

How Oakley takes aim at the luxury market

Damian Joseph

The company's high-end sunglasses lead the way in bold design for new products at Italian parent Luxottica.



The frame of Oakley's Elite C Six sunglasses is composed of 80 layers of carbon fiber. The glasses cost \$4,000. Oakley

Neil Ferrier, 25, had graduated from the Scotland's University of Strathclyde in Glasgow only six months earlier when he was asked in 2007 to work on the kind of project that even senior design engineers dream about. His assignment: to create the most technologically advanced line of products possible—no matter what the cost. "Sadly, it's not normal, but it's something every engineer wants," he says. "It's far too common for designers to be stifled."

Ferrier's offer came from Oakley's Advance Product Development Team, a group responsible for many of the cutting-edge sunglasses, watches, boots, and apparel that the Foothill Ranch (Calif.) company has sold over the past decade. The team of five designers and engineers is given complete financial and creative freedom to pursue breakthroughs in materials and manufacturing processes that could propel sales of luxury items, shape the design of less expensive product lines, and most important, reinforce the brand's progressive image. "This is the foundation of our success," declares Oakley Chief Executive Colin Baden.

Ferrier worked with Oakley's veteran designers for two years to create the company's 2009 Elite collection, which is aimed squarely at the luxury market. The lineup's focal point is a line of sunglasses that have frames composed of 80 layers of carbon fiber and a folding mechanism that mimics the way an armadillo closes its shell. The C Six glasses are tough yet flexible and meant to appeal to the company's athletic, high-performance customers. Only 250 pairs were made. They sell for \$4,000 each.

Rosy View

To bet that consumers would buy such expensive items in a recession seems counterintuitive, but Baden says he isn't the least bit worried. Retailers tell him that buzz for the Elite line is high and that they don't expect the products to linger on store shelves long. Besides, Baden says, with Oakley's products sold at 15,000 retailers, and a corporate parent, Luxottica (LUX), that has annual sales of \$5.9 billion, manufacturing only 250 pairs of C Six glasses doesn't risk that much.

A decade ago, for example, it took the company less than a year to sell 100 special-edition solid-gold watches for \$23,000 each. Granted, people were flush with dot-com riches then, but Baden says the sales reflect a customer base willing to spend big bucks on Oakley's higher-end

products. "If we had launched the Elite line a few years ago, it would have been a blip on the radar," Baden says. "Introducing them in a time of duress draws attention. We can say: 'There's substance here,' and get recognition for that substance."

Oakley seems to be one of the few bright spots for Milan's Luxottica these days. The luxury goods and apparel company-, whose other brands include Burberry, Chanel, Polo Ralph Lauren, and Prada, doesn't break out results for Oakley. But Daniel Hofkin, an analyst with Chicago's William Blair investment company, estimates that its revenue has increased throughout the recession to roughly \$1.1 billion in 2009.

Meantime, Luxottica's revenue has been flat through the first three-quarters of this year, and its net income sank 18%, to \$418 million. Retail operating margins shrank to 14.4% in the third quarter, down 3.3 points from a year earlier. Luxottica also owns the Sunglass Hut chain, as well as sunglass brands Persol and Ray-Ban. Same-store sales at Sunglass Hut were down 5.6% in the quarter worldwide, with even steeper declines in North America. Its stock price, which approached 40 in 2007, dropped to a 52-week low of 11.77 in March. Since then, shares have rebounded to around 25.

Pointed Research

Hofkin thinks the R&D funds at Oakley have been well spent. "Product innovation is Oakley's heritage," he says. "The company spending a lot of money for product development doesn't worry me—I'd be surprised if they weren't."

Other Elite products include 1,500 pairs of C Six Aluminum sunglasses at \$1,500 a pop, the kid brother of the carbon fiber version, which features a brushed finish to retain the frame's dark gun-metal color; 1,500 Timebomb II watches, Oakley's first mechanical model, which at \$2,750 features a carbon fiber bezel, a woven carbon fiber face, and titanium plates screwed to its flexible band; 100 pairs of \$500 Elite Si Assault Boots, which have a fireproof fabric made from CarbonX woven with stainless steel and soles fortified with Lenzi, a stab proof material; and \$600 Pitboss sunglasses, the only non-limited product of the Elite line, which has titanium plates stamped onto Oakley's O Matter frame material.

Oakley likens creating its Elite line to concept cars produced by automakers: The finished products are expensive and bold, and in all likelihood will never be mass-produced. But the process is more about discovering new methods in design and manufacturing. Oakley's non-luxury offerings benefit from lessons learned in the process. The company's popular X Metal and Magnesium sunglass lines use metals and manufacturing techniques refined by the Advanced Product Development Team.

And Oakley's Advance Product Development Team is stretching every dollar. Its material and manufacturing experiments have pushed the limits of not only the company's knowledge, but its partners. Crosby Composites of Brackley, Britain, which worked with Oakley on carbon-fiber technology, says the tests even helped it refine the process it uses to make brake pads for Formula One race cars. Crosby also taught Oakley a way to cut carbon fiber across multiple layers without the material losing its strength, something it didn't think was possible before the two collaborated.

"Oakley is a much bigger part of our company than just sales," says Luca Biondolillo of Luxottica. "It's where most of our research and technological development for the whole group takes place."

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