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## **ИСПОЛЬЗОВАНИЕ ИНСТРУМЕНТОВ СТРАТЕГИЧЕСКОГО УПРАВЛЕНИЯ ДЛЯ ФОРМИРОВАНИЯ СТРАТЕГИИ РАЗВИТИЯ КОМПАНИИ INCREDIBLE GLASSES**

*В статье представлены результаты исследования рынка оптики США, на основе которых предложена возможная стратегия входа на рынок итальянской компании Incredible Glasses, выявлены ключевые факторы, способствующие входу на целевой рынок.*

*Данные, используемые в исследовании, представляют собой совокупность первичных и вторичных источников. Первичные данные были получены в ходе проведения интервью с основными игроками рынка, такими как ритейлеры, дистрибьюторы, офтальмологи и иные специалисты. Вторичные информационные ресурсы были получены из отчетов компаний, официальных статистических данных и информационных источников.*

**Ключевые слова:** *международный рынок, маркетинговые исследования, Портер анализ, стратегия входа, стратегическое управление, рынок оптики, конкуренция.*

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THE USE OF TOOLS IN STRATEGIC MANAGEMENT  
FOR THE FORMATION OF THE INCREDIBLE GLASSES COMPANY'S  
DEVELOPMENT STRATEGY BASED**

*This report concerns the interest of Incredible Glasses to enter the US market. This information, matched with Porter analyses, will be used to formulate and propose an entry strategy for Incredible Glasses in US. Data used in this research are based on a mix between primary and secondary sources. Secondary data were collected from Industry reports, books and other digital sources. This information was fundamental to perform a general analysis of the country and the industry, and to understand which the main market segments were. Primary sources were collected through interview with main actors of the market, such as opticians, distributors and other experts.*

**Key words:** *international market, market research, Porter analyses, entry strategy, strategic management, eyewear market, competition.*

Incredible Glasses, a subsidiary of Intratech Srl, is an Italian SME located in Pieve D'Alpago (BL). The group has developed over the years a rooted know-how on plastic's processing techniques. Recently, the company invented glasses frames with the use of a particular plastic polymer that exhibits shape-memory

property. The success, particularly in Italy, has been outstanding. Despite the large competition set by large players as Luxottica and Safilo, the management has been able to let people know and appreciate Incredible Glasses products [1].

Few years ago, on the wave of increasing market, Incredible Glasses attempted to enter to US market, the most promising area for the forthcoming years. The company tried to step into US through the help of American distributors, as they were considered the most feasible way to get in. Unfortunately, results obtained were not as expected.

Industry analysis is used to give a clearer picture of the forces acting in a particular sector, both taking into account current situation and future trends. One of the most used tool to perform this analysis is Porter's forces. This framework aims to establish the current (and possibly future) profitability of a determined sector taking in consideration the main five forces on the ground: Competitors, Suppliers, Consumers, New entrants and Substitutes. The more each of this forces is powerful, the less total profitability will be [2].

According to the purpose of our report, we will take in consideration the eyewear industry sector in the US market, focusing on the points which are of major interest for Incredible. We will not analyze the bargaining power of suppliers, given the fact that Incredible Glasses current one's are all located in Italian market. Supplier analysis may be relevant in a future scenario in which Incredible successfully expand into foreign markets. For each force analyzed we will provide a rate from 1 (low power, high profitability) to 5 (high power, low profitability). We will conclude the Industry analysis with an overall rate of the attractiveness of US eyewear market.

### **1.1 Competitor (5/5 very high)**

A deeper analysis on direct competitors is worthwhile in order to pick the right strategy while entering a new market. Since Incredible Glasses intends to step into the US market, an examination of strongest competitors operating there will be carried out. The study will be articulated such that most relevant indicators and data arise. As main competitors we chose the three biggest companies in terms of shares: Luxottica, Safilo and Marchon Eyewear respectively. In addition we also consider the case of Warby Parker, which is an American eyewear startup selling online [3].

