

additional synergy value of the combined companies as well as hoping for a bidding war between alternative buyers, raising the final price. As share-prices for the target rise, the danger is that the shareholders of the target firm will receive all the benefits of the eventual merger or acquisition upfront in the deal price, leaving nothing for the acquiring firms' shareholders.

Against this background, students should expect the bidding firms' share-price to fall around the bid announcement date. In cases where this does not happen, they should look for exceptional strategic reasons for this success. Theoretically, this success should lie in strategic relationships (synergies and similar), which the student should explain. Where bidders' share-prices fall particularly far, they should look for reasons for skepticism about the strategic rationale; typically, the press coverage will provide ample guidance here.

End-of-Chapter Case

Grand Strategies in Vision

By Peter Barton

Background

The global optics industry has evolved across idiosyncratic local markets characterised by great social and regulatory variance. Most markets were traditionally structured with a plethora of small players in manufacturing and retail alike, but they have undergone significant and rapid change. Over the past two decades, there has been substantial consolidation within the frame market in an attempt to leverage business synergies. Large conglomerates have shifted the balance of power across the industry and, through expansion and consolidation, now command significant domination and control over a large part of the supply of eyewear brands, and, increasingly, the retailers they are sold through.

In relation to the value chain, for manufacturing, profits are made through brand value (over generic products) particularly in relation to Fashion (e.g. for Chanel, Ray-Ban etc.), which is driven by marketing. Furthermore, value and profit is made through quality (e.g. Ray-Ban quality enhancements, lens technology (e.g. Essilor)), which is driven by R&D and production processes. Profit is made at the retail end in terms of revenue and mark-up/margin. Indeed, it is not uncommon to find individual branches of large chains, in particular, turning over many millions of Euros/Pounds. The challenge comes for lower-turnover stores covering expensive overheads, which include significant staff costs especially in relation to professionals (i.e. Ophthalmic and Dispensing Opticians) as well as expensive equipment. By being integrated vertically, as in the case of Luxottica, and, to some degree GrandVision, they have the ability to control every aspect of value across the supply chain. This gives the ability to shift power between subsidiaries according to their market and competitive needs, as well as share common goals and create synergies.

The questions posed will encourage students to think about corporate strategies in a neatly defined, yet highly diverse, industry. Whilst they are weighted towards GrandVision, understanding their arms-length relationship with frame supplier Safilo, through their parent company HAL Holdings, is an important dynamic. The detail on their larger and more profitable rival Luxottica, and, their recent merger with lens giant Essilor, gives context to GrandVision's future strategic moves in a growing market.

This case can also be considered in relation to the industry case (Vision Express), which provides further industry context in relation to one of GrandVision's major subsidiaries, Vision Express. Together, students could also be encouraged to consider other themes in relation to macro-environmental factors, resources, culture, international growth, leadership and CSR.

Question 1: With reference to Ansoff's matrix, show how Luxottica and GrandVision have evolved over time. What can you conclude from each?

A key aspect of this case revolves around the way in which both Luxottica and GrandVision have expanded over time, which signals their strategic choices in relation to each aspect of Ansoff's matrix. This also helps to provide clues as to their future approaches to growth. It is particularly important for students to consider what aspects are market developments in terms of new geographical markets as well as new markets within their existing business units.

If this question is used by student groups, it could work well to split groups in order to answer the questions in relation to Luxottica and GrandVision.

