the country's economy. Balance of trade depends of countries imports vs exports. Where it is better to have more exports than imports. Which as well depends on the consumer ability to purchase the products, which however depends on the income he has. All these economic indicators are conected to each other.

Further in the project we will discuss the Internal-European market of where the companies are operating in.

6.2. European Market analysis

6.2.1. General overview

In 2015 the population in the European Union grew to reach the level of 508 million inhabitants in the area, this high population represent for European companies a great market with high opportunities. This is all the more true for the eyewear sector; indeed, the rate of people wearing glasses is increasing in this economic region representing the first market in the world in this sector. *Figure 8* shows the market value of eyewear in Eastern Europe. To well understand the eyewear sector in Europe, we will look into the external macro-environment on the three main leaders in the Eurozone: France, Germany and Italy. This will be done with the use of PESTEL (Political, Economical, Social, Technological Environmental and Legal) analysis, consequently- how the company assesses the market.

Market value of eyewear in Eastern Europe from 2011 to 2016* (in million euros)

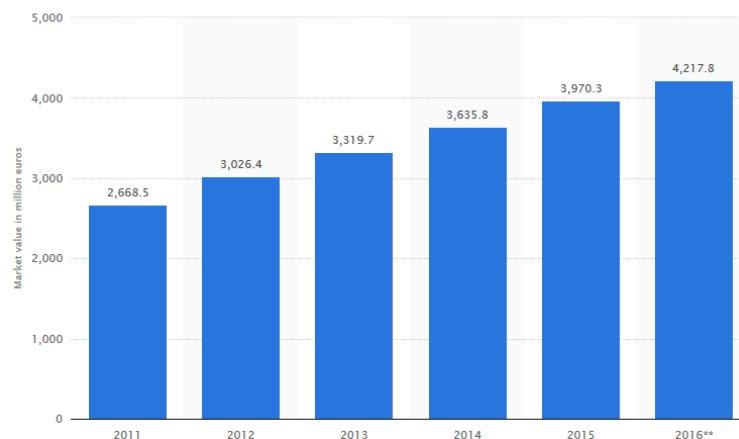


Figure 8, Market value of eyewear in Eastern Europe from 2011 to 2016 (source: <http://www.statista.com/statistics/491589/eyewear-market-value-eastern-europe/>)

According to a study realized by GFK, we observe that during the first semester 2015, the eyewear sector's economic growth was around 4% comparing to the same period the year before, the turnover reach the level of 8,1 billion euro. This good results can be partly explained by the economic renewal in some European countries. Furthermore, comparing this three countries, we observe the average price of eye glasses in France is around 88€ against 54€ in Germany and 36€

in Italy (*Le marche, 2010*). Before a deeper analysis we can observe that the unemployment rate (see Figure 9) in 2015 in Italy is 11.6% against 10.2% in France and 4.3% in Germany.

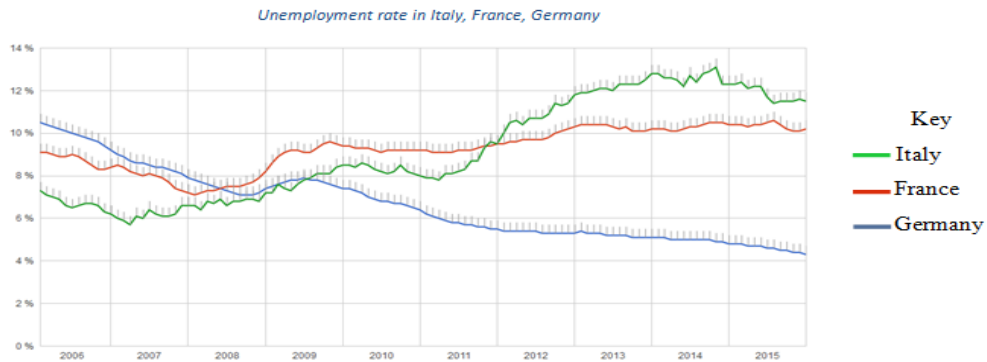


Figure 9, Unemployment rate in Italy, France and Germany 2006 to 2016 (source: <https://www.google.com/publicdata>)

Looking for OECD 2014 data about households disposed income analysis shows us the household disposed income is growing in the three countries after a collapsing in 2012, in Germany the growth is +1.5%, +1.3% in France and -0.2% in Italy (+0.61% for this country in 2015). Thanks to these numbers, we can state that the purchasing power is increasing in these three countries finding a new run-up after the 2008 financial crisis and the European Crisis in 2012.

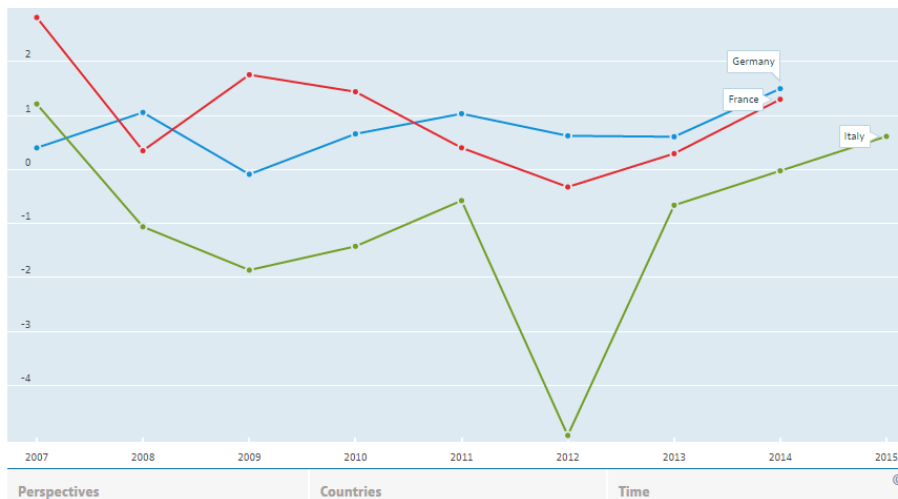
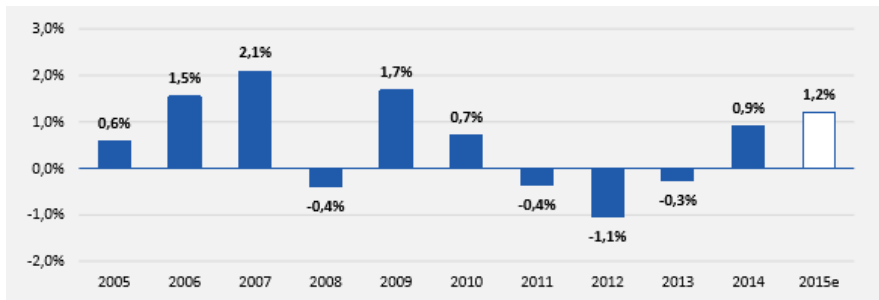


Figure 10, OECD Households disposed income Italy, France and Germany 2007 to 2016 (source: <https://data.oecd.org/>)

6.2.2. General Overview- France

France is the 6th largest economy in the world, its economic growth prevision is around +1, 5% for 2016, households the purchasing power (see Figure 11) is increasing +1, 2% in 2015. This developed country own a great middle class and the eyewear sector is really important in France, they are 24 million people living with vision disorders, 92% of this rate is wearing a correction which meant 71% of the total population in 2012. (Ecoo, 2011) However the French market is going slow, with a growth of +0, 8% despite a market reach of 5 903 billion euro in 2015.

Figure 11, Households’ purchasing power (per consumption unit) in France 2005 to 2015 (source: <http://www.insee.fr>)



The investment by sector (see Figure 12) in France is decreasing since 2006, this phenomenon increased in 2008 because of the crisis, reaching the lowest level of 25.9% of GFCF. This can be explained by a lack of trust in the future, in a country with a high rate of unemployment, according to a will of saving

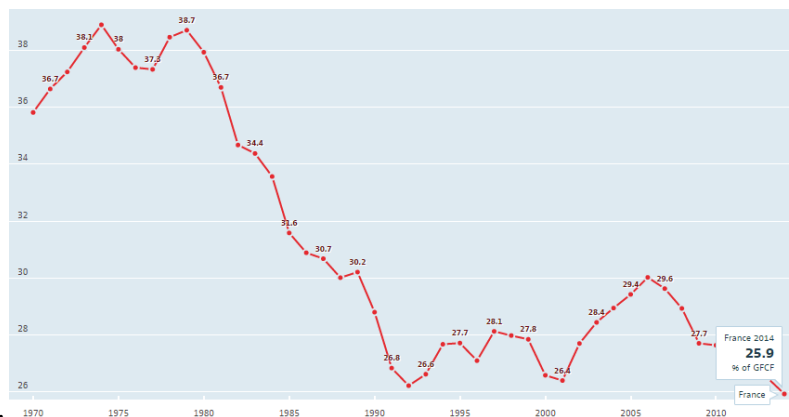


Figure 12, Investment by sector in France (Household, % of GFCF) (source: <https://data.oecd.org/gdp/investment-by-sector.htm>)

6.2.3. PESTEL Analysis -France

	Advantages	Drawbacks
Political	<ul style="list-style-type: none"> • Democratic Country • Will of protecting the national eyewear sector 	<ul style="list-style-type: none"> • High eyewear sector lobby
Economical	<ul style="list-style-type: none"> • 6th largest Economy • High supply • High opportunities • Largest number of eyewear shops in Europe around 13 381 • Purchasing power : +1,2% in 2015 • France Turnover = 36% of the region's turnover • 2014 HDI= +1.3% • 455,1 billion € export in 2015 • Very diversified economy 	<ul style="list-style-type: none"> • Difficulties to enter the market • Oligopolistic sector with 4 main companies • High prices products • 500,8 billion € import in 2015 • Loss of international competitiveness
Social	<ul style="list-style-type: none"> • 66 627 602 inhabitants • Strong middle class • High health Insurance • Eye correction: 71% population • Will of saving 	<ul style="list-style-type: none"> • High unemployment rate • Confidence crisis • Strong trade union • Pessimistic society
Technological	<ul style="list-style-type: none"> • High qualified workers • High technology • Quality products • 2.3% GDP going to R&D in 2013 • 6th R&D actor in 2013 (<i>Ambafrance, 2016</i>) • Jura's world reputation in eyewear manufacturing 	<ul style="list-style-type: none"> • High entry barriers • High capital required
Environmental	<ul style="list-style-type: none"> • Ecological products • New glasses eco-friendly • Environmental norm • Few impact of production in France in term of transporting 	<ul style="list-style-type: none"> • New ecological norms, they may make transporting price increase
Legal	<ul style="list-style-type: none"> • High norms in France • High norms in the EU • EU will of a higher competition • New consumption law allowing supermarket and companies on internet to sell eyewear products 	<ul style="list-style-type: none"> • Closed sector • Difficulties to enter the sector because of legislation

Figure 13, PESTEL Analysis- France (source: different internet sources and self source)

6.2.4. Main Actors of French eyewear market

In the French sector, some different actors are sharing the market. First 4 main retailers (See Figure 14), selling eyewear products mainly in the national market and frontiers countries. These, retailers are selling their own products and glasses, designed by their own but also some other from different companies.

Name of Retailers	Administrator	2014 Turnover in Million €	Main Shop brand	Sector parts owned
Optic 2000	Cooperative group	461	Optic 2000 Lissac	
Krys Group	Cooperative group	906	Krys, Vision Plus Lynx Optique	
Alain Afflelou	Lion Capital (United Kingdom)	714	Alain Afflelou Claro Afflelou Optical Discount	
Atol	Adherent	390	Atol	

Figure 14, Top 4 retailers in France (source: <https://webaccess.esc-rennes.fr>)

Furthermore, the main actor in optical glass and frame is Essilor, which is the world leader, with a 6 716 million € turnover (see Figure 15) in 2015 meaning 87% in optical glasses and material, 10% in sunglasses and readers and 3% in equipment. In the end, 48% of the turnover comes from the USA, against 28% from Europe. (*Chiffres cles, 2016*)

Essilor Turnover in million €



Figure 15, Essilor Turnover (source: <http://www.essilor.com/fr>)

To sum-up the French market in eyewear sector is dominated by 4 main companies through the country, despite these own are forming an oligopoly earning big merges, new competitors are emerging on the Internet since the 2009 law allowing the internet competition. However, the internet parts of the sector is only representing 1% of the total one, this number

should be increase with new competitors as Sensee, Happyview or Easyverres offering cheaper products to customers. This market is also experiencing a high demand with 71% of people having an eye correction, a purchasing power growing of 1.2%. France owns also a great R&D resources and manufacturers in this sector.

6.2.5. General Overview- Germany

Germany represents the 4th largest country in the world, it's also the 2nd largest exporter and 3rd importer. With 82 million inhabitants, it's the biggest country in Europe owning a large national market. Furthermore, German export is around 1,196 billion € against 948 billion € of import. The eyewear market reached 5, 8 billion euro in 2015, meaning a rate of +7.6% growths.