Luxottica is the world's first eyeglasses and sunglasses manufacturer. Its dominance is deep-rooted in each area it operates, especially in USA. Part of Luxottica's fortune can be associated to a peculiar trait of the eyewear market.

A research found that premium products account for 35 % of market value. Luxottica, as a response of this trend, diversified its portfolio with a number of top-tier brands. With 7.7 billion € revenues, the company is leading the market, chiefly the American one. Despite its products exhibit high prices, the brand's attractiveness continue to fascinate customers. With particular attention to US market, all three top sold brands belong to Luxottica. They are Oakley, Ray-Ban and Persol respectively. The price range goes from 110.00 \$ to 405.00 \$.

A further factor defining Luxottica's leading position can be identified in its strategies. First consideration should be made on the supply chain to which Luxottica belongs to. The success of the firm should not and cannot be attributed to its products only. Undoubtedly accomplishments have been achieved through a vertical consolidation strategy [4].

Luxottica, frightened by alternative products, believed this strategy would be an appropriate tool to develop a distribution network that drove company's profitability. The intention would have been acquire members from supply chain's bottom, such as retailers. The insight turned out to be fruitful as a large share of company's net sales were and still are gathered by retailers business. Last year the retail segment increased its performance by 3.2 % at global level. The upward trend justifies the huge investments Luxottica is carrying out and, most probably, it will force the company to pursue this strategy even more intensely from now on. Tough it is interesting to see that Luxottica does not particularly believe in the retail distribution to the same



extent in all geographic areas. As a matter of fact the retail activities contributed for more than 60 % of the multinational company's global net sales in 2014. However, with particular attention to US market, it stands out that most of the sales are generated by retailers whose weight is close 80 %. Hence Luxottica trusts retailers to a larger degree in US.

A collaboration with Google is expected to bring innovative outcomes not only through the products mix but also for Luxottica as a whole. A third strong point that guaranteed high success to Luxottica is given by licensing strategy engaged with luxury apparel brands. Licensees brands' status contributed significantly to the strategy effectiveness. For this reason Luxottica is continuously looking for new license agreements with top-rated brands to combine with its expertise. However the company is not only seeking for new opportunities or alternatives, but it is also trying to get more favorable arrangements with current luxury brands.

Safilo is the world's second largest producer of sunglasses and it grounded its success on a great attention it pays to design processes. The company branched out its activities worldwide and it developed also a broad knowledge of US market tastes. Within its portfolio Safilo Group can count on several brands that have guaranteed a wide success, though smaller compared to Luxottica's. With reference to premium products, Safilo Group markets Hugo Boss, Bottega Veneta, Fendi, Dior and Gucci. Prices for premium brands go even beyond 500.00 \$, notwithstanding Safilo Group either owns trademarks or it is the licensee of few brands that are provided at lower price, 100.00 \$. Similarities with Luxottica in products range and related prices clearly occur. However Safilo and Luxottica differ substantially. For example, Safilo Group does not hold in its portfolio any brand that boosts about its own iconic history, like Luxottica's Ray-Ban or Persol can do.

As a consequence of this lack, Safilo Group is trying to catch up either with Carrera and with Polaroid Eyewear brand makeover. A second remarkable difference lies on group's net sales which numbered 1.18 billion \$ last fiscal year. In 2014 the financial report recorded almost 50 % of net sales being generated by the North American market where the company is actually experiencing a significant growth. Thirdly, sales are not driven by the retail distribution. In this regard, retail distribution channel was abandoned in 2009 in favor of wholesaling. As a consequence of this strategy, for two straight years (2013 and 2014) retail distribution accounted for only 7 % of the total sales while wholesaling became the leading channel of distribution with 93 % importance.

Even North America was subject to the stated blueprint. In point of fact the company shows more reliance on opticians and sport stores. Although the company exhibits a low degree of confidence on retailers, it understood the benefits a retail distributor in US would bring about. Thus in 2012 Safilo Group purchased Solstice which is still the only retail store operating in high-end and luxury brand, present in 36 American states. As evidence of low degree of dependence the cited retail does not even appear among the 50 top retailers in the US. Nonetheless it still guarantees visibility to Safilo products. The strategy that will shape Safilo Group will focus more on brand building. As told at the beginning, Safilo Group realized that it needs strong branding to compete efficiently in the market. Hence, the management is pursuing a brand valorization for either Polaroid and Carrera. Like Luxottica, Safilo Group is looking for strong external partnership to either best position a brand or enlarge the products range.