Luxottica

- *Market Penetration and Development (and some consolidation):* Luxottica roots stem from manufacturing frames and it has continued to increase sales across global markets as well as expand the number of proprietary and licensed brands it provides. However, its growth has not always focused on selling more units. Rather, they have adopted a strategy of selective, and, in many instances exclusive, distribution by restricting the number of stores that sell their products (as in the case of Ray-Ban and Chanel) in order increase their exclusivity and respective brand value. This then relates to market development as Luxottica have shifted brand perceptions in order to appeal to the more fashion-conscious as well as affluent market segments.
- *Product Development:* The range of brands and the huge number of models (currently over 27,000) is testament to Luxottica's commitment to product development. In each case, they have also looked to improve product quality and raise brand value through fashion. Notably their biggest success was the transformation of the Ray-Ban sunglasses brand which they purchased from Bausch & Lomb. The dramatic improvement in product quality as well as focus on brand image has turned this into the world's most valuable glasses brand, which they then developed into a successful ophthalmic range as well. They have continued to acquire other suitable fashion and leisure brands with Oakley being the other high-profile acquisition.
- *Diversification:* Luxottica has adopted a relatively consistent position for the products it manufactures with main diversification coming from the vertical integration of its business into retail. This has largely been driven through acquisition (such as through Lenscrafters) but Luxottica are also trying to increase their global retail presence through existing brands such as David Clulow and Sunglasses Hut as well as through new optical store models such as John Lewis Opticians. The merger with Essilor will also now give Luxottica a more diversified portfolio with cross-platform selling opportunities across its own and other retail outlets.

Luxottica Conclusions:

- Luxottica have a strong track record of growth providing them with both economies of scale and distribution efficiency. They have continually looked to develop geographical reach as was in the case with the acquisition of Lenscrafters in the United States, which instantly enabled them to further increase their product sales. The merger with Essilor will give them yet further growth potential in both new and existing products and markets.
- It appears that this growth and brand exclusivity has given Luxottica significant competitive advantage and domination in the designer brand market. They appear to take on a sustainable differentiation strategy that is quality and brand-led. Whilst their products are sold widely, careful control of supply and increasing customer demand through brand enhancements ensures that customers will seek out their products.
- There is a focus on in-house control of every element of the production process which ensures that they are able to provide consistent quality, a key strategic priority. Luxottica have thus far avoided outsourcing where control is reduced, and potential business processes may be copied.
- Luxottica are not easily distracted by business they deem as non-core and potentially value-destroying. Their purchase of US Shoe appeared to be a way of acquiring the largest US optical retailer, so they quickly sold off all non-optical parts of the business.
- The merger with Essilor also demonstrates the importance of technology to Luxottica, which looks to further enhance both its resources and capabilities. Essilor is a market-leader in spectacle lens R&D and it seems likely that Luxottica wishes to benefit from not just the cross-selling opportunities but the cross-learning potential as well.

GrandVision

GrandVision itself is largely the amalgamation of a number of optical chains that have enjoyed steady year-on-year growth, which has come from opportunities in existing and new markets.

- *Market Penetration:* Although GrandVision does manufacture some products, their core focus is upon retail, which arguably makes them more vulnerable in the context of the current retail environment (see Vision Express Industry Case). Notably, GrandVision try to develop and further penetrate their markets through driving more sales through existing stores and trying to integrate acquisitions and extend their reach within existing markets. For example, from the 19 branches, they acquired from Conlons Opticians, they merged 7 into existing Vision Express Stores and converted the other 12 into the Vision Express brand.
- *Market Development:* Not only have GrandVision been successful in penetrating its existing markets, but it has also widened its global reach evidenced by its M&A activity outlined in Figure 2. For example, they have expanded into markets they were not previously represented in, such as through Atasun in Turkey, Red Store in China, For Eyes in the United States and Walmart in Mexico. Whilst not shown in the case, they have also increased their online e-commerce including the contact lens online provider Lenstore in the United Kingdom.

- *Product Development:* GrandVision have a significant portfolio of licensed and proprietary spectacle brands that they are continually developing in terms of range, style and quality. However, GrandVision's core business is retail, and in this area, GrandVision appears to focus on enhancing their professional services around eye-health. (This is particularly evident from the Vision Express cases where they are continually investing in new technologies to enhance and broaden their capabilities and services.)
- *Limited diversification:* Whilst GrandVision's portfolio shows a spectrum of products and services that have been sold across a range of markets, GrandVision's strategy has remained heavily weighted to optical health and the selling of products through its retail business. Their growth strategy is to enhance what they have now and look for opportunities for further expansion rather than look to further diversify their portfolio. That said, they are acutely aware of the changes in the marketplace and they will be keeping a close eye on technological changes and competitive moves by Luxottica in particular.