Investment by sector (Household, % of GFCF)

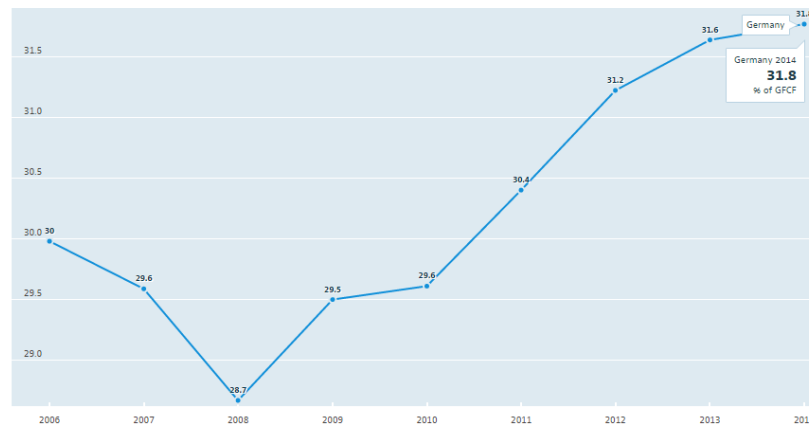


Figure 16, Investment by sector-Germany 2006-2014 (source: <https://data.oecd.org>)

6.2.6. PESTEL Analysis - Germany

	Advantages	Drawbacks
Political	<ul style="list-style-type: none"> • Democratic country • Will of protecting the national eyewear sector 	<ul style="list-style-type: none"> • High eyewear sector lobby
Economical	<ul style="list-style-type: none"> • 4th largest economy • 2nd largest exporter • 3rd largest importer • High purchasing power • Open Market which able a company to sell on internet (7%) • 2014 HDI = +1.5% • Oligopolistic market : 2 main companies • 12.000 shops in 2012 (<i>Eco Safilo, 2015</i>) 	<ul style="list-style-type: none"> • Infrastructures becoming really old
Social	<ul style="list-style-type: none"> • Largest European population : 	<ul style="list-style-type: none"> • Trade union high power

	<ul style="list-style-type: none"> 82 billion people Health care insurance Trade union high power 	
Technological	<ul style="list-style-type: none"> High qualified workers High technology Quality products High level of laboratories, universities, research Internet eyewear: 5% of market 	<ul style="list-style-type: none"> High entry barriers High capital required
Environmental	<ul style="list-style-type: none"> Ecological products New glasses eco-friendly European environmental norm 	
Legal	<ul style="list-style-type: none"> High norms in Germany High norms in the EU 	<ul style="list-style-type: none"> High entry barriers High capital required

Figure 16, PESTEL Analysis- Germany (source: different online sources and self illustration)

6.2.7. Main Actors for German eyewear market

Name	2015 Global Turnover in Million €	Average Sales Germany 2015	National Market Share 2015
Fielmann	1,299.9 (<i>F. Stock, 2016</i>)	1,9 M€ (<i>F.Press, 2015</i>)	50% (<i>Torkel et al, 2016, pg 108</i>)
Apollo Optik	500	Private Data	Private data

Figure 17, Main Eyewear actors- Germany (source: different online sources and self illustration)

NB: It was impossible to find data enough data about Apollo or German market, all of them are global and about Grand vision, the main group.

Germany is mainly dominated by two international companies, which can settle their productivity and growth on a sustainable demand, and a profitable economy. The German market is very strong, experiencing good results. With a large number of stores, high quality products and a population becoming old meaning new need in eye care sector, German companies are able to make long term strategy in a favourable environment.

6.2.8. General overview- Italy

Italy represents the 8th largest economy in the world and the 4th European one, experiencing a new growth. The country also own of great part of investment (*see Figure 18*)

despite a slight slowdown, with 35,07% of GFCF, it's more than France and Germany. In 2010 at the climax of the European debt crisis, the rate collapsed from 35.96% to 34.88% keeping an impressive high level. The country want to focus on investment to be competitive.

Investment by sector in Italy (Household, % of GFCF)



Figure 18, Investment by sector in Italy, 1996-2016 (source: <https://data.oecd.org>)

6.2.9. PESTEL Analysis- Italy

	Advantages	Drawbacks
Political	<ul style="list-style-type: none"> • Democratic country 	<ul style="list-style-type: none"> • High power of parallel market
Economical	<ul style="list-style-type: none"> • 8th largest economy • High purchasing power • End of recession • 413 Billion € export in 2015 • 368 Billion € import in 2015 • Oligopolistic market : 2 main companies • 8th largest export • 10.328 shops in 2012 (<i>Mache, 2013</i>) 	<ul style="list-style-type: none"> • 11th largest export • Fragile growth
Social	<ul style="list-style-type: none"> • 60 million inhabitants • Health insurance policy • Main differences between North and South 	
Technological	<ul style="list-style-type: none"> • High qualified workers • High technology • Quality products • High level of laboratories, universities, research 	<ul style="list-style-type: none"> • High entry barriers • High capital required
Environmental	<ul style="list-style-type: none"> • Ecological products • New glasses eco-friendly 	
Legal	<ul style="list-style-type: none"> • High norms in the EU • Job Acts law 	<ul style="list-style-type: none"> • High entry barriers • High capital required

Figure 19, PESTEL Analysis- Italy (source: different online sources and self illustration)

6.2.10. Main Actors of Italian eyewear market

Name	2015 Turnover in Million €	Turnover Growth	Main Shop brand	Sector parts owned
Luxottica	9,000	+17.5%	Pearle Vision OPSM LensCrafters Sears Optical Target Optical	<p>(L. Eyewear, 2012)</p>
Safilo	1,279(S.Opticien, 2015)	+8.5%(S.Opticien, 2015)	Saffilo Carrera Polaroid Oxydo Smith Optics	

Figure 20, Main Eyewear actors- Italy (source: different online sources and self illustration)

Global net sales of Luxottica from 2007 to 2014 (in million euros)*

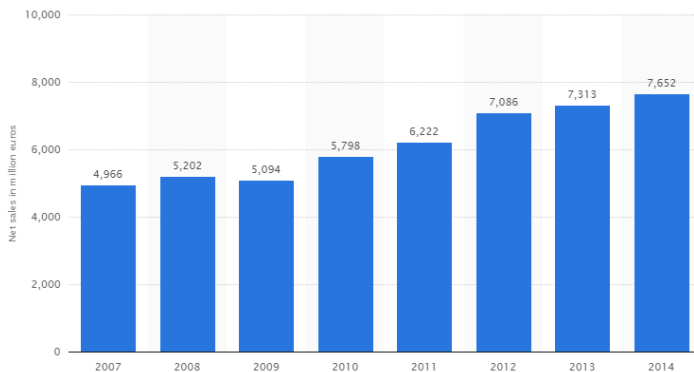


Figure 21, Global net sales of Luxottica 2007-2014 (source: <http://www.statista.com>)

Luxottica and Saffilo are leading the Italian market with high share of market and a global reputation, allowing the companies to be present everywhere in the world. Furthermore, these one are as strong as a new entrant threat seem really difficult, because of a lot of entry barriers and technological needs. However, despite an indisputable national and global success, their hegemony in Europe is less important. This way, in 2014 Safilo’s European sales



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represented 486 million € and a turnover of 132.9 million € (*S. Un, 2014*) for the first semester 2015 which is less than the main French companies, in Luxottica's case, American sales represented 60% of global sales.

In the Italian market two main companies are competing: Luxottica and Safilo. These two own the main parts on the Italian market, suffering a low growth for years. Italy is now recovering a decent level, which represent a good opportunity for Italian eyewear companies, which benefit for a high global reputation leading them to a fast development.

To sum up, the European eyewear market is considerably dominated by France, Germany and Italy. Indeed main European and Global leaders are also leading their national market with a high number of retailers, quality products and premium one. By the way, in 2012 the eyewear total market represented 4.53 billion € in France, 3.42 billion € in Germany and 3.36 billion € in Italy which are the most important in the Eurozone. (*L'optique, 2011*) In each country, at least 2 main companies are owning the market, rejecting a lot of new entrants. This way, we can find a lot of similarity between each country, indeed, they are part of the most developed countries and best economies in the EU, their population really need eyewear products. Furthermore, these market, are dominating by national powers, the number of optician retailers was in 2012 more than 10.000 for each country which are the only own reaching this level, far ahead Spain (9.254 shops) and the United Kingdom (6.964). France, Germany and Italy are based on a strong market with emblematic companies, allowing employment creation, sustainable growth and globalization. Moreover, their sector is blocked off by high competition and high share market own by main firms, entering them appears really difficult, new entrant need to innovate. The main differences between each country lay on each one's legislation offering some variable possibilities, and the oligopolistic strategy leading to some agreement between them, especially in term of high merges.

Comparing these three market, appear all the more interesting as they offer a lot of similarities, focusing on three different companies strategy in each country which is a main actor, will underline the outsourcing phenomenon, offering the European leader's trend.



7. Analysis

In this part of the project, we will look into the Internal situation of the 3 Study case companies- their description, Porters 5 forces, 4 P's, PLC and SWOT.

The Porter's five forces analysis looks at the most basic factors that affect a company, those being the suppliers, customers, current competition, emerging competition and how easy it is for competitors to enter the market. (*5forces, 2016*)

7.1. Study case introduction

This chapter includes brief general description and introduction to the three Study case companies. As already mentioned in the text above, these companies are operating in the same eyewear market and are located in Europe, and are one of the main actors in the domestic market- Atol in France, Fielmann in Germany and Safilo in Italy. Even though owing to the fact our focus is European market, some data about companies' position in the global market can be mentioned as well.

7.1.1. Atol

Atol les Opticiens or simply *Atol* is a French optician brand created in 1970, the name of the company mean Association des Techniciens Opticiens Lunetier (Optician Spectacle maker Technician Association). In 1975, the name of the company became the name of the cooperative exploiting the brand. In 1996 Atol and Visual made Visatol which is a central purchasing service. On year later, appeared La Centrale d'Optique (which is a discount brand) and la Sup' Optique which a formation center for Atol's opticans, both made by the company. (*Atol challenger, 2004*) 2005 represented a main step in Atol history; indeed, after an outsourcing in 2003, the had insourced back a part of its production range meaning 30% of the frames produced in France, in the Jura's area. After owning the ISO 9001 (2008: Managing quality certification) and ISO 14001 (2012: eco-responsible certification) certifications; creating the Atol SNC GROUP (2009) or even a "Granted French Origin" in 2011, the company celebrated 15 years of unstopped growth and the 10th of Made in France. In 2014, the Charter of Responsible Suppliers Relation. Finally in 2016, Atol, Retina, Vision Group and Cione build the first European cooperative. (*Atol Vous, 2016*)



7.1.2. Fielmann

Fielmann AG is a German optic company that is specialized in the retailing of eyewear glasses. The company was founded in 1972 by Günther Fielmann. At first it was just an optometry shop in Cuxhaven, but it has expanded over the time to become one of the major leader in the German market, and the largest optical chain in Europe. They are quite polyvalent as they are manufacturers, agents and opticians at the same time. Their glasses are worn by 23M German. When we look at the financial statement (see the chart below) of the company we can see that the evolution of the figures is quite positive and that the company has been growing since 2011.

Sales have increased from 1 229 (in € m) in 2011 to 1 509. Also, the quantity sold have gone up from 6 740 (glasses/thousands) in 2011 to 7 812 in 2015. However, the profitability of the company has also consequently improved since the net income went from 125.4 (in € m) in 2011 to 170.5 in 2015.

7.1.3. Safilo

Safilo is the second largest (based on revenues, development, production and wholesale distribution of products) eyewear creator, manufacturer and worldwide distributor of high-end sunglasses, optical frames and sports eyewear since 1878. In 2005 Safilo changed its name to Safilo Group S.p.A. In 2010 March, Multibrands Italy B.V. (a subsidiary of HAL Holding N.V.) became the reference shareholder of Safilo Group and currently owns 41,7% of its capital. More General Information about Share capital can be found in *Appendix 3*. Currently Safilo has 7 910 employees worldwide (*Safilo Group, 2016*). In 2014 Safilo recorded net revenues for Euro 1,179 billion (approx. 1,321,892,700,000 USD) (*Safilo linked, 2016*). The net sales based by the area were as following: Europe- 41.3%, Americas-42%, Asia 15% and RotW 1.7%; and segmented by product: Sunglasses-55.4%, Prescription Frames-36,6% and Sport and other-8% (*Safilo hp, 2016*). The list of Safilo's brands can be found in *Appendix 2*, Brand portfolio segmentation in *Appendix 15* and list of most profitable brands in *Appendix 16*. Some of the brands are Licensed Brands, meaning that they do not own the brand, but are licensed to distribute and produce the products of the certain brand (average duration of license is 4.5-5.5years), and Proprietary Brands, meaning that they own the brand. The licensed brands are selected based on the criteria of the competitive positioning and international prestige. Distribution and sales of the brands is base on the competitive positioning and market segmentation. Product segmentation will be discussed further in the project. (Safilo, 2015)



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In 2014 company's products were sold in over 130 countries and it owned 31 commercial subsidiaries and a network of independent distributors (170), which gasped more than 90 000 selected stores (opticians, optometrists, ophthalmologists, distribution chains, department stores and specialized retailers) globally. In average Safilo produces about 35M eyewear frames per year. Safilo's wholesale (about 93%) business model incorporates the entire value chain, such as idea, innovation and product creation, global product supply and distribution, global brand building, marketing and sales. To produce high volume of frames yearly, company operates and ownes 7 production sites- 3 in Italy (Langarone, Martignacom S, Maria di Sala), 1 in Slovenia (Ormoz), 1 in US (Salt Lake City), 1 in China (Suzhou) and one in UK (Vale) (*Safilo, 2015*). *Appendix 14* shows more detailed production units overview. The outsourcing of production is carried out selectively through third-party manufacturers, which are located close to the Safilo owned production sites- Asia, Italy and US. The quality control is managed directly by the Safilo.

