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Framing a solution

Eyewear maker Luxottica will offer better benefits to soften the impact of pay cuts. Corporate News, page 4

Luxottica to expand employee benefits

As recession stings Italy's industrial north, eyeglass maker agrees to dental care and discounts for top producers



Associated Press

Italian luxury eyewear maker Luxottica SpA is expected to unveil a new social benefits program for its domestic work force, an attempt to nudge consumer confidence as the global economic downturn hits prosperous pockets of Italy's industrial north.

By Stacy Meichtry in Rome and Jennifer Clark in Milan

The economic slump has crimped global demand for many made-in-Italy goods, from luxury handbags to cars. Consumer spending within Italy fell 2.3% in 2008, compared to the year earlier, according to Italy's state statistics office ISTAT. Manufacturers have slowed production to a crawl, and companies such as Italian automaker Fiat SpA have placed tens of thousands of workers on leave, requiring the state to subsidize wages while the workers are suspended.

'You cannot deliver...quality products unless people enjoy a decent quality of life,' said Luxottica's Nicola Pelà. Above, a model shows eyewear in the company's collection.



Cities in northern Italy are home to some of Italy's biggest employers, including luxury-goods firms such as Luxottica that rely on highly-specialized workers to craft products that are distinguishable from lower-priced rivals.

Under the terms of an accord reached after 15 months of negotiations with unions, Luxottica will spend more than €2.5 million (\$3.2 million) a year on benefits for its workers ranging from dental care to scholarships, according to Nicola Pelà, Luxottica's head of human resources. The measures are apart from union contracts that cover wages and working conditions. Employees' health care and social services are covered by the state social welfare system. The company is expected to disclose the plan on Thursday when it reports sales for the final three months of 2008.

"The assumption is practical: You cannot deliver and produce quality products unless people enjoy a decent quality of life and have the basic needs fulfilled," Mr. Pelà said in an interview.

Luxottica, which produces eyeglasses under license for brands such as Prada and Salvatore Ferragamo near the Belluno district of Northern Italy, announced plans earlier this year to place about 6,000 workers on temporary, state-subsidized leave for a total of four days during January and February. Last month, Safilo SpA, Italy's second biggest eyeglass maker, said it will idle plants for two months as it grapples with slumping sales and a heavy debt load.

The shutdowns are taking a toll on factory towns, as households scrimp on spending to offset lost wages. Workers who are placed on state-subsidized leave take an average 20% pay cut while their jobs are suspended.

Mr. Pela said the new benefits will remain in place regardless of whether the economic downturn persists and further production suspensions become necessary. However, the timing of the program's launch will help offset the financial strain on employees hit by temporary layoffs, he said.

Even before the economic downturn gripped the luxury industry, towns specializing in luxury goods faced tough odds. Over the past decade an increasing number of brands have begun to buy textiles and semifinished materials from countries with lower-cost labor like China.

As competition with China tightened, worker wages across the luxury industry stagnated and workers struggled to keep apace with rises in the cost of living. Luxottica's average monthly salary of €1,200, Mr. Pela said, was "above market rate," but needed a supplement. At the same time, Luxottica didn't want to simply raise wages, which are heavily taxed in Italy, he added.

Under the new system, Luxottica aims to leverage its scale to buy basic goods, such as baby food, and services at discount prices and distribute them to employees who reach production and efficiency targets.

The targets, Mr. Pela said, are an essential part of the new program. Eyeglass production, from the lenses down to the screws that hold them in place, is a highly precise trade. Glasses that aren't screwed together properly get scrapped, driving up company costs. "Anything from a wrong paint job, to a screw that doesn't go in perfectly, to a damaged lens can stop [eyeglasses] from getting to the market," he said.

Luxottica also plans to distribute scholarship money for the children of employees to attend local vocational schools and colleges. In the luxury industry, where know-how is often passed down through generations of craftsmen, keeping young people close to home is essential.

Valeria Fedeli, a union representative for Luxottica's employees, applauded the benefits program. However, the program won't cure the economic pain, she said. "We're still in a crisis situation."