GrandVision Conclusions:

- The majority of GrandVision's recent growth has been through Market Penetration and Market Development even though they are inherently diversified (e.g. retail, spectacle frames, lenses, contact lenses).
- Whilst GrandVision have a good range of their own frame brands and limited prescription lenses and contact lenses, their growth has been focused upon acquisitions within existing and new markets. This, in turn, helps to drive sales of their own products as well as the designer frames from their sibling company Safilo.

A key point of difference between the two companies is that Luxottica is more integrated than GrandVision, which is focused predominantly around retail. Whilst GrandVision creates significant value across its portfolio through synergies, Luxottica appears to be a stronger position in terms of strength of designer brands and direct relationship into its own retail outlets. Furthermore, the inclusion of Essilor as a mainstream branded lens manufacturer merging with Luxottica greatly widens the scope of Luxottica's capabilities and markets, and, thus, creates a challenge for GrandVision.

The combinations of Safilo and GrandVision would be more similar to its rival but the existing arms-length separation means that GrandVision cannot capitalise on synergies within its value chain to the same extent. It is worth noting how Luxottica and GrandVision share a similar preference of control and ownership and appear to keep their support and primary activities in-house in order to keep ownership of quality control.

Question 2: How does GrandVision compete in its market?

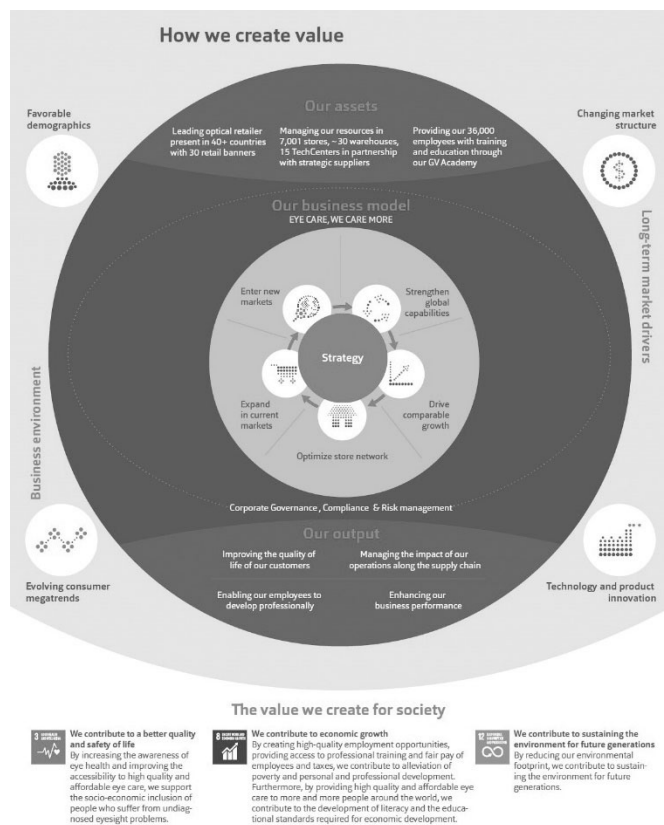
In order to answer this question, students should firstly recognise that GrandVision competes through both its differentiated position within the industry as well as the capabilities that it possesses, which together provide sufficient value to enable it to compete in its disparate markets. Notably, it is its scale economies that help to drive group and subsidiary costs lower through process synergies and buying efficiencies, but also through linkages from its own and sibling manufacturing to its global retail network.