Safilo's vision: *"We will be a leading Global Eyewear Creator with a balanced Portfolio of superior brands that will delight the world's consumers, create mutual value with our partners and reward Safilo with leadership shareholder value creation (Safilo, 2015)"*

Safilo has 4 key strategies, see *Appendix 4*:

Safilo values are as following (*Safilo, 2015*):

- Timeless design of eyewear
- Tradition and Innovation
- Excellence and quality
- Entrepreneurship and courage
- Results today and tomorrow
- Win-win leadership

Information about Safilo's Purpose, Principles and Competences can be found in *Appendix 6*.

Based on the statements from 2014, the company had 40% of its own production and the rest is external production. (*Safilo, 2015*)

Timeline of Safilo Milestones can be found in *Appendix 5*. This timeline covers period from 1934 to 2016.

Some financial data of company's sales performance for 1997- 2014 can be found in *Appendix 12*. We have compared Net sales vs Net profit for the period. The Net profit for years 2008-2009 seems to have similar recession and affected by Global market-Great recession (economic crisis).

7.2. Porter's Five Forces Analysis

In this part we will look into the industry that the study case companies operate in. Michaels Porter believed that this objective analysis that could help to investigate on how the organizations need to form its strategy in order to develop opportunities in its environment and protect itself against competition and other threats. (*Lynch, 2009, pg 96-97*)

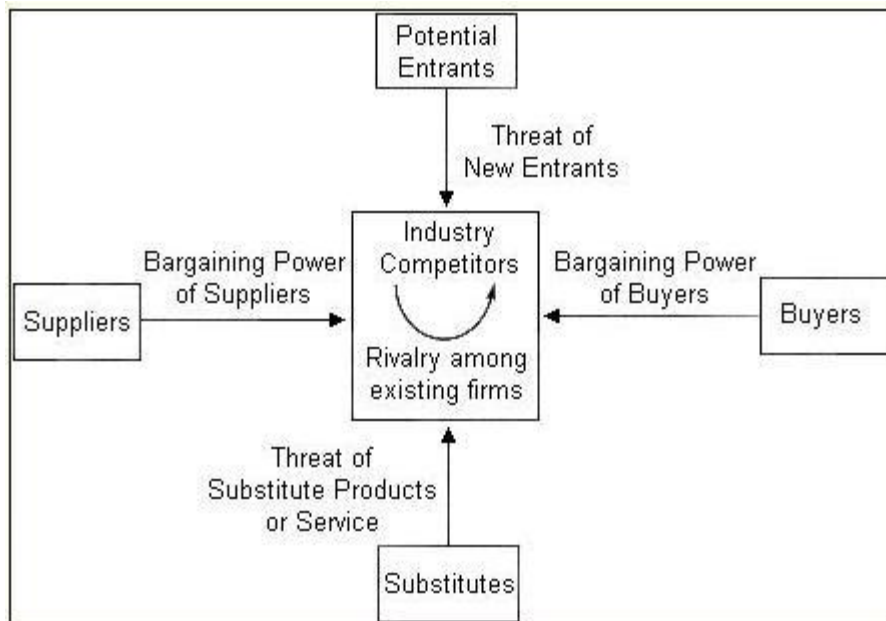


Figure 22, Porters 5 Forces model (source: <http://www.quickmba.com/strategy/porter.shtml>)

There is theoretical information about the Porter's 5 forces that can be found in *Appendix 13*.

7.2.1.1. The bargaining power of supplier

Atol Medium Power

Supplier have a medium power in this market, indeed, are important because products must be high quality products, however producing them need a lot of workers so it's sometimes easier to make the production in low costs countries as China, Bangladesh or India. In the case a company would produce in France, suppliers are much more powerful, actually they are much-valued



especially in the Jura's area, this way, they are able to refuse a production if the demand appears not so much interesting. That's what happen to Atol in 2003, explaining in parts, the outsourcing policy at that time.

Filemann **High Power**

- 1)Rising prices for raw materials
- 2)Know how and expertise
- 3)Few numbers of suppliers
- 4)Strong state regulation concerning health and safety standards

Safilo **Medium Power**

Safilos manufacturing plants in average produce (per day) 15 000 acetate frames, 18 000 metal frames, 13 000 for Optyl and 10 000 injected frames. Moreover, Safilo currently utilizes 60-70% of its production capacity, where the rest needs to be produced outside.

Safilo has three types of suppliers- for raw materials (steel, acetates, metals, lenses), for semi-finished goods and finished goods (third –party manufacturers), where the suppliers are carefully selected and evaluated on an ongoing basis bases based on their delivery times and their ability to ensure certain the quality standards. Main criteria for supplier of semi-finished goods and finished goods is have to be branded manufacturer, meaning that the Safilo sales suppliers product under its own branded product. Another criterion for the suppliers is their ability to deliver their goods on time and their ability to ensure certain quality standards, as well the suppliers' available production capacity. (*Annual report, 2016*)

In order to reduce excess costs of the currency exchange rates, Safilo is looking for the local suppliers in the areas where their manufacturing sites are, sort of “natural hedging”, this saves both, money and time. For example, Safilo produces around 40% of its sunglasses in Italy, the remaining percentage of 60%, for example, frames are manufactured by supplier in Italy.

Another advantage of domestic sourcing is the possibility to check the quality of the product, where they are checking if the product complies with national and international regulations. Every supplier has to ensure adherence of the ethical principles of the Safilos' supply chain, the control of this is done via on-site monitoring and direct audits of the supplier's production sites. The audits are performed by third party, in order to assess the compliance to SA8000:2008 regulation. (*Annual report, 2016*)



The decision of outsourcing was done in order to optimize production capacity and reduce costs while allowing Safilo to focus on the production of the high-end and luxury products, which are more profitable. The decision on assigning a product to outsource is based on a specific product quality parameters, origins and special production needs. Product mix will be discussed further in the project, in part 4P's. (*Profile, 2016*)

Even though, some of the production is outsourced, Safilo maintains the urge of increase the proportion of “made in Safilo” products, which basically means that the product is manufactured by the Safilo Group S.p.a. (off-shore factory or outsourced) as, the “made in Italy” is label in the luxury brands. (*Profile, 2016*)

Safilo has few suppliers of raw materials, semi-finished goods and finished goods, as they prefer to have close relationships with their suppliers, but this is maintained as long as the quality and delivery timelines are met up, if no, then the another supplier is chosen. For semi-finished and finished goods, the know-how is very important to maintain specified for each supplier, rather than to change them often. That adds value to Safilos' products, therefore it is important to maintain close relationships with the suppliers. Despite that, some of the suppliers are easy to change and some are not, what is based on the substitutes of the supplies.

7.2.1.2. The bargaining power of buyers

Atol Low power

Customers have a low power, indeed, even if they are protesting against the high merging in the eyewear sectors, they still need to buy some eye care products, which is an obligation for their one sake. By the way, it's really difficult to have a power over this market despite action from consumers association.

Filemann Moderate power

- 1) Strong visibility and transparency of the market and the products
- 2) a quite similar and comparable range of products
- 3) Increasing number of customers due to an important use of electronic devices and screen exposition

Safilo Moderate power

For this type of market it is important to launch innovative products on the market that meets consumer taste and are following fashion trends. (*Annual report 2011*) The power is low for



wholesale customers as retail distribution networks are relatively fragmented. Safilo's products are primarily sold to wholesale clients, which are opticians, optometrists, chains of optic stores, department stores, specialty stores. (*Supply chain, 2016*) Basically B2B market. Safilo has about 90 000 clients. The product can be easily replaced with another company's product, it is more about the personal taste and demand of consumer, that determines demand.

In order to satisfy trend-setting customers, Safilo has created advantage for them, by offering them to pre-order ahead of a product launch. This helps Safilo to identify trends and plan their production accordingly. Customers can place their orders via ERP system, email or by calling up. The order is delivered within 48-72 hours in Europe (from Italy) and for Italian customers within 24-48 hours (if the products are available). (*Profile, 2016*)

Customer demand depends on the end-users taste and demand. Many of customers have online shops where the consumer can order the product, which is difficult to pre-determine which product the consumer will purchase. It is always important to keep the current consumer and attract new consumers; however Safilo offers wide variety of products that can fit everyone's taste and wallet.

7.2.1.3. The threat of potential new entrants

Atol. Very Low power

Entering the eyewear market means having a high capital and technology, which are a indispensable condition to be produce on this market. Furthermore, creating a new store is very expensive because all the medical stuff cost a lot. In this case, a new entrant could enter the market via internet sales, it was what Sensee did. This start-up propose to customers to choose and try the products they need by testing trough the webcam, thanks to dematerialization, Seense makes its customers saving around 200€. (Atol mise, 2011) However even with online stores, a new entrant must face a strong lobby, with strong competitors and big groups. Besides, new entrant must deal with a new phenomenon started with Atol in this sector, the "Made in France" brand. Making its products in France is now a real brand and label, which are good reasons of buying for customers, however, producing in France may be much more expansive than outside, and supplier mays refuse producing. Finally, new-entrants could also face an increasing phenomenon, the insourcing back of French companies, helped by Colbert 2.0 a government tool



make the insourcing back as easy as possible and giving sometimes some funds. This way, a new entrant may not be able to produce in France and should face stronger competitors.

Filemann. **Moderate power**

- 1) New service providers especially with online purchasing
- 2) Development of ophthalmology surgery

Safilo **Moderate power**

There is always risk on having threat of potential new entrants in every industry. All 3 of our study case companies are more or less threat to each other in some level. Safilo has secured its place in the global market in eyewear industry well as wholesaler with all its distribution channels, product mix, innovation and licensed brands. Where Atol and Fielmann are smaller size retailers which market share is smaller comparing with Safilo.

From one point of view, it would be easy to enter eyewear market. However it depends on the product that you are about to bring forward and if you want to be retailer or wholesaler. If the product is a cheap and un-qualitative product, then the marginal costs of maintaining business will be difficult to reach. As there will not be any return on investment. It is not easy to enter the market, as it will cost a lot of time and money to enter eyewear industry is fierce.

There always exist brand loyalty from customer side, especially if the product is made as per consumer taste and fits his or hers needs. All 3 actors have generated the knowhow knowledge and patent rights for their brands and licensed brands, which will be difficult to break for new entrants.

7.2.1.4. The threat of substitutes

Atol **Very low power**

There are no really substitution power in this market, indeed, eye wear as an accessory may be substitute; however, eyewear as a care can't be really substitute because lens and eye glasses are indispensable. Maybe, surgical intervention may substitute this products, but this kind of intervention cost a lot and can't be offered to every people.

Fielmann **Moderate power**

- 1) Big retail store or supermarkets that offer an optician department
- 2) Development of the fake market with fake products coming from Asia
- 3) Strong use of contact lenses instead of glasses



Safilo **Very low power**

The Threat of substitutes is high, as there are many different designs and purpose of eyewear. However, the three actors can be substituted with each other. The purchase of product will depend on the place where you purchase your product, design and quality. If one is not present, then there always is substitute. There is wide variety of products; same product design can have 10 different colors and sizes.

7.2.1.5. The extent of competitive rivalry

Atol **Very High Power**

Competition in the French eyewear market is very hard, as some main companies are leading the market, innovation is quite low, and the number of shop increased a lot with around 13 000 stores, in some city that's mean a shop each 300 meters. Furthermore, French companies must face the competition of other European companies

Fielmann **Very High Power**

- 1)Weak product differentiation
- 2)Low flexibility

Safilo **Very High Power**

The rivalry in the eyewear market is huge. There are big actors (market leaders)- for example, Safilo and smaller actors- Atol and Fielmann. For our 3 study case companies, we will look at the domestic market rivalry. Safilo's main competitor in Italy is Luxoticca. Where Safilo is leading manufacturer with 2nd position in global premium-priced eyewear wholesale and Luxoticca is leading in eyewear production and retailer with 1st place in premium-prices eyewear wholesale. Luxoticca is the eyewear sector benchmark, meaning that it is the global leader in both production and wholesale distribution of prescription frames/sunglasses, and in eyewear retail activities. At the same time both companies are worldwide leaders in wholesales, subject to similar sales drivers and dependant on "made in Italy" products and fashionable/luxury eyewear licenses (*Luxoticca, 2006*) As Safilo depends a lot on the licenses of the luxury brands, it is increasing fashion competition in downturn in consumer confidence. Where on other hand Luxoticca has many strong self owned brands.



