

Islands of Profit Blog - July 21, 2010

Luxottica, Fed concerns, Housing market

News (NYT 7/21): Luxottica opens new Eye Hub store.

Insight: This concept store enables customers to try eyeglasses in context (e.g. wind tunnels, photo of self), creating new customer value.

Comment: This is a good example of out-of-the-box customer service. Luxottica is building its extended product (physical product plus customer experience). Refer to July 20 comment on the need for companies to invest time and effort in understanding how to make their customers better off - either more profitable or better experience - in order to grow in a difficult economy.

News (NYT 7/21): The Fed is concerned about continuing unemployment and cloudy prospects for economic growth.

Insight: There is no clear agreement on what will restart growth. Most managers are waiting and trying to read the tea leaves from their demand pattern.

Comment: There is a critical need for a (scalable) single-company model of how growth can restart. Recent cost-cutting and restructuring tackled mostly the fat accumulated during the recent debt-fueled boom years. This was easy to see and easy to eliminate. But, unless sales start to grow strongly later this year, margins will soon come under renewed pressure. The easy excess costs are gone. The necessary next step is for every company to generate cash, earnings, and growth through careful profitability management and creation of new customer value.

News (WSJ 7/21): Housing market stagnates.

Insight: This may well reflect long-term demographic trends, and this may be paralleled by the whole economy.

Comment: Over the last couple of decades, the baby boom generation reached middle age and approached retirement. During this period, people had peak earning capacity, older children at home, and strong debt capacity. Now, baby boomers are beginning to retire, experiencing empty nests, and downsizing. This may well explain a lot of the supply and demand issues in the housing market, both to-

day and for many years to come. It also may shed some light on our longer-term domestic economic prospects.