It is worth noting that GrandVision has not harmonised its global brand across all its stores retaining local brand value as well as local knowledge in diverse markets. Indeed, the GrandVision brand is not well known across markets whereas the brands of which it operates both across manufacturing and retail alike, hold significant value in their markets, which relate to quality, fashion, reliability and professionalism. Vision Express CEO, Jonathan Lawson, implies that there is a dominant logic applied across the varying business geographies and units and best practices are shared across markets when deemed appropriate (see Section 8.3). Chiefly, a drive for professional service and quality brands is a common theme amongst its retail operations. Students who are aware of GrandVision's retail brands (such as Vision Express in the United Kingdom, Apollo-Optik in Germany and Grand Optical in France) will be able to bring their own perceptions and insights regarding their positioning in their respective markets.

In terms of Porter's five forces, the industry power has continuously shifted from retail to suppliers as the number of suppliers reduces. However, GrandVision's own supply as well as their sibling company Safilo gives them significant power across the supply chain in an industry where recommendation by the professional has significant weight in customer decision-making.

It is also helpful here to consider GrandVision's own perception of how it creates value within its markets.

GrandVision's value model



If you consider GrandVision's competitive advantage in relation to environmental factors, GrandVision has and continues to be well positioned to take advantage of favourable demographics in terms of growing and aging populations, affluence and greater demand for corrective vision. It considers these structural changes as well as how advancement in technology can enhance both its product and service offerings.

“Technical innovation, consolidation and deregulation are transforming the customer journeys with the increasing need for large scale technology and supply chain platforms. Major consumer trends such as greater health and lifestyle awareness, fashion consciousness, functional expectations and the shift to the convenience of omni-channel solutions, also favour our business model and strategy.”
Theo Kiesselbach, CEO GrandVision (2018)

Whilst GrandVision provides considerable global capabilities, it appears focused on supporting its subsidiaries where it can leverage efficiencies and, value-added services, whilst still empowering them to complete how each sees best in their respective markets. GrandVision's core objective appears to revolve around driving strong cash generation and comparable growth, which they seek to achieve through their '5 Global Strategic Priorities' in Figure 3. Notably, they seek to encourage further local economies of scale and expand within existing network through the funding of bolt-on acquisitions (like Tesco Opticians to Vision Express in the United Kingdom) as well as enter new markets to increase their global footprint.

Together with Safilo, GrandVision's main competitor focus will be on Luxottica which arguably has the bigger product brands and the largest optical retailer in the United States. This question could also be applied to Luxottica and would yield a similar answer in terms of scale and value although Luxottica appears even more ruthless in its drive to increase its market share in the optics market. Furthermore, its manufacturing and retail operations are more heavily controlled and integrated creating reciprocal benefits for both sides. Indeed, whilst there is a clear link between GrandVision and Safilo through ownership and the sale of Safilo's brands through GrandVision's store, they remain technically at arms-length. One reason for this is may be because Safilo sell to many of GrandVision's competitors, so this can damage relationships for them when it is these customers who are the ultimate gatekeepers to dispensing products including designer eyewear brands. Luxottica, however, appears to ignore this issue and sells its brands to its retail competitors with the attitude that the brands are what the consumer wants so they will want to have them in stock anyway or lose sales. Students may wish to consider the relative power between big product brands, such as Ray-Ban, and consumer loyalty to their optician.

Question 3: How do you think that GrandVision adds or destroys value for its portfolio?

GrandVision currently operates in over 40 countries across Europe, North & Latin America and Asia. A map showing their global offices can be found at www.grandvision.com/about-us/global-presence.

Students should consider the aspects within 8.6.1 in relation to value adding and value destroying activities. GrandVision's role as a corporate parent is to provide each subsidiary the greatest support it can to gain competitive advantages and network effects in their respective markets whilst taking a longer-term perspective.

