Daniels Fund Ethics Initiative
University of New Mexico
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Debate

Is one company to blame for the high price of eyewear?

ISSUE: Is it ethical for one company to control all aspects of an industry if it is legal?

Many people view eyeglasses as a distinct visual aspect of their individual personalities. For some eyeglasses are a part of their personal brands. With this in mind, many glasses cost the average American consumer around $300. However, consumers are often willing to spend more to purchase eyeglass brands with such prestigious names as Chanel, Vogue, and Polo Ralph Lauren. Whereas most people recognize the names of these brands, far fewer know about the company behind them. With net sales exceeding $9 billion, Luxottica is the leading eyewear company that designs, manufactures, distributes, and sells premium, luxury, and sports eyewear. Luxottica has established a vertically integrated business model that has sparked many debates on whether it is ethical for one company to control an entire industry.

Luxottica was founded in 1961 by Leonardo Del Vecchio. Del Vecchio envisioned a mix of eyeglass products that would be aesthetically pleasing while simultaneously enhancing the eyesight of consumers. What started as a hobby has now developed into a multi-billion dollar business. Today the firm Luxottica manufactures many brands, including Chanel, Oakley, Ray Ban, Gucci, Burberry, Prada, Tiffany & Co, Versace, Polo Ralph Lauren, Vogue, and Oliver Peoples. The company claims it offers premium products that are outstanding in terms of quality and design. The company operates in over 2,700 retail locations globally and sells eye and sunglasses through the Sunglass Hut brand, which Luxottica acquired in 2000.

Luxottica has become a profitable vertically integrated organization. Vertical integration occurs when a company controls different functions in the supply chain. An example would be when a company acquires a key supplier. For instance, PepsiCo acquired Pepsi Bottling Company, a bottler of its beverages. The acquisition allowed Pepsi to exert greater control over the production of its products. The more control a firm has over the supply chain, the more power it has over such elements as pricing, distribution, and so on. Although vertical integration is legal, a firm that gains too much power might become a monopoly. Monopolies control an entire industry and therefore have total power over how much to charge consumers. With some exceptions, monopolies are illegal under U.S. law.

Today more than 80 percent of eyewear brands are designed, manufactured, shipped, and retailed by Luxottica. The company is also the leading prescription provider in North America through ownership of LensCrafters and Pearl Vision. They also own EyeMed, the nation's most popular vision insurance company that provides vision plans for families, companies, and individuals. Many view Luxottica as a price maker, allowed to set and adjust prices at its own will. Although the firm has competitors in the industry, critics believe that Luxottica has so much power that others in the industry must follow its lead.

Vertical integration has a number of benefits. By controlling more of the supply chain, Luxottica has been able to cut costs. This in turn can lead to better products for consumers. With over 500 million people wearing their

This material was developed by Danielle Jolley under the direction of O.C. Ferrell and Linda Ferrell. It is provided for the Daniels Fund Ethics Initiative at the University of New Mexico and is intended for classroom discussion rather than to illustrate effective or ineffective handling of administrative, ethical, or legal decisions by management. Users of this material are prohibited from claiming this material as their own, emailing it to others, or placing it on the Internet. Please call O.C. Ferrell at 505-277-3468 for more information. (2013)

products, it is evident that Luxottica products are popular with consumers. Vertically integrated companies are better able to compete against rivals. In addition, Luxottica has a variety of inputs and distribution channels from which to choose, enabling such firms to offer more differentiated products. As a result of these benefits, supporters argue that Luxottica's control is an acceptable—and even beneficial—way of doing business.

However, others view Luxottica as a large-scale monopoly that is unjustly priced. They view it as an unethical practice for one company to have so much control over products and pricing. Because of their power, Luxottica is able to set prices that some consumers believe are too high to be competitive. For instance, at Lenscrafters the average frame can cost upwards of $300, which can equate to over 20 times what it costs to produce the product. Brands often choose to be distributed through Luxottica due to its popularity and extensive reach, yet some of the brands feel that they do not have any design input when it comes to the frames. The amount of power Luxottica wields over the industry is disturbing to critics of the firm.

There are two sides to every story:

1. *It is acceptable for Luxottica to pursue vertical integration due to the benefits it offers to the firm and consumers.*
2. *It is not ethical for Luxottica to continue its process of vertical integration because it is gaining too much monopolistic power.*

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