Fiona Silcox, Article 4/5, Meet the Four-Eyed, Eight-Tentacled Monopoly That is Making Your Glasses So Expensive

Summary: The article is an overview of the company Luxottica, a sunglass manufacturing company that controls the major market of sunglasses in the global economy.

Analysis: Sunglasses and eyeglasses are a **good**[1] (all things from which individuals derive satisfaction or happiness) and are a necessity for some people and a **want**[2] (what people would buy if income was unlimited) for others. For some people it's not uncommon to go through several pairs of glasses as they can easily break or be misplaced. The **total cost**[3] (the sum of total fixed costs and total variable costs) of a pair of glasses can be upwards of $400-$500; however, the price to manufacture one can easily be as low as $25. One could question why the total cost to buy sunglasses has become so expensive since most glasses are assembled with inexpensive **resources**[4] (things used to produce goods or services to satisfy people's wants) such as glass, metal, and plastic. One of the reasons could be credited to **economic**[5] (the study of how people allocate their limited resources to satisfy their unlimited wants) and the formation of market power (Forbes, 2014).

Luxottica, a company that produces sunglasses, controls 80 percent of all major brands of sunglasses and is the producer for almost every designer eye ware brand in the world creating sunglasses that have a **product differentiation**[6] (the distinguishing of products by brand name, color, and other minor attributes). Luxottica has an **absolute advantage**[7] (the ability to produce more units of a good or service using a given quantity of labor or resource inputs) in the market of sunglasses, being that the **production**[8] (any activity that results in the conversion of resources into products that can be used in consumption) of sunglasses is a 28 billion dollar global industry. It could be argued that Luxottica has formed a monopolization (the possession of monopoly power in the relevant market and the willful acquisition or maintenance of the power, as distinguished from growth or development as a consequence of a superior product, business, acumen, or historical accident) over the manufacturing of sunglass frames. This **monopolistic**[9] (a firm that can determine the market price of a good. In the extreme case, a monopoly is he only seller of a good or service) structure allows Luxottica the power to be a **price maker**[10] (sets the price). Luxottica drives up prices by charging up to 20 times more than its costs of production resulting in accounting profits (total revenues minus total explicit costs). These prices are passed on to the consumer. This type of **market**[11] (all of the arrangements that individuals have for exchanging with one another. Thus for example, we can speak of the labor market, the automobile market, and the credit market) structure has reduced **transaction costs**[12] (all the costs associated with exchanges, including the informational costs of finding out the price and quality, service record, and the durability of the product, plus the cost of contracting and enforcing that contract) and a down sloping **demand schedule**[13] (how much of a good or service consumers will purchase at any price during a specific time period) will almost ensures that Luxottica will gain a **profit maximizing rate of production**[14] (the rate of production that maximizes total profits, or the difference between total revenues and total costs) and excess profit in the **long run**[15] (the time period during which all factors of production can be varied) (Forbes, 2014).

Luxottica is unlike **perfectly competitive**[16] (a market structure in which the decisions of individual buyers and sellers have no effect on market price) and **monopolistic**[17] (a market situation in which a large number of firms produce similar but not identical products and which entry is relatively easy) markets that only produce **short run**[18] (the time period during which at least one input, such as a plant size, cannot be changed) profits and where competition increases company innovations and forces the price down to manufacturing and **total average costs**[19] (the sum of average total fixed costs and average total variable costs) of production. Luxottica has control over the pricing of a large variety of sunglass brands; there by creating a **price discrimination**[20] (selling a given product at more than one price, with the price difference being unrelated to differences in marginal costs). It could be argued that companies with low-tech consumer products are no place for monopolies. Luxottica argues that it does not have a monopoly power over sunglasses and that the consumer is willing to pay higher prices for a product they wear throughout the day. It could be argued that Luxottica wants to give the illusion that the consumer has a choice (Forbes, 2014).