The third biggest competitor is Marchon Eyewear which is part of VSP Global. VSP (Vision Service Plan) is an American multinational company operating in the sector of eyewear providing several services and products such as eye care insurance, high-fashion eyewear, customized lenses and retail solutions. In 2014 the division of eyeglasses marked net sales for almost 850 million \$. Compared to the previous two market leaders, Marchon owns four luxury brands (Valentino, Salvatore Ferragamo, Etro and Karl Lagerfeld) and more accessible brands such as Lacoste and Calvin Klein. Price range for all its products goes from 120.00 \$ to 300.00 \$ roughly. Most of the company success has been building on the innovation processes and technology that in turn guarantee product's attractiveness. Its strategy consists in signing new license arrangements with fashion players. In particular they recently came to an agreement with Marni which is an independent fashion company for the development of new style of sunglasses. Before that, in January 2015, Marchon announced an exclusive global licensing agreement with MCM by which it owns the right

to produce and distribute a collection under the name of MCM. In US Marchon Eyewear uses heavily retail distribution for providing its products to customers. Marchon with the brand Flexon is a direct competitor of Incredible Glasses in terms of product's characteristics.

We decided to consider also Warby Parker as part of our analysis as it offers a good example of online selling channel. Warby Parker, an American start-up, was founded in 2009 with the idea of providing the market with an affordable alternative eyeglasses. As a matter of fact a pair of eyeglasses marked by Warby Parker can be purchased for only 100.00 \$.

This was possible because most of the value chain is incorporated within the company, in the sense that design and manufacturing processes are completely done in-house. What is really interesting is the business model that leans on three pillars. Firstly the purchasing experience, which has to be lived as a funny moment. Secondly, the purchase must not be expensive, in fact products worth 100.00 \$ roughly. Lastly, potential customers can benefit from the try-on program by which people can try at home eyeglasses before acquiring them. The last point is considered by main experts the one that most shapes positively the company against eyewear giants. Furthermore, considering that almost 1 billion people across the globe do not have access to eyeglasses, Warby Parker decided to include a new strategy, the so-called "One-for-One Model". This is donation model that enables customers to buy not only one pair of eyeglasses for themselves, but for each pair acquired one more will be donated to people who cannot afford it. For what it concerns distribution network, Warby Parker is constantly expanding its store network home, proposing cheap eyeglasses with a new fashion line. Whereas it is building its distribution network overseas through NPO (Non-Profit Organization) partnerships [5].

The strong point the company exhibits in its value chain is that it bypasses the middlemen / retailers step by selling directly through the website. In order to raise its visibility the management set also few show rooms in which customers can get access to different services such as replacing lenses and, in some cases, repairing glasses. Further strategy steps will rely on partnerships with optometrists, through which customers can get online vouchers for free eye measurement, so that costs from customers side are reduced considerably. In regards to production, Warby Parker is thinking to employ only recycled materials in the production processes or, in order to improve customization, to get directly from the customers their own materials to manufacture the product [6].

With reference to year 2013 the company's net sales went around 35 million \$, but analysts are convinced that the company could even worth more in the next future thanks to a likely IPO. Start-up success' contribution does come from the innovative idea.

Nevertheless it should be said that the new entity is financially supported by several venture capitalists investments which have consisted of six funding rounds so far, totaling 214 million \$.

### **1.2. Substitutes (3/4 medium)**

Substitutes to spectacles are contact lenses and refractive surgeries such as LASIK. Contact lenses are the main alternative, accounting for almost a third of the market in 2012. Eye surgeries are growing of importance, particularly in the younger segment of the market, but are still a limited practice. In general, Consumers are found to be extremely cautious regarding surgeries and are apprehensive of adopting a permanent solution. These also present a large one-time cost which, compounded with lack of awareness and knowledge, has resulted in a low degree of acceptance. Main players in contact lenses market are Johnson and Johnson, CooperVision and Novartis [7].