It is evident from the previous questions that GrandVision adds value through its scale economies in terms of buying potential but also through streamlined processes and sharing of best practices. Furthermore, it has a strong track record of continually increasing these economies of scale and processes through continued growth in new and existing regulated markets as highlighted through its 5 global strategic priorities in Figure 3. Students should consider the impact of GrandVision on each of these (entering new markets, strengthening and delaying global capabilities, driving further comparable growth, optimising the existing store network, expanding into current markets also through bolt-on acquisitions) and how this adds value to each subsidiary and business unit.

From the case, it appears that GrandVision is hands-on where it fulfils the corporate objectives (e.g. providing capital to Vision Express incorporated Tesco Opticians, Conlons Opticians, Crowne Optical and Rayners) but hands-off where the local market is best placed to make decisions suited to their market (e.g. marketing and local regulation). As their mode of growth is focused on acquisition, the challenge for GrandVision is when new detached business units are incorporated into their portfolio. Where acquisitions are integrated into existing businesses, the challenge rests with the individual unit, which GrandVision as parent can only advise upon and monitor.

In addition to optical brands that GrandVision provides its stores globally, it appears that it also provides additional access to a wide range of other brands from its sibling supplier Safilo, which offers a broader and stronger portfolio of designer frame and sunglasses brands. However, whilst these benefits are significant, students should recognise that this buying centralisation can restrict purchasing and merchandising as other potential options may be removed (e.g. designer brands, lens choices etc.).

GrandVision also provides structured and centralised corporate governance to ensure all it meets its own governance, risk and audit objectives as well as its subsidiaries. Students can view their approach to central governance online (<http://investors.grandvision.com/>) and view roles and members of the board, the duties of its committee (Audit, Nomination and Remuneration), compliance, policies and investor information.

Perhaps one of the most notable characteristics of the global retail optical market is that each country has evolved slightly differently due in large part to the regulator variations between countries. There are few synergistic 'brand' benefits as GrandVision is not a well-known brand. Rather, it is a corporate parent to many strong retail brands across different markets which are broadly of a similar differentiated competitive positioning. Comments provided by Vision Express CEO, Jonathan Lawson, provides helpful insight here as it appears that GrandVision recognise the value of local brands and knowledge, which it has never been tempted to convert into a homogeneous brand and dispose of the inherent brand value in local markets. It is also worth noting that GrandVision does

not constrain each subsidiary brand to their own markets. Indeed, Vision Express, for example, have expanded internationally with notable recent growth in India and now have over 160 stores in 30 cities (<https://www.visionexpress.in> and click on 'About Us').

Students should consider where GrandVision sits in relation to Figure 8.5 (Chapter 8). GrandVision looks for synergistic benefits across its portfolio by seeking to enhance value for its disparate retail entities. The synergies are notably strong due to the consistent activities of business units that relate directly to the core business. GrandVision is well placed to provide common purpose, encourage cooperation across business and provide central services and resources. Its role as corporate parent is then to 'envision' and 'support' rather than 'interfere' so as to allow each business to deliver to its own market. This is achieved through its purchasing power of product but also through processes and systems, which are refined and improved according to global best practices across GrandVision's retail network.

In relation to value destroying activities, (8.6.1), GrandVision's challenges will be around management costs and bureaucratic complexity which they attempt to outweigh by the benefits in scale economies and cooperation. Whether or not GrandVision can demonstrate that it creates more value than it costs is difficult to determine but the signs of continued growth across the business as well as its ready-made brands suggests that it does. Furthermore, the variation in markets and some diversification across optical products and retail services helps dilute risk across the business as well as provide greater control over the supply chain. Indeed, GrandVision's greatest competitor Luxottica is having great success in growing vertically and horizontally through acquisitions so GrandVision is helping to put its subsidiaries in a more level playing field than they would otherwise experience in the face of such a powerful global competitive force.

With consideration of the parenting matrix (Figure 8.8), GrandVision are well experienced in their markets and are positioned to provide good feel and understanding for its businesses in their markets positioning them around 'Heartland businesses'. The benefits provided by GrandVision are mostly around financial backing, support of the strategic position of each business and the sharing of experience across units.