Bibliography

Forbes, "Meet the Four-Eyed, Eight-Tentacled Monopoly That is Making Your Glasses So Expensive", https://www.forbes.com/forbes, by Ana Swanson, September 10, 2014, January, 10, 2017

Meet the Four-Eyed, Eight-Tentacled Monopoly That is Making Your Glasses So Expensive

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As my fellow four-eyes will know, buying new glasses can be an expensive undertaking. The fanciest frames at LensCrafters often sell for $400-500. Holding those little assemblages of glass, metal, and plastic that cost $25-50 to make in your hand, you might wonder how exactly you were roped into paying so much.

The answer is basic economics. Most frames are manufactured by a single company, named Luxottica. The Italian company makes frames and sunglasses for an amazing list of brands and stores, including:

Prada, Chanel, Dolce & Gabbana, Versace, Burberry, Ralph Lauren, Tiffany, Bulgari, Vogue, Persol, Coach, DKNY, Rayban, Oakley, Sunglasses Hut, LensCrafters, Oliver Peoples, Pearle Vision, Target Optical, Sears Optical

The company also makes Google Glass – though 79-year-old Luxottica founder Leonardo Del Vecchio recently commented that he'd be embarrassed to wear the Google eyewear outside of a disco, and that his disco days are over.

Meet the four-eyed, eight-tentacled monopoly that is making your eyeglasses so darned expensive. Luxottica estimates that at least half a billion people around the world are currently wearing their glasses. I don't know about you, but I am pushing them up my nose right now.

Luxottica controls 80% of the major brands in the $28 billion global eyeglasses industry. This monopolistic structure of the market leads to profits that are "relatively obscene," says Tim Wu, a professor of law at Columbia University and the author of *The Master Switch*. In a speech given at this year's annual conference for New America, a Washington, D.C.-based think tank, Wu remarks that products in some industries seem to only get better and cheaper -- laptops, for example -- while other products, like eyeglasses, remain strangely pricey, with only superficial innovation.

The difference is due to market structure. Because it controls so many prominent brands and retail chains, Luxottica is what economists call a price maker. That means it can set the price of its goods near the highest amount that consumers would be willing to pay for them, unlike more competitive industries, in which competition both encourages constant innovation and forces the price of goods down toward what they cost to manufacture. Having control over the pricing of a huge variety of different brands means Luxottica can also carefully engineer the prices of different brands to encourage you to shell out an additional $80 for that beloved logo or streak of Tiffany blue.

In certain industries, monopolies can be appropriate and natural – the power sector, for example, where it costs less for one company to set up and run a power grid than it would for multiple companies to set up competing power grids. But monopolies have no place in a low-tech consumer product market like that for eyeglasses. In this environment, monopolies create a very cynical form of capitalism – giving consumers merely the illusion of choice rather than choice itself, and extracting a lot of money from them in the process.

The easiest way to bust a monopoly like this is for consumers to recognize that they are being overcharged and patronize competitors. Warby Parker, which is mainly an online sales room for glasses, is putting up some competition, but the atmosphere remains rarified.

Many people, Luxottica representatives included, often explain away the high price of glasses by arguing that consumers are willing to pay a lot for something they wear on their faces 15 hours a day. But even if consumers are willing to pay high prices, that doesn't mean that they should. Prices are determined in large part by the structure of the market.

1/10/17 update: We received the following statement from a representative for Luxottica:

"We're proud to make some of the most beautiful and highest quality eyewear in the world, but we are in no way a monopoly. In reality, the optical industry is very competitive and fragmented. Of the close to 1 billion pairs of glasses sold worldwide last year, only 93 million of them were produced by Luxottica - less than 10%. Also, there are literally thousands of eyewear brands available to consumers today and Luxottica makes eyewear for around 30 different brands, only a few of which we actually own. Even on the retail side, half of all glasses sold in the U.S. are done so by independent opticians. The other half are sold by chains including Costco, Walmart, Solstice and many other non-Luxottica brands. So yes, while we have a fantastic portfolio, it is false to say we control the market."

Ana Swanson is a Washington, D.C.-based writer, editor, and analyst who covers global economic and business trends, with a focus on China and India. Follow her on Twitter at @AnaSwanson.