7.3. SWOT

SWOT is recognized as strategic analysis tool. While Porter's 5 Forces analysis focuses specially on the industry in which companies operate, SWOT analysis focuses primarily on the companies itself, consequently, both analyses focuses closely on the industry. (*How does, 2016*)

	Atol	Fielmann	Safilo
Strengths	<ul style="list-style-type: none"> -High number of stores -Made in France -Strong value chain -Important investments -Innovation oriented -ISO 9001, ISO 14001 -Sustainable growth 	<ul style="list-style-type: none"> -Strong brand awareness -Strong customer focus -Leader in the German market - Wide range of manufacturer and retailer shops - Polyvalent (Agents, manufacturers, opticians) -High profitability - Good financial statement 	<ul style="list-style-type: none"> -2nd position in global premium-priced eyewear wholesale -Leading in high-end eyewear, due to licensed brands -Recognized product quality and innovation capability
Weaknesses	<ul style="list-style-type: none"> -Low market growth - Customers annoyance against high margin - Very competitive market - High costs - Only 4th main company 	<ul style="list-style-type: none"> -High competitive market - Cost structure (not very flexible with high fixed costs) 	<ul style="list-style-type: none"> -Strongly dependent on license renewals/new licenses (top three licenses generate about 50% of revenue) - Fashion trend changing risk -Low brand awareness of owned brands -Seasonal product (sunglasses) sensitivity to macroeconomic cycles
Opportunities	<ul style="list-style-type: none"> -Internet range - Digital glasses - Connected glasses - Application, home made 	<ul style="list-style-type: none"> -Further extension in European countries - Development of lightweight and disposal 	<ul style="list-style-type: none"> -Further product extension and country expansion -Development of recently

		<p>(eco-friendly) materials</p> <ul style="list-style-type: none"> -Expanding channel distribution and multi-channel strategies -New ways of distribution (online purchasing) - growing cooperation across various distribution channels -New acquisitions, venture capital 	<p>acquired licenses</p> <ul style="list-style-type: none"> -Production plants to increase flexibility and provide higher savings
Threats	<ul style="list-style-type: none"> -European Competitotrs - Internet specialized competitotrs - Connected glasses -Too many store for a decreasing demand and growth 	<ul style="list-style-type: none"> -Threat of new innovative entrants -New innovative produce - New innovative production technique - Rising cost of raw materials - Price changes 	<ul style="list-style-type: none"> -Loss of some licenses -increasing fashion competition - downturn in consumer confidence -The key license expiration -Risks acquired due to the implementation and realization of a new business plans -Threats of customer changing taste, as well as increasing use of contact lenses and eye operations to make better sight -Lose of core competencies to outsourcing -Changing outsourcing costs

Figure 23, SWOT (source: different internet sources & self illustration)

7.4. Value Chain Analysis

To describe the Value chain (VC) (see Figure 5) of the three study cases and see similarities in them, we will continue with the Firm Value Chain (Single-industry firm). The VC breaks down the activities of the organization into its main parts, however, we will not discuss the analysis for every single product group. VC is split into two main activities Support and Primary. Primary activities usually describes the production process and Support activities which provide the necessary background to the running of a company but cannot be identified with any individual part. (Lynch, 2009, pg 132-133) The value that is created and captured by all company's activities is the profit margin. In other words, the organization is able to deliver a product for which the customer is willing to pay more than the sum of the costs of all activities in the VC. (The Value Chain, 2001)

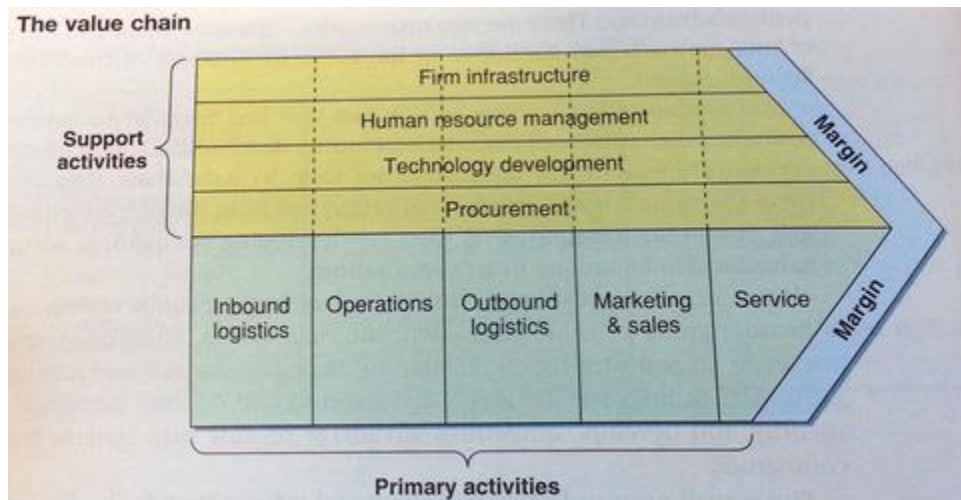


Figure 24, Porter's Generic Value Chain (source: Lynch, 2009, pg 132)

7.4.1.1. Primary activities

7.4.1.1.1. Inbound Logistics

Atol: It selects the finest raw material, semi-finished goods and finished one through its central buying service, allowing the company to centralize the product after a national redistribution according to the needs.

Fielmann

- Selecting the finest raw materials
- Fielmann covers the entire value-creation chain



Safilo.

As already mentioned in the text before, Safilo has 3 types of goods: raw materials, semi finished goods and finished goods. Raw materials are ordered based on the forecasted (based from data collected internally on sales activities, promotional campaigns, inventory levels, sales forecasts and historical data and externally from order levels, feedback from VIP customers) data of the 7 factories on a weekly basis. Weekly production is then adjusted on a daily bases and broken down between internal production and external purchases. Raw materials and semi-finished goods are purchased carefully selected suppliers, which are being evaluated on the ongoing basis. Evaluation is mainly based on the supplied delivery times and their ability to ensure certain quality standards and not less, their available production capacity. (*Consolidated statement, 2015*) For all 3 types of goods, it is crucial important for Safilo that the quality of the products is according to their standards.

7.4.1.1.2. Operations

Atol

Manufacturing is made in Jura's by subcontractors but the final assembling is made in Atol stores, whereas the logistic parts is led by the central buying service.

Fielmann

- Fielmann operates all its manufacturing and logistic parts in its own facilities in Rathenow in the federal sate of Brandenburg
- Lenses and frames are prepared under the same roof
- 4.8M of lenses and 7.8M frames are produced per year

Safilo.

Production mix contains from in-house production and outsourcing to third party. In-house production is done with the raw materials from suppliers and from semi-finished products delivered from outsourced supplier. Safilo started to outsource in 2003.

Since 2005, production in Safilo's factories is based on the Lean manufacturing concept- "make-to-stock". The main target of the LEAN is to reduce the production time through reduction of the number of plants, reorganization of production cycle, increase in numbers of shifts and revision of the manufacturing layout. Detailed Operations chart can be found in *Appendix 19*.

Safilo’s production units overview, based on the factory production specialization can be found in *Appendix 14*.

Operations are split into three main parts: Internal (in-house) production, Outsourcing and Purchasing&Logistics. Operations value stream map consists of (*S.Investor 2006*):

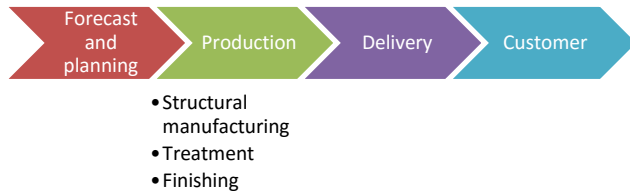


Figure 25, Operations basic VSM (source: own illustration)

As production set up for every product differentiates, we will not discuss the production process and assembly in details. Nevertheless, the Production part consists of three main steps. Structural manufacturing is where for example, the structure of the frame is made by using moulds based on the prototypes developed by internal design team. Treatment- in this stage, the frames get colored, varnished or treated with various coating methods. Finishing- at this stage the product is assembled and completely accessorized. Random finished products are taken out for quality check Quality control procedures are created so that the product meet safety regulations carried out by Safilo, as well as to ensure that the product has highest quality standards. The quality control is not only for products, it includes as well raw materials, semi-finished products, production and distribution processes. (*Supply Chain, 2016*)

7.4.1.1.3. Outbound Logistics

Atol

There are no intermediaries in products selling, Atol is dealing it by itself, furthermore according to the French legislation, all Atol products are sold in their own or licensed retailers.

Fielmann

- Very little or no presence of intermediaries in product selling
- Most of the products are sold in their own or licensed stores only

Safilo.

Safilo's products are distributed in over 130 countries worldwide through 4 main distribution centers (Padova, Parsippany, Denver, Hong Kong). (Safilo March, 2015) The location of the distribution centers allows Safilo to have a high degree of coverage of all international markets. By consolidating the distribution centers, Safilo has better quality of the outbound logistics, shorter lead times and savings of over 10M Euro in 2015. (Annual report, 2016)

To get an understanding of the distribution of goods for Safilo, see Figure 26.

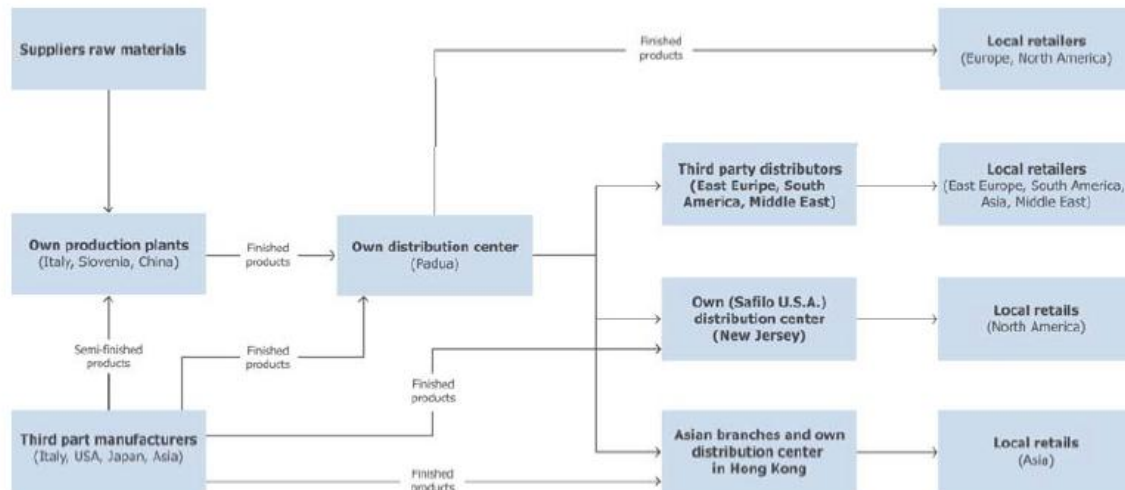


Figure 26, Safilo distribution network (source: <https://www.google.dk>)

Since 2001, in Padova is located the highly automated, integrated and centralized warehouse system. It can deliver about 100 000 units daily to the local distributions centers worldwide. It is connected with the individual opticians and third part distributors in Italy. Its logistical organization provides both excellent service to the customers and allows stocks of finished products to be constantly monitored. (Consolidated statement, 2015)

7.4.1.1.4. Marketing & Sales

Atol

Atol realize its marketing and sales operations in Antony, (Paris area) at the headquarter.

Fielmann

- Fielmann realizes all its marketing and sales operations in Weidestrasse 118a, Hamburg, Germany. Which is the Head quarter

Safilo



F16 VS: Project in Business Studies

Detailed advertising and promotions will be described further in the project in 4 P's part (*see Figure 27*). Market segmentation of the brands can be found in *Appendix 16*. Based on Safilo's value chain, Marketing and communication activities are combined under one department, where they are dedicated to customers and trade marketing at points of sale. Customer oriented activities constitute about 2/3 of their advertising and promotional investments (for example, press, posters, sponsorships, PR) (*Safilo's VC, 2016*). The remaining 1/3, takes the Trade marketing activities, such as posters, banners, specialized displays, training courses and brochures. For the licensed brands, these activities are always co-ordinated with the brand owner.

When looking into the sales, Safilo's products are primarily sold to the wholesale clients (for example, department stores, duty free stores). Safilo operates mainly wholesale which is about 93%, and the rest 7% is retail via the Solstice retail chain.

To sum up marketing strategy, we have compiled 4P's for all 3 companies.

7.4.1.1.4.1. 4 P's

	Atol	Fielmann	Safilo
Product	<ul style="list-style-type: none"> -Connected glasses -High expertise -Quality services -Medical quality -Formation center -Discount brands 	<ul style="list-style-type: none"> -Frames -Lenses -Contact lenses 	<ul style="list-style-type: none"> -Frames -Lenses -Contact lenses -Premium sector for sunglasses -Sports eyewear
Price	<ul style="list-style-type: none"> -Medium range product -High product prices -Discount of products (cf. Discount brands) 	<ul style="list-style-type: none"> -Affordable prescription glasses -Moderate prices 	<ul style="list-style-type: none"> -Affordable prescription glasses -Moderate prices -High prices for luxury products



Place	<ul style="list-style-type: none"> -70% French production -Retail shops -Online sales -Big central purchasing service: Visatol -800 shops -670 associated opticians 	<ul style="list-style-type: none"> -Domestic market is Germany -Switzerland, Poland, Austria -Optician shops -Retail unit centers -Online purchase 	<ul style="list-style-type: none"> -Domestic market in Italy -31 owned subsidiaries and local distributors -90 000 stores in 130 countries -Wholesales -Retail shops
Promotion	<ul style="list-style-type: none"> -Advertising (TV, Radio, Internet) -Muse: French famous people - Traditional advertising -Made in France 	<ul style="list-style-type: none"> -Advertisements -TV commercials -Youtube channel Brille with TV spot including customer interviews and they show their factories 	<ul style="list-style-type: none"> -Advertising campaigns (the see what I mean campaign with celebrities) -TV commercials -Facebook page with post on fashion advice -youtube channel with TV spots -Made in Italy, Made by Safilo

Figure 27, 4 P's for Atol, Fielmann and Safilo (source: different internet sources & self illustration)

7.4.1.1.5. Service

Atol

Atol aims is to help customer in everyday life by allowing him to find its spectacles thanks to the new app and phone thanks to the spectacles. It also want to make the buying experience easier without much constraints, by having a store each 10 minutes from a customer, and a website so easy that you can buy in 3 clicks. Atol is not only interested in customers but also retailers, thanks to “Archipel” an investment fund, the company invests and borrows money to young opticians allowing them to settle their shops. This help may reach 80% of the initial need. Finally, as a cooperative, each colleague owns one vote for the main decisions.