### **1.3. Threat of new entrants (2/5 low)**

There are very high entry barriers to the eyewear market, which can be attributed mainly to the deep consumer knowledge possessed by existing players. Users are unwilling to make the transition to a new product due to safety concern and lack of awareness. As far as non-prescription sunglasses are concerned,



users associate themselves with existing brands and are very reluctant to change this perception. While a low value of this force gives advantage to already established players on the market, it makes more difficult market entry for foreign firms such as Incredible Glasses.

#### 1.4. Buyers (4/5, high)

From the point of view of eyewear manufacturers, direct customers can vary according to the sales channel adopted. A manufacturer vertically integrated (Luxottica partly) or selling online (Warby Parker) will deal directly with final consumers. A manufacturer using sales agents will face retailers (opticians) and sales agencies while a manufacturer using distributors will face only distributors. Since customers and sales channels will be deepened later, we will here focus on retailers and give just few hints about consumer bargaining power [8].

1. Final consumers. With final consumers we identify the person who will actually use the glasses. Final consumer faces a high possibility of choice among several brands, which guarantee a higher degree of bargaining power. At the same time, the strong influence of brand over consumer decision, especially regarding sunglasses, gives to manufacturers the opportunity to charge a markup on final product which is extremely high if compared to other industries. The information available to consumers allows a more informed choice, and gives to buyer an higher bargaining power. Information is currently moderate but the trend is strongly positive thanks to the higher online presence of firms and products information;
2. Retailers. The eyewear retail industry is approaching high market saturation, which has facilitated industry consolidation over the ten- year period. A wave of acquisitions by the industry's largest retailer, Luxottica Retail, has led to a significant increase in the company's share which now generates \$2,318.5 millions from 2,287 stores. Among the Luxottica Retail brands notable names are LensCrafters (863 stores), Pearle Vision (127 company-owned and 343 franchised stores) and Sears Optical (569 stores). This growth has largely been at the expense of independent operators and smaller chains. The remaining independent retailers are as well under pressure of most notorious brands, which thanks to the high consumer demand of their products have the power to dictate unfavorable conditions (to retailers) and lower margins. This situation places in significant disadvantage less- known brand (such as Incredible Glasses) which is forced to leave higher margins to both retailers and middle agents.

All in all, we will be making a list of all steps to be followed while implementing the entry strategy. At the end of the list we propose a cost sheet that aims to highlight all costs Incredible Glasses will incur in the short-term:

- look for an export manager with proven experience with American market. The export manager, as anticipated before, will be in charge of manage and implement the entry strategy. Moreover he/she will be the one in charge of dealing with potential sales agent at eyewear exhibitions;
- Incredible Glasses should attend eyewear exhibitions;
- export manager should be able to get closer sales agents working in the most attractive areas;
- work out a new margin policy with American sales agents so that they are more willing to place Incredible Glasses products and the export manager has also to cultivate and enhance constantly the relationship with American agents; the export manager will have to set a break-even point, in terms of sales. In case Incredible Glasses will not be contacted first by distributors, the sales trend, as expressed by the break-even will be a good tool of negotiation. Once Incredible Glasses has reached an acceptable amount of net sales in America, it can start approaching and negotiating with American distributors. We suggest to contact distributors operating in areas that have strong potentiality which, though, are not covered by employed sales agents.

Having considered Porter analyses, we believe that ideal entry strategy should have a fair balance between Internationalization and Risk. For these reasons, final choice should be among Distributor, Agents and Strategic alliances (Partnership). Weights should be assigned both according to risk aversion of Incredible Glasses management and the future opportunity that will arise.

Our suggestion consists in the use of sales agents. While the cost and effort needed by a distributor agreement is surely lower, it prevent the collection of information about US market and customer. A partnership with an already established American firm or with another Italian company may be an options, but conditions may vary and we are not currently aware of existing possibilities. US market is the largest one for eyewear, and, unlike EU market, it is expecting to grow in the future. Hence, a strong presence in the US market should be a priority for Incredible Glasses long term strategy in order to continue growth and differentiate risks.