Question 4: With the creation of EssilorLuxottica, what would you recommend for GrandVision's future strategy?

This question is designed to reflect upon the dynamics of this industry and the impact of two of the biggest players coming together to create a super-power. This merger gives EssilorLuxottica not just control of the biggest brands in the world, and significant retail supply, but also the component of glasses that has easily the largest mark-up, the lenses (as highlighted in the Vision Express case). The network effects from this could be considerable as cross-selling as well as distribution synergies could both increase demand opportunities but also improve operation efficiencies and costs. This control could also encourage their competition to increase exclusivity and potentially restrict supply to rival stores. This presents a problem for GrandVision (and Safilo), which allows students to consider GrandVision's options in a growing market.

Students should be encouraged to make further research and consider future development in relation to the structural challenges (e.g. the internet) and opportunities (e.g. aging populations) as well as the growth prospects for the market. This market is expected to grow 7.4% each year until 2023 to around \$167bn (£125bn/EUR142bn). GrandVision's forecast is a little more conservative but still points to continued growth.

Global eyewear growth (GrandVision)



Students should also consider what GrandVision does well and what options are open to them. They may wish to complete a SWOT analysis in the light of the change in competitor position. It is evident that GrandVision has significant economies of scale and has achieved year on year growth for decades. However, their relative market share could shrink with the recent merger of EssilorLuxottica.

GrandVision are likely to continue trying to penetrate the market in order to:

- build on established strategic capabilities;
- lead to greater market share and increased power vis-à-vis buyers and suppliers and
- provide greater economies of scale and experience curve benefits.

Some of the considerations for GrandVision's future strategy may include one or more of the following:

- *Do nothing for now.* GrandVision has a clear strategy and should not react too quickly to the change of competitor configuration. It could be content as a strong number 2 in the market. GrandVision has few optical product brands that compete head-to-head with EssilorLuxottica. Safilo on the other hand has the more comparable designer labels. Also, GrandVision's retailers hold significant brand equity in their markets and they are ultimately the gatekeepers of dispensing eye-wear. If EssilorLuxottica change the terms of the sale of their products to significant detriment, GrandVision could look to shift the weight of their

brands further towards Safilo although this could lead the loss of customers who demand the world's strongest brands, Ray-Ban and Oakley, both of which now belong to EssilorLuxottica. Coming from very different roots, there may also be cultural issues for EssilorLuxottica so this could lead to issues of compatibility, which could impact the success of the merger and its economies.

- *Establish new channels:* GrandVision states that they consider pure-play online propositions, if and when there is added value for their customers or synergies with the existing business, and service and quality levels are not compromised. Indeed, in recent years, GrandVision's response to the changing needs and priorities of our customers has led to the accelerated development of omni-channel capabilities. GrandVision could look to new propositions that enable them to deliver an extended, and deeper customer journey across all channels, including new, digitally powered innovations.
- *Look to accelerate growth-plans further.* GrandVision has already embarked upon an aggressive growth strategy and could be ambitious by trying to merge with other large chains (e.g. Boots or Specsavers in the United Kingdom). It could look to further accelerate this both within existing markets through the purchase of more optical chains or acquisition of smaller successful opticians, as well as identify markets they are currently not represented within. Indeed, most national optical retail markets are still highly fragmented, with a significant proportion of independent retailers operating either as single stores or relatively small chains. This provides the opportunity to expand through bolt-on acquisitions in existing markets, and to integrate these businesses into their existing network. Unlike EssilorLuxottica, Grandvision are not represented in Africa and this is a market that is forecast to grow in the long-term.
- *Consider merging with a lens manufacture or other supporting optical product:* The benefits around economies and network effect of merging with a lens manufacturer are potentially significant. There are a number of other highly reputable lens manufacturers which could fit well into terms of brand synergy and lead to access to new markets and customers. Indeed, whilst all significantly smaller than Essilor, manufacturers such as Hoya, Zeiss, Nikon and Shamir might make suitable targets to diversify their portfolio. It may also give them new transferable competences. Indeed, Essilor have over 8,000 patents which are likely to have a positive impact on Luxottica as well.
- *Diversify into related or allied health products or services.* GrandVision could consider integrating with one of the major contact-lens manufacturers, or allied services, such as laser eye-surgery operators or even hearing care. This would help to diversify GrandVision and spread risk. This would give a reasonable level of 'Related limited diversification' as per Figure 8.3, which should improve performance. Students should consider the drivers on diversification provided in 8.3 (Exploiting economies of scope; Stretch corporate management competences; Exploiting superior internal processes; Increasing market power). Diversification in this case should create value and therefore synergies from the network effects from cross-selling and distribution efficiencies.
- *Merge with Safilo.* GrandVision already share the same parent company as Safilo. The two companies could achieve further economies and efficiencies by merging together to increase