Fielmann

- Fielmann tries to develop a customer loyalty through its money back policy and it's insurance
- Personalized purchasing experience in their shops with high skilled staff



- Affordable prescription glasses

Safilo

To be closer to their customers, Safilo has created concept named- SMILE. The goal is to enhance sales and service level, creating the best possible assortment of all Safilo brands in growing panel of point of sales. Moreover, SMILE helps Safilo to better focus on the key customers and provide them with better service and delivery of products. This concept was developed on the experiences and complaints from customers about the bad level of customer service. Safilo SMILE is an automatic re-assortment system, from which both parties benefit- Safilo and customer. It is replacing/reordering automatically the products that the customer sells and allows to control the stock level for customer. (*Annual report, 2016*)

7.4.1.2. Support activities

7.4.1.2.1. Firm Infrastructure

Atol

Atol determine the capacity to innovate and dealing with manufacturers. Being in Antony near Paris, Atol own a good place to link its interests with Legrand and Laposte, also being close to Jura and partners.

Fielmann

- Determine the labor productivity as well as the capacity to innovate
- Is a mean to strengthen the brand image and convey a message to the customer
(Construction of super center in big cities)

Safilo

As mentioned before, Safilo has implemented LEAN and is trying to minimize the costs in this way. As part of control systems that that Safilo has implemented, will be discussed in Technology development.

Safilo Group structure can be found in the *Appendix 18*. As there are so many brands and manufacturing sites and distribution centers, the structure is complex. When looking into the

Operation structure (see Figure 28), it is more clear and easier to understand.

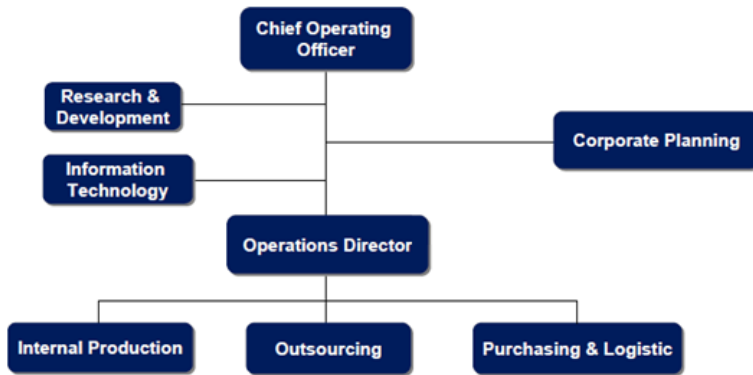


Figure 28, Safilo Operations structure (source: <https://www.google.dk>)

7.4.1.2.2. Human Resource management

Atol

Development of a corporate spirit and value, with a chart to each licensed and retailer. Furthermore the corporate culture is based on the will of revolutionize the eyewear sector by technology.

Fielmann

- Development of a corporate culture (staff training)
- Chart, guideline and standards of good behavior respect
- Respect and caring for the customer

Safilo

Safilo believes that they employees are playing a key role in long-term success. Safilo's focus on personnel learning & development initiatives designed to foster the personal and professional growth. This is connected with the product and customer centricity, entrepreneurialism, teamwork and accountability for results. Safilo has created "Safilo Eyewear", which provides employee training around Purpose, Values, Principles, Health&Safety and Competencies to support key change management processes. The first employee survey was conducted only in 2015, based on which Safilo launched specific initiatives to improve the areas that were highlighted by the employees. (Annual report, 2016)

Another initiative that Safilo has generated is Safilo Product School, which focuses on apprentices to train in product creation (design-> development), prototyping to production, materials, quality, prices and concept selling. These courses are based on Safilo's values- quality,



durability and timeless design- summed together with the unique technical innovation. (*Safilo March, 2015*)

7.4.1.2.3. Technology development

Atol

The company is working with encouraging start-ups, technological and digital companies but also some IOT (Internet Of Things) companies as La Poste or Legrand, being at the Consumer Electronic Show 2016. Atol's aim is to create intelligent products or application you could use with your spectacles allowing you to control your house for example. The firm want to modernize the sector with new technology.

Fielmann

- Fielmann are at the edge of technology and use very innovative technologies

Safilo

Since Lean implementation, Safilo has aligned the IT systems accordingly. For product creation, new platform for collaborative design and development was set up Dassault Systems. For product supply- planning, production and logistics- SAP and Jda. For corporate functions- process simplification and standardize operations- SAP. Marketing and digital capabilities- Adobe. For commercial enabling- standardized platform to improve sales planning and capabilities- TXT and SAP. (*Safilo, 2015*)

7.4.1.2.4. Procurement

Atol

There is dedicated procurement department for these purposes. No detailed information about this process.

Fielmann

- A constant and growing investment in R&D in order to innovate and postpone patents to increase competition
- Very innovative working practices and techniques as well as use of state-of-the-art tools and machines

Safilo

Safilo has Procurement department which handles purchasing of goods and materials, at the best price and best quality (*see Appendix 19*)

8. Long term Strategy analysis

This part will we will look into the conceivable strategy decisions that are made for long terms.

8.1. Cultural diversity

Too often companies outsource just for economic reasons but they neglect the cultural differences that can exist between two countries. And sometimes if these cultural differences are not taken into consideration by the company, the outsourcing can turn into a failure because of miscommunication or misunderstanding.

8.1.1. Hofstede framework- France

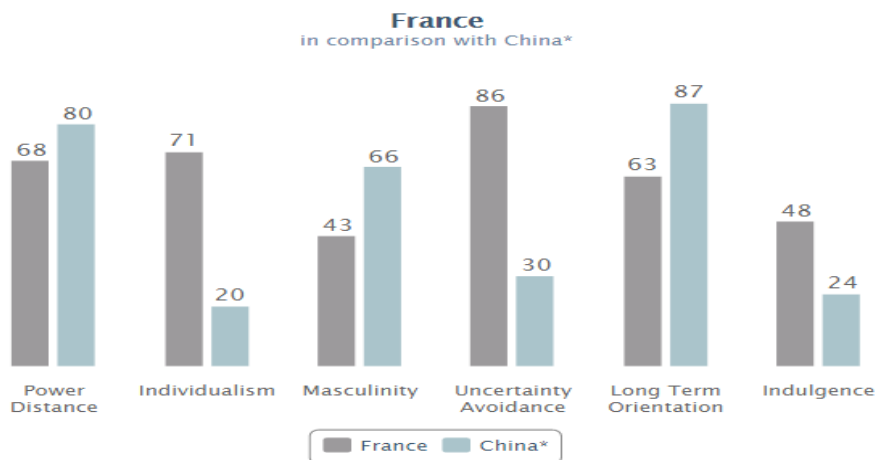


Figure 29, Hofstede framework-France (source: <https://www.geert-hofstede.com/france.html>)

A) Power distance

The power distance is “the extent to which the less powerful members of institutions and organisations within a country expect and accept that power is distributed unequally”. France and China have both approximately a high level of power distance. The power is centralized and the hierarchy is very strong.

B) Individualism

This index indicates the “degree to which people in a society are integrated into groups.” We can observe that there is huge gap between those two countries. Indeed France with a score of 71 has a more individualistic approach and emphasize more the “I” than the “we”. On the



contrary China is a collectivist society where members rely on each other and family plays an important role.

C) Masculinity

Masculinity defines how the society is driven. A high masculinity like France (66) shows that competition, achievement, assertiveness and heroism are key values to position itself in the society. On the opposite with a lower masculinity (43), Chinese are more modest and consensus-oriented. This index is often compare as “tough against tender”.

D) Uncertainty avoidance

The uncertainty avoidance index shows how the society deals with uncertainty and ambiguity and the fact that the future cannot be known. With a high score (86), France has a tendency to maintain rigid codes of beliefs and behaviors, laws are well entrenched and keep the society on track. However in China (30) the environment is more free-flowing and practices count more than principles.

E) Long term orientation

This index shows how societies deal with challenges of the present and the future. We can see that both countries have a pretty high long term orientation (France 63 and China 87) that means that they both have a pragmatic-oriented approach and they can adapt traditions to changing situations.

F) Indulgence

This index shows “the extent to which people try to control their desires and impulses”.

8.1.1. Hofstede framework- Italy

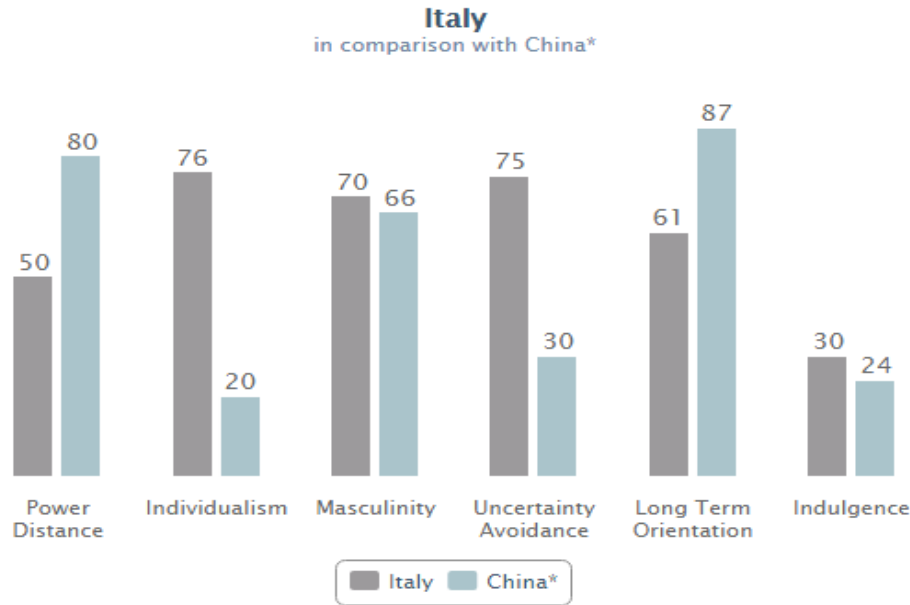


Figure 30, Hofstede framework- Italy (source: <https://www.geert-hofstede.com/italy.html>)

A) Power distance

China (80) has a stronger power distance than Italy (50) which means the hierarchy is well-entrenched and employees attached more importance to their superiors

Recommendations:

- Assume a control-based organization and imposed decisions
- Give straight and clear orders

B) Individualism

Italy has a higher individualism (76) than China (20) which means that Italians are more independent and don't rely too much on each other. On the contrary Chinese are more collective oriented, and the group plays a bigger role than individuality

Recommendations:

- It is very important to get to know each other
- Relationships are essentials
- Favor team building

C) Masculinity

The masculinity is almost the same for both countries China 66 and Italy 70. Achievement and competition are the main characteristics that drive the society.



Recommendations:

- Give personal rewards
- Set up a guideline with a short-term planning with result objectives and deadlines

D) Uncertainty avoidance

With a high score (75), Italy has a tendency to maintain rigid codes of beliefs and behaviors, laws are well entrenched and keep the society on track. However in China (30) the environment is more free-flowing and practices count more than principles.

Recommendations:

- Ability to negotiate and be patient
- Build a trustworthy environment between employers and employees

E) Long term orientation

This index shows how societies deal with challenges of the present and the future. We can see that both countries have a pretty high long term orientation (Italy 61 and China 87) that means that they both have a pragmatic-oriented approach and they can adapt traditions to changing situations.

Recommendations:

- Establish long term planning and schedule and try to stick to it

F) Indulgence

This index shows “the extent to which people try to control their desires and impulses”. Efficiency of outsourcing and delocalization to China may vary depending on the target market, the type of product and logistics. Indeed, the advantage in production costs of using Chinese firms varies with the type of frame (greater advantage for acetate frames, less for special metal frames). Many Chinese producers are not able to conform to European standards or match Italian creativity and design (*Robertson, 2011,pg142*)

8.2. Michael Porter 2 kinds of strategies for multinational firms

➤ **The multidomestic strategy** is adopted by companies who want to adapt their production to the local demand that varies from one region to another. The outsourced subsidiaries benefit from a big autonomy regarding to the head quarter and so in that sense they



can adapt to the local specificities (laws, regulations, political issues, social trends, cultural habits...).

But this is not the case for the three companies, since they are only focusing on answering to their respective country demand. Indeed those companies only sell their products in their countries and do not have, at least so far, an extending policy.

➤ **The central strategy** is adopted by companies with a more global and standardized approach. In fact, the strategy is set by the head quarter and it is imposed on all the subsidiaries. They all produce the same range of products, which is eventually unified by the head quarter. Each subsidiary are specialized in one part of the production, and the main purpose is to make economies of scale either with lower working cost or lower capital cost. The companies usually outsourced the low value part of the production chain and they keep the most value part in the head quarter like the Research&Development, the marketing department or the administrative offices.

This strategy is more adapted to the three companies. Indeed they all have outsourced only the manufacturing part of the production but the main activities remain in the origin country.

8.3. John Dunning The eclectic paradigm

Also known as the OLI model, the eclectic paradigm tries to highlight what are the reasons why the companies decide to outsource. According to Dunning, there are 3 main characteristics that encourage the outsourcing : Ownership, Location and Internationalization.

➤ **The ownership advantages** : They are related to the firm itself, its expertise, its know-how, its size, its capacity to differentiate its products, its production technique...

● **Atol**: The company is mainly operating in France, it was the first company which insourced back, and developed new innovative products to be competitive enough and justify a higher price. Furthermore, the company is a cooperative meaning an old and strong savoir-faire, it's also working with French manufacturers, together on common projects. With 70% of its production in France, Atol differentiates its products from competitors, creating an interesting



medium range, really innovative with new concept as spectacles localization, customer's designing, etc.