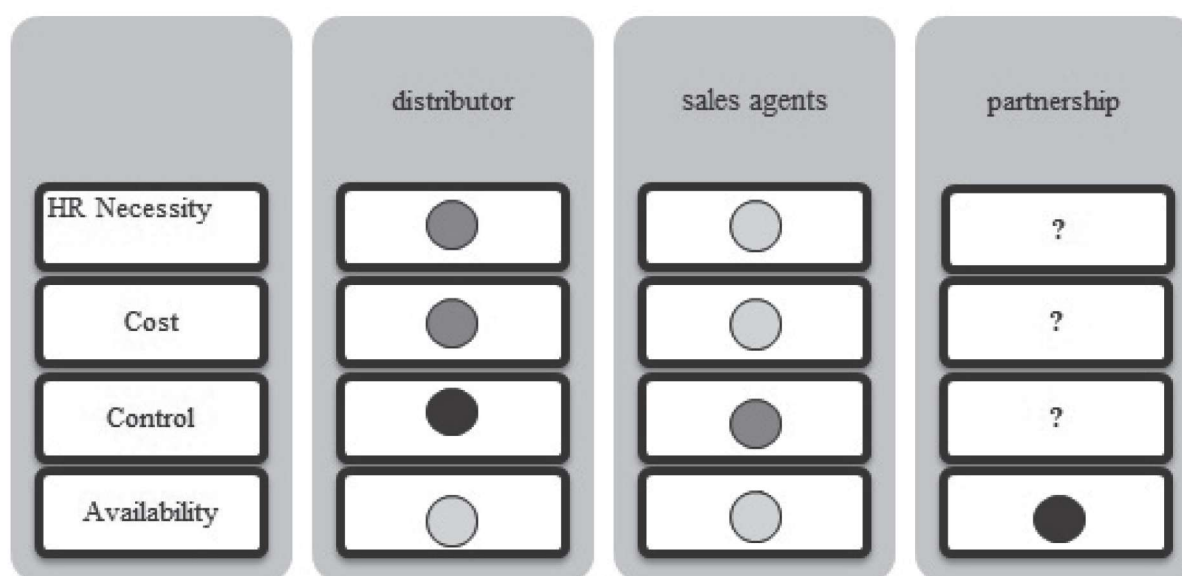


Figure – Selected entry modes

Past experience with distributors in US was not as successful as expected because of several reasons. As already mentioned earlier, American distributors tend to capitalize on sales volume. As a consequence of that, large volumes would have been sold in US if, and only if, Incredible Glasses brand had had a relevant reputation. Unfortunately Incredible brand is not as well-known abroad as it is in Italy. Therefore the first step of entry strategy should be to stimulate demand improving brand awareness among American consumers. While doing so Incredible Glasses should look at the wide portfolio of chances.

Our first suggestion for the brand strategy, sales agents, is mixed with the entry strategy itself. Despite sales agent may carry high costs in terms of management effort, as highlighted previously, the benefits that they can bring about are larger. This assumption is based on Italian sales agents' success that the company has experienced. Then, we intend to exploit it in the American market as well. The reason behind is the following. American opticians still rely more on sales agent when purchasing eyewear products to place at their stores.

Our second suggestion, is the intensive use of sophisticated content marketing. It should be Incredible Glasses decision if to externalize this function or not, but we suggest to keep it internal, since this skillset is already present within the company. To be effective, digital marketing efforts should be strictly tied to offline "traditional" marketing. While sales agents will stimulate demand from opticians, digital marketing will stimulate demand from consumers.

To bear all of this work we finally suggest to hire, according to Incredible Glasses financial resources, an export manager with considerable international expertise. The new export manager will have a main focus on the American market.

To draw the conclusion, one can say that this analyze and offers to Incredible glasses company will provide a way to anticipate future problems and opportunities, It will also result on cost savings.

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