their competitive strength supporting a Resource-based view (RBV). There would be considerations as to how other customers of Safilo may respond but Luxottica also supplies competitors of its retail operations due to the strength of their designer brands. Safilo brands are also strong so they could also chose to tighten supply to increase brand exclusivity.

- *Look for more optical brands.* GrandVision (or Safilo) could also look at other designer brands to suit changing consumer preferences and demographics in both new and existing market segments.
- *Future merger with EssilorLuxottica.* The frame component of the industry appears to have changed from a state of healthy competition to Oligopoly and could now be heading for a Duopoly. Ultimately GrandVision could consider merging with EssilorLuxottica in the future. It is likely that there would be significant competitive regulatory barriers that would likely prevent such a deal happening at this time. However, the global coverage and power across the supply chain would be immense providing them with opportunities for cost reductions, streamlining resources and processes and an unprecedentedly global reach and customer-base.

Students may suggest outsourcing although it is unlikely GrandVision would wish to outsource much of their capabilities. Like Luxottica, they prefer to ensure quality control is in-house.

Whilst students may wish to consider the BCG matrix (Figure 8.6), there is not sufficient information from the case itself to allocate the elements of its business into quadrants. However, students could be tasked with further research from GrandVision's website about the performance of its business units as well as consider its strategic brands of itself or sibling frame company Safilo.

CSR considerations

Students could also consider the CSR implications of the merger. Whilst the global eyewear market is highly profitable, there are still around 2.5bn people globally who need glasses but are without, making 'vision' perhaps the largest untreated disability in the world, far greater than hearing loss. Most large optical manufacturers have CSR strategies in place, which attempt to partially address the issue and GrandVision is no exception and says on its website:

<https://www.grandvision.com/sustainability/2016-csr-report>

"With a global leading role in eye care comes also responsibility. GrandVision recognises the responsibility to develop the business and provide the eye care services and products in an always sustainable and ethical way."

EssilorLuxottica now have the power to influence how billions of people to see as well as the amount they will pay for this. This level of power has implications for their own CSR strategy and sustainability, whether it will be used to further penetrate those who cannot see or afford to see sufficiently well, or alternatively could be used to control supply and increase prices. Spectacle lens manufacturers have typically taken a lead on improving access to corrective lenses with Zeiss, Rodenstock, Hoya and Essilor having strong programs in place. However, Essilor's €200m R&D budget is three times the size of the rest of the industry combined and, within this, it has a division called 2.5 New Vision Generation. Jean Carrier, Chief Operating Officer of Essilor says *"We have one goal: to push back the frontiers of poor vision worldwide."* (McCormick, 2016 - AOP Website).

Whilst it may be a medical need that helps to fulfil CSR objectives; key targeted areas, including Africa, China and India, are expected to undergo economic growth at a time when there is stagnation in mature markets. Indeed, perhaps we are already seeing signs that fashion is important in these markets. In 2012, the World Health Organisation advised charities to stop providing second-hand glasses from richer countries because those in need did not want to wear old-fashioned designs.