- Safilo: One of the main leader in the global eyewear market. The company operates in 130 countries with 90 000 stores all over the world and around 8 000 employees. Thus Safilo has a strong strike force and a famous brand image of a fashion sports wear glasses designer. In consequence of its big size the company also benefits from a wide portfolio of products that enables to diversify its sources of revenues. Last but not least the company has a strong and stable financial situation with different sources of funding which enables the company to realize huge investments in order to keep up with the competitors and to update its patents.

➤ **The location advantages:** These advantages are directly linked to the location of the outsourcing and they concern the quality of the infrastructures, working cost, the factor endowments, existence of raw materials, the institutional framework...

- Atol: With around 800 stores and 670 associated in France, Atol owns a large number of retailers. It also benefits from a country of high productivity rate, high level of infrastructures, and well-skilled manufacturers. So, the company is able to develop its D&R, making a strong differentiation, underlining a long-term strategy. However, it must face a high taxation level and labor cost.

- Safilo: With a presence in over 130 countries, Safilo benefits from a good understanding of each local markets, and can anticipate the structural changes in demand. Indeed being close to the targeted markets makes the company more flexible and sensitive to the environmental changes. Also the company can develop a real personalized service to customer, provided in the local language by local employees, which can be seen as a good integration effort to the eyes of local consumers.

➤ **The internalization advantages :** These advantages concern the reduction of all the transactional costs (O. Williamson) due to the geographical distance between the head quarter and the subsidiaries(asymmetric information, after sale service, abrupt change in demand, supply chain dysfunction, cultural diversity, language barrier). It is all the advantages a company can get by producing on its own rather than producing through partnership arrangements such as joint venture.



- Atol: Making the most valued products in France allows the firm to work directly with manufacturers, giving and making the exact product needed without any language barrier, transportation costs or even delay.
- Safilo: By going directly abroad and settling in the countries, Safilo avoid some transactional costs due to transport costs, language barriers.

8.4. Raymond Vernon The product life-cycle model

This model enhance all the commercial steps of a product over the time. This model helps to pinpoint all the different stages of the commercialization of the product, and all the related costs. Normally the product should go through 4 stages :

1) The market introduction stage

- Very high costs
- Little earnings ➤ To be related to financial statement of the companies
- Losses for the company

2) Growth stage

- Competition begins
- High prices ➤ To be related with the marketing policy of the companies (how they introduce the product to the market and to the customer, positioning, segmentation...)
- Public awareness starts to increase

3) Maturity stage

- consequent growth of sales lead to reduction of costs
- The competition in the market starts to get more homogeneous (The bigger buy the smaller)
- To be related with the 5 forces Porter (how is the level of competition in the market)

4) Saturation and decline stage

- Reduction of margins
- Strong sensibility and dependence to the economic conditions of the market (abrupt change in demand, increase of raw materials prices, high bargaining power of suppliers...)
- Strong segmentation, the market becomes more specialized



➤ To be related to the strategy of the companies (what are they going to do in order to stay competitive ? What are they strengths and weaknesses ? SWOT analysis).

8.5. David Ricardo Comparative advantage and Heckscher–Ohlin model

Each country should specialize in the production of what it can do best compared to other countries or in the production in which it has the more abundant product factors.

➤ **Atol** and **Fielmann** (France and Germany) have a strong capacity for innovation and R&D so they can develop a wider range of spectacles with more added value and with a lot of features. Besides, the demand on those markets are very qualitative driven, and the price sensitivity is quite low (maybe also due to healthcare coverage and refund of some fees).

➤ **Safilo** (Italy) The sun glasses market plays a bigger role

8.6. Olivier Williamson The transactional costs theory

8.6.1. The agency cost theory

This theory is related to all the costs induced when a person (the principal) delegate a task to another person (the agent). This delegation also give power to the agent since he is now in charge of executing the task. His bargaining power is thus increased and there is an asymmetric information between the principal and the agent because the agent is at the core of the production and know more information than the agent who stay away from this.

➤ This happens when the company delegates some parts of its production to subsidiaries. And this phenomenon



9. Conclusion

The study of the outsourcing in the eyewear market was very interesting and useful to understand the main issues of outsourcing. Contrary to textile sector, it offers some other needs and mechanisms, this sector is more technological than the textile one. This way, outsourcing, insourcing or remaining in the country cannot be decided only for saving money costs. Through this report we have seen that some cultural, logistic, economic, marketing and visibility criteria are needed when taking a decision. Indeed, the global strategy of the company must be clear, logic and sustainable. Atol, Safillo and Fielmann are succeeding in their own market because their main strategy is viable and sustainable. As an example when looking at outsourcing in China. Our Global economy analysis shows that the growth in China's Balance trade and GDP has experienced slight growth since 2001, where in our opinion, the movement of outsourcing began. This can be seen in the decisions of outsourcing done by companies- Safilo made the decision to start outsourcing in 2003 and Atol in the same year. Atol had some delay and cultural troubles with their manufacturers in China, when in 2005 the CEO decided to insource back only if the new mission was to focus on innovation, making high valued products and counterbalancing insourcing costs, high labor costs and taxes. However Safillo wanted to make high profit and margins, staying competitive with prices, that's why they outsourced, being a less innovative by Atol but keeping focus on their plan.

Thanks to this project, we can observe that outsourcing can be a great idea or a bad one, to make outsourcing/insourcing a key success factor, companies must record it into a sustainable long-term strategy. Only this way, it should be a success if it's adapted to the market the firm deserves. We also wanted to show that cultural diversity management is an important thing because if it's not taken into account, off-shoring may be a disaster. Financial data must be important for the company's health but that's not mean leading all decisions.

To finish with, we can see some limits to this project as the lack of access to private data from the companies or even the sector which is quite low broadcasted. However we wanted to show that financials is not enough to justify outsourcing, a good manager must take care about other variables.



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Appendix 14- Safilo Production units overview

Appendix 15- Safilo Brand portfolio segmentation

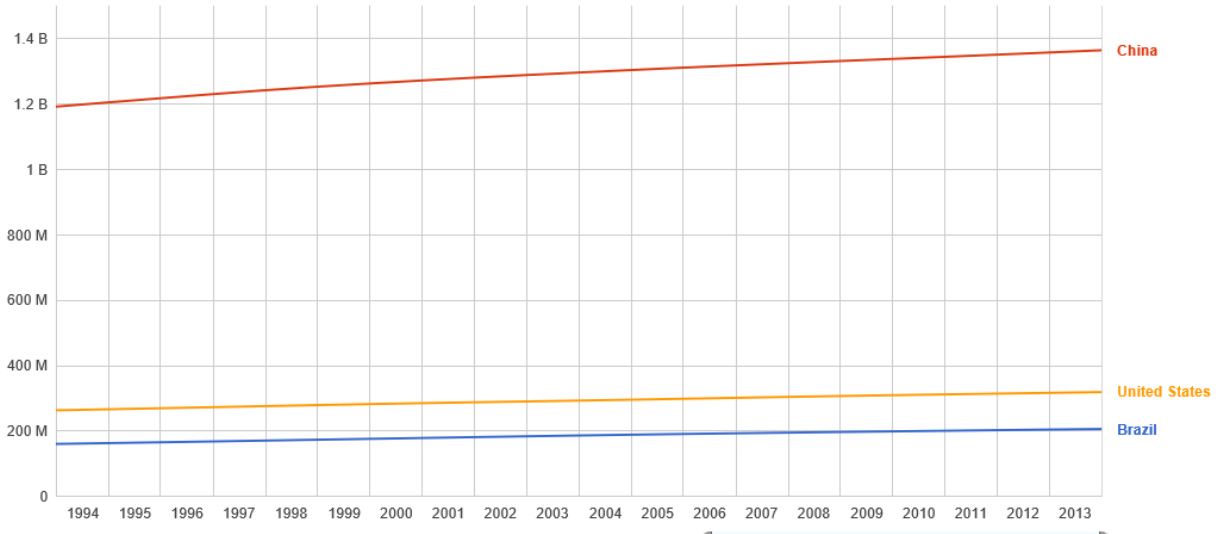
Appendix 16- Safilo key brands

Appendix 17- Safilo brand segmentation

Appendix 18- Safilo Operation structure

Appendix 19- Safilo Operation processes

Appendix 1- Population graph years 1994-2014



(source: <https://www.google.dk/publicdata>)

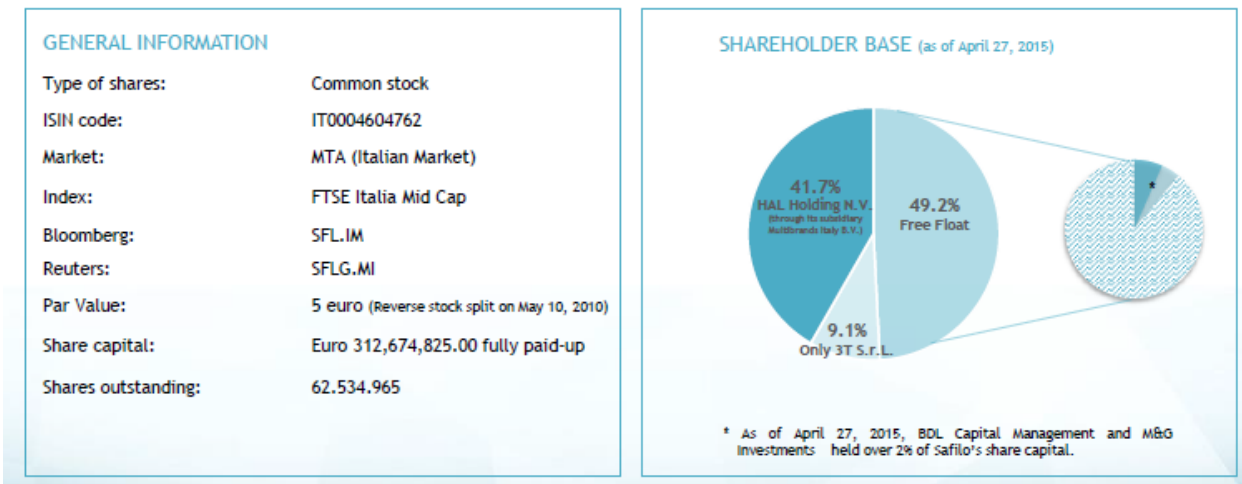
Appendix 2- Safilo brands





(source: http://www.safilogroup.com/ir_2015/Safilo-Group-at-a-glance.pdf)

Appendix 3- Safilo's Group Share capital info



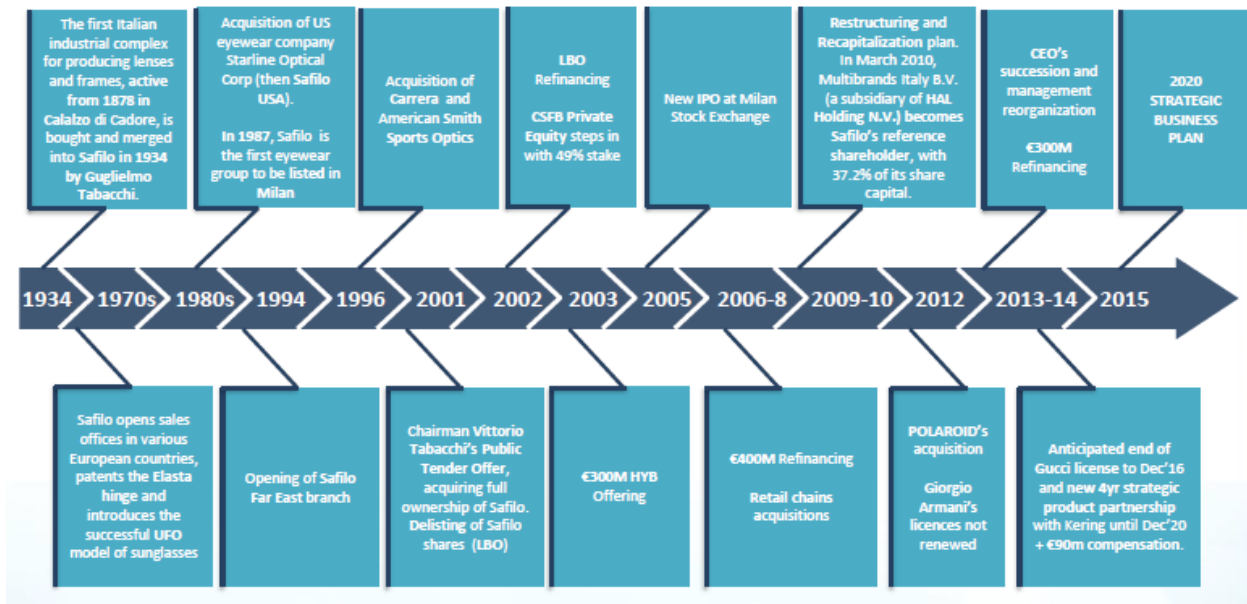
(source: http://www.safilogroup.com/ir_2015/Safilo-Group-at-a-glance.pdf)

Appendix 4- Safilo's 4 key strategies



(source: http://www.safilogroup.com/ir_2015/Safilo-Group-at-a-glance.pdf)

Appendix 5- Safilo Milestones



(source: http://www.safilogroup.com/ir_2015/Safilo-Group-at-a-glance.pdf)



Appendix 6- Safilo's Purpose, Principles and Competences

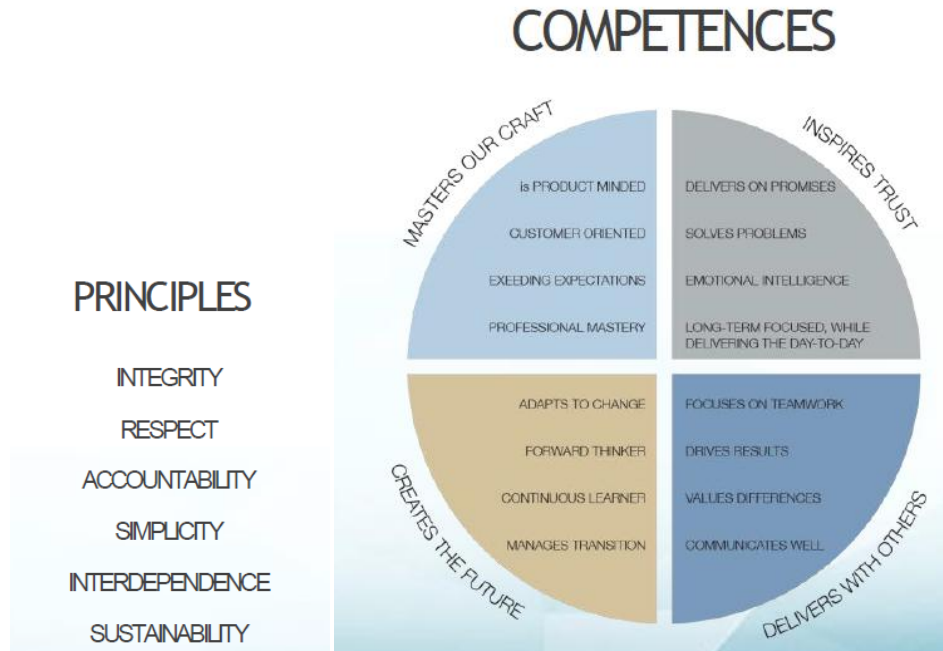
PURPOSE

We are the globally leading Italian eyewear creator and trusted partner Brand led, Design inspired.

We are passionate about creating unexpected, innovative eyewear brands firmly rooted in our unmatched savoir-faire of craftsmanship, selling them across the world reflecting each brand's unique identity and inspiring people the world over to desire and wear them with pride.

We cultivate long-term partnerships built on trust to create mutual value and consistently exceed expectations among ourselves as employees and with our customers and stakeholders, and ultimately deliver lasting superior shareholder value.

COMPETENCES



(source: http://www.safilogroup.com/ir_2015/Safilo-Group-at-a-glance.pdf)



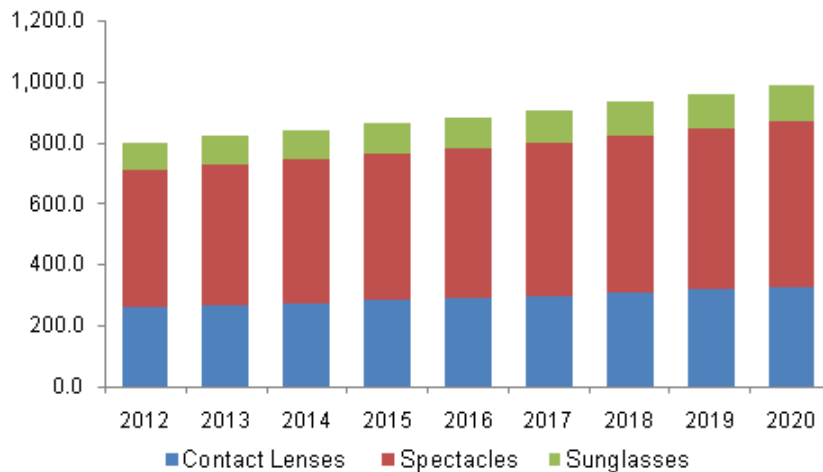
Appendix 7- Eyewear product segmentation list- Europe

- Europe Eyewear Market, by Product
 - Contact Lenses
 - RGP Contact Lenses
 - Soft Contact Lenses
 - Hybrid Contact Lenses
 - Spectacles
 - Spectacle Lenses
 - Spectacle Frames
 - Plano Sunglasses
 - By Product
 - Polarized
 - Non-polarized
 - By Material
 - CR-39
 - Polyurethane
 - Polycarbonate
 - Others

(source: <https://www.gminsights.com/segmentation/detail/eyewear-market>)

Appendix 8- European Eyewear Market growth 2012-2020

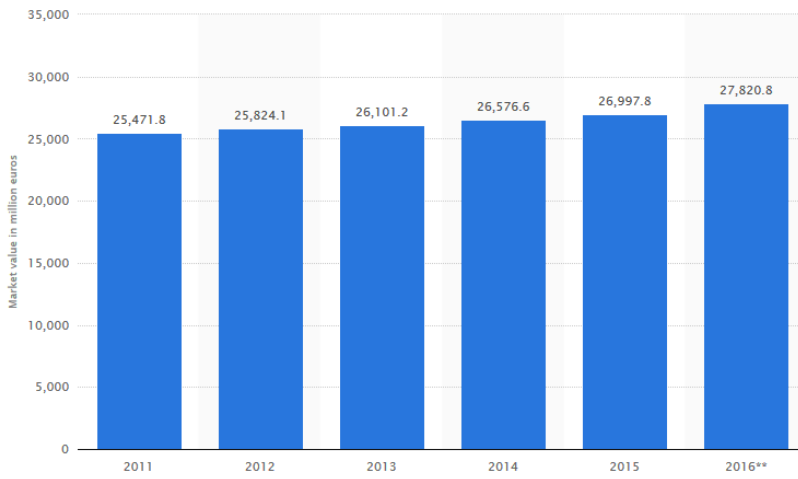
Europe Eyewear Market, By Product, 2012-2020, (Million Units)



(source: <http://www.grandviewresearch.com/industry-analysis/eyewear-industry>)

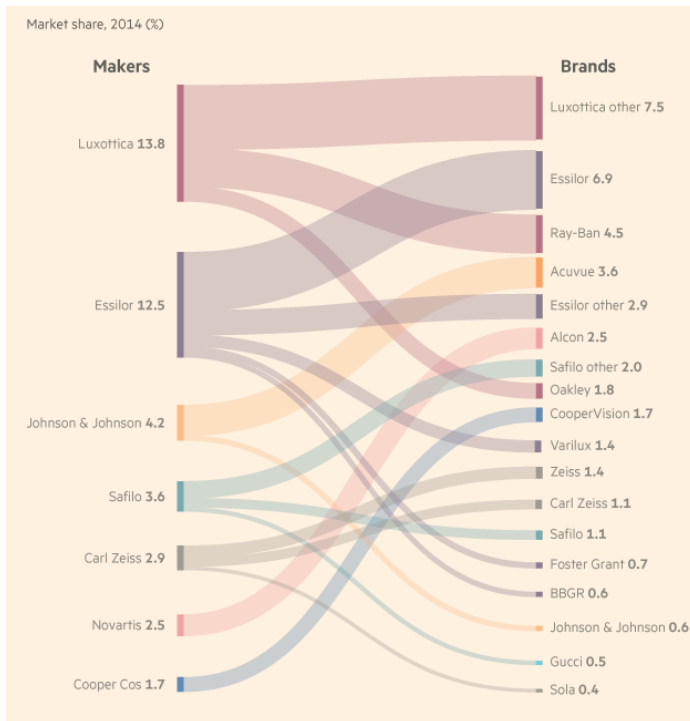
Appendix 9- Market value of eyewear in Western Europe

Market value of eyewear in Western Europe from 2011 to 2016* (in million euros)



(source: <http://www.statista.com/statistics/491500/eyewear-market-value-western-europe/>)

Appendix 10- European eyewear market main actors (2014)

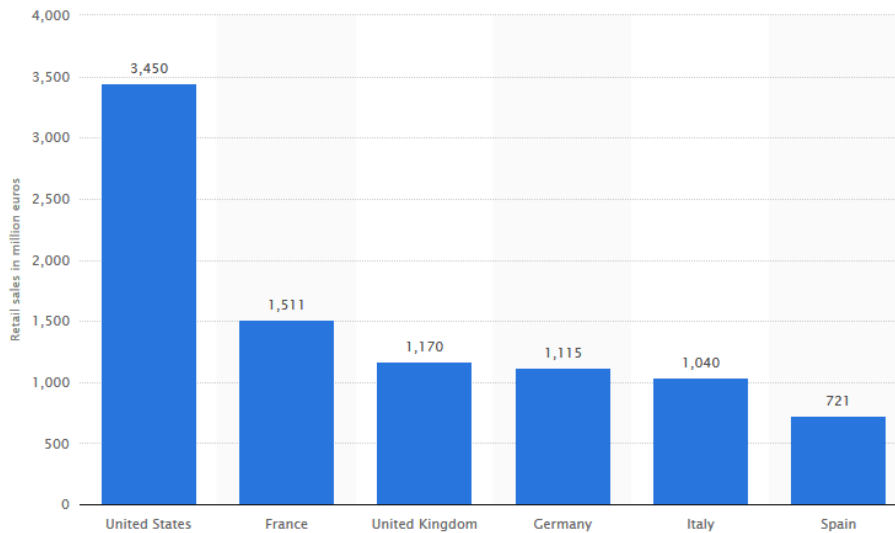




(source: <http://www.ft.com/intl/cms/s/0/6245b900-fbde-11e5-8f41-df5bda8beb40.html#axzz49JPcU75V>)

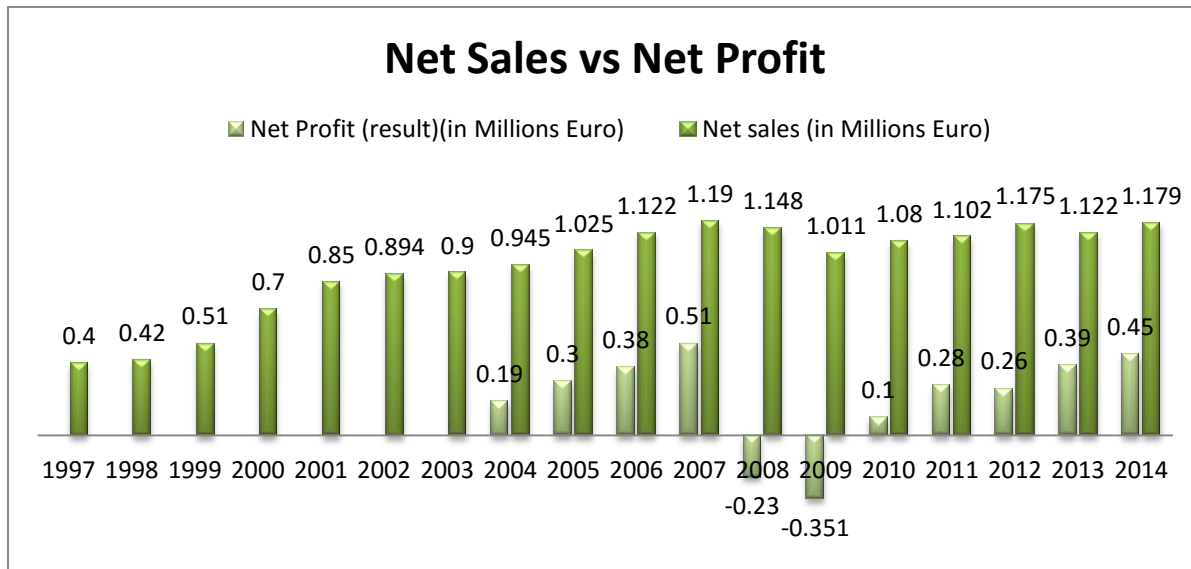
Appendix 11- Value for eyewear worldwide in 2013, by country

Value of the frame market for eyewear worldwide in 2013, by country (in million euros)*



(source: <http://www.statista.com/statistics/289049/value-of-the-frame-market-for-eyewear-2013-by-country/>)

Appendix 12- Safilo Historical Financial (Sales vs Profit) performance 1997-2014



(source: <http://www.borsaitaliana.it/> & self design)

Appendix 13- Porter's Five forces

<p>Threat of new entrants depends on:</p> <ul style="list-style-type: none"> • Brand loyalty • High costs of entry • Knowledge • Patents 	<p>Threat of substitutes depends on:</p> <ul style="list-style-type: none"> • Quality. Is a substitute better? • Buyer's willingness to substitute • The relative price and performance of substitutes • The costs of switching to substitutes. Is it easy to change to another product?
<p>Bargaining power of suppliers depends on:</p> <ul style="list-style-type: none"> • Concentration of suppliers. Are there many buyers and few dominant suppliers? • Branding. Is the brand of the suppliers strong? • Profitability of suppliers. Are suppliers forced to raise prices? • Suppliers threaten to integrate forward into the industry (for example: brand manufacturers threatening to set up their own retail outlets) • Buyers do not threaten to integrate backwards into supply • Role of quality and service 	<p>Intensity of rivalry depends on:</p> <ul style="list-style-type: none"> • The structure of competition. Rivalry will be more intense if there are lots of small or equally sized competitors; rivalry will be less if an industry has a clear market leader. • The structure of competition of industry costs. Industries with high fixed costs encourage competitors to manufacture at full capacity by cutting prices if needed. • Degree of product differentiation. Industries where products are



<ul style="list-style-type: none"> • The industry is not a key customer group to the suppliers • Switching costs. Is it easy for suppliers to find new customers? 	<p>commodities (e.g. steel, coal) typically have greater rivalry.</p> <ul style="list-style-type: none"> • Switching costs. Rivalry is reduced when buyers have high switching costs. • Strategic objectives. If competitors pursue aggressive growth strategies, rivalry will be more intense. If competitors are merely “milking” profits in a mature industry, the degree of rivalry is typically low. • Exit barriers. When barriers to leaving an industry are high, competitors tend to exhibit greater rivalry.
<p>Bargaining power of buyers depends on:</p> <ul style="list-style-type: none"> • Concentration of buyers. Are there a few dominant buyers and many sellers in the industry? • Differentiation. Are products standardized? • Profitability of the buyers. Are buyers forced to be tough? • Role of quality and service • Threat of backward and forward integration into the industry • Switching costs. Is it easy for buyers to switch their supplier? 	

(source: http://www.12manage.com/methods_porter_five_forces.html & self design)

Appendix 14- Safilo Production units overview

Safilo - Production units overview		
Production unit	Country	Production specialisation
Santa Maria di Salva	Italy	plastic semi-finished and finished goods
Ormoz	Slovenia	plastic semi-finished, finished goods and ski goggles
Suzhou	China	acetate, plastic and metal semi-finished goods
Longarone	Italy	metal semi-finished goods and finished goods
Matignacco	Italy	plastic and metal finished goods
Salt Lake City	US	ski goggles
Vale	UK	polarised lenses

(source: <http://www.safilogroup.com/en/4-company-profile>)



Appendix 15- Safilo Brand portfolio segmentation

Market segment	Market segmentation	Brands	% of group sales	Description
High end and Luxury	upper part	Aspirational brands (licensed brands)	c50%	Mainly female market
Diffusion	entry to mid-tier	Fashion promise	c40%	Younger people that are brand aware
Value for money/ Sporty/ Specialist	entry mid-tier (Value for Money)/ high end (Specialist)	Functional/ Sporty	c7%	Individuals not fascinated by fashion and (Value for Money) Male market (Specialist)
Mature	mid-tier	Classic brands	c3%	Classic brands for mature people

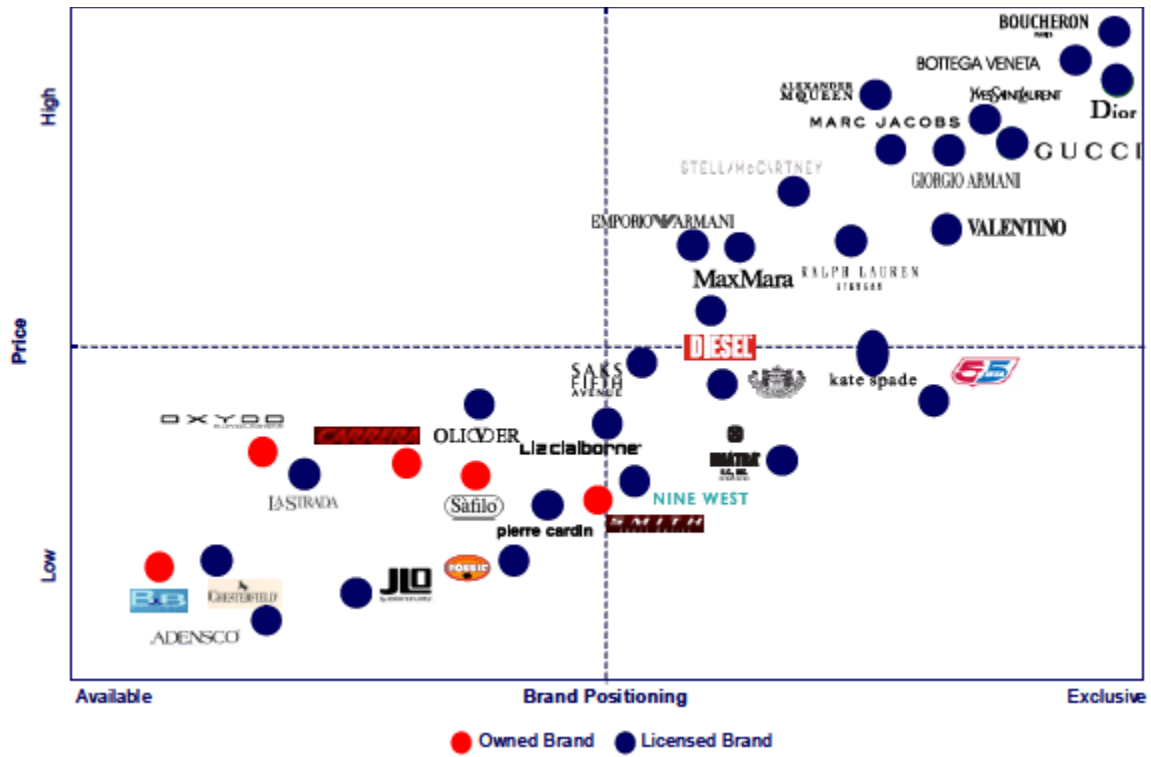
(source: <http://www.safilogroup.com/en/4-company-profile>)

Appendix 16- Safilo key brands

Brand	House vs. licensed brand	Profitability vs. group level
Gucci	Licence	Above. Most profitable brand licence
Dior	Licence	Above. Below Gucci
Marc Jacobs + Boss + Hilfiger	Licence	Above. Made in Italy label is not essential for the entire production
Carrera	House	Slightly below. Carrera was repositioned in FY12 and investments in FY13
Polaroid	House	Below. Polaroid was re-launched in FY13

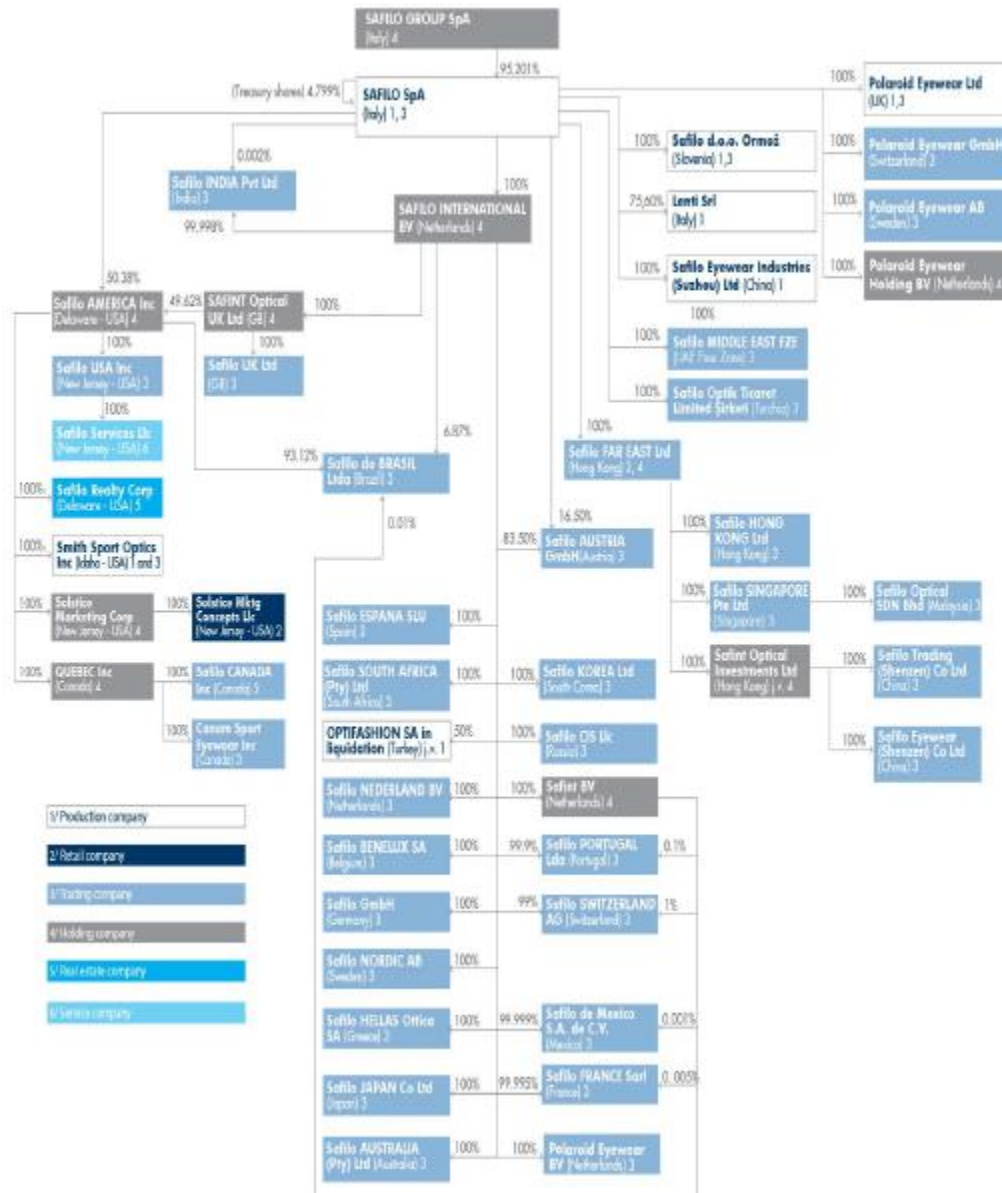
(source: <http://www.safilogroup.com/en/4-company-profile>)

Appendix 17- Safilo brand segmentation



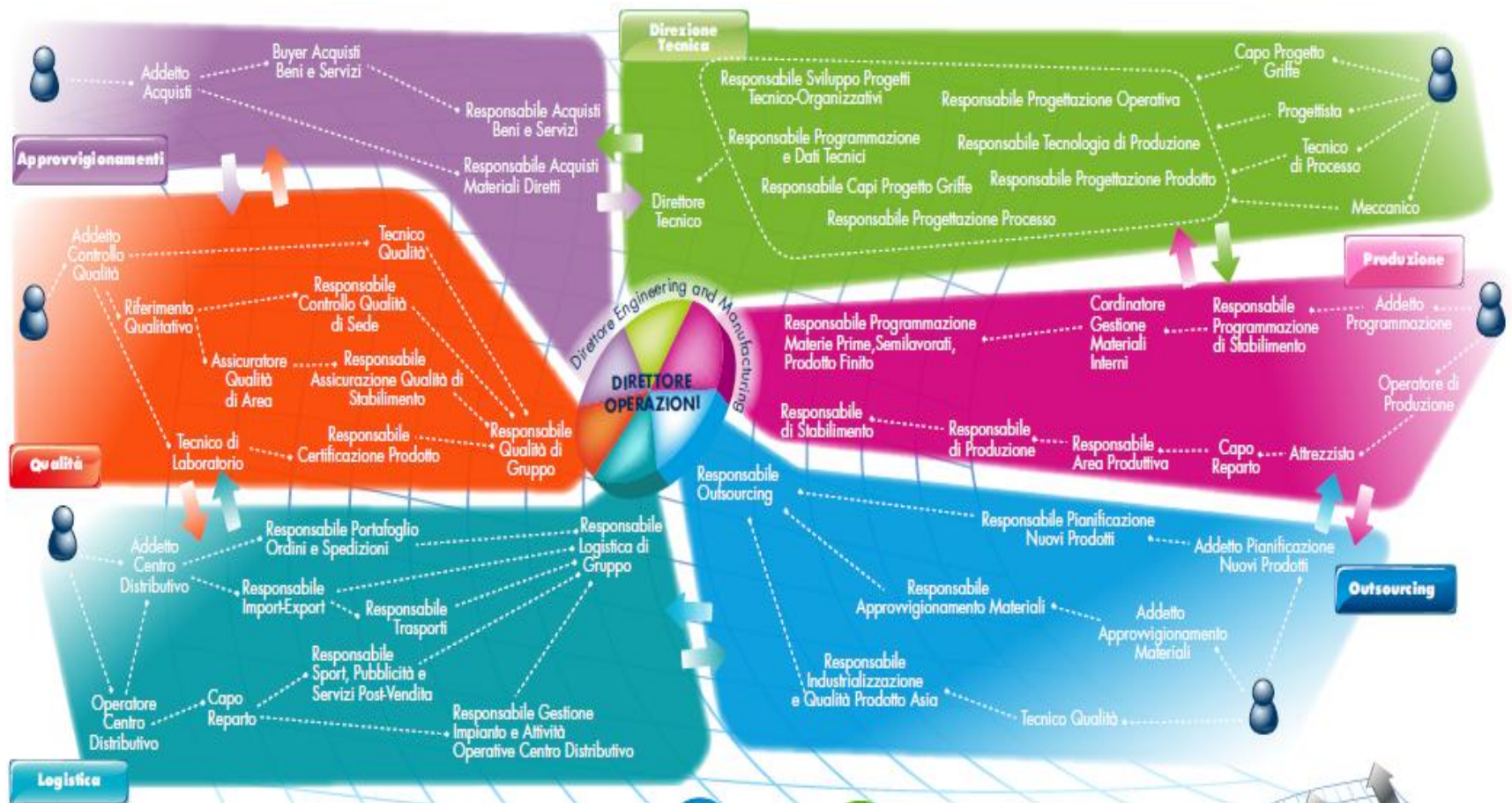
(source: <http://www.borsaitaliana.it>)

Appendix 18- Safilo Group structure



(source: <https://www.google.dk>)

Appendix 19- Safilo Operation processes



(source: <https://www.google.com/url?q=http://www.safilogroup.com/it>)