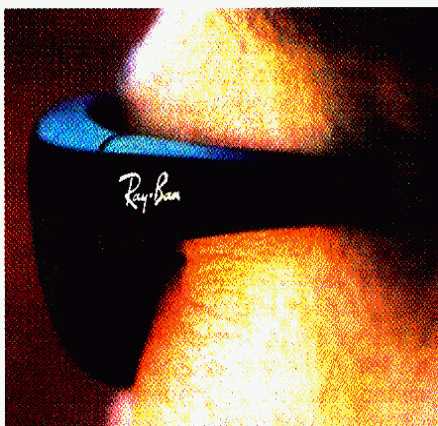


▶ province in the north of Italy, it has thrived through mainly American takeovers. In 1990 Mr Del Vecchio listed his firm on the New York Stock Exchange. Five years later he branched into retail with the takeover of LensCrafters, the biggest optical retailer in America. This was followed in 2001 by the acquisition of Sunglass Hut, the world's leading retailer of sunglasses. Last year Luxottica took over Cole National, another big American retailer.

The integration of retail and manufacturing was a revolution in the industry, says Davide Vimercati at Kepler Equities in Milan. Today, retail generates more than two-thirds of Luxottica's revenue. Its retail arm is also the big difference between Luxottica and its archrival Safilo, another maker of sun and prescription glasses based in the north of Italy. The two firms are roughly equal in size in manufacturing, but Safilo's 50 shops pale in comparison with Luxottica's nearly 5,500 retail outlets, the vast majority of them in America.

China is Luxottica's next big challenge—a move that should expand sales, while lessening its dependence on America. Mr Guerra wants to conquer as much as possible of the "premium" segment, the market for glasses that cost \$50 and more. This is ten times more lucrative than the trade in cheaper specs. Flavio Cereda, an analyst at Merrill Lynch, thinks that in a few years time Luxottica will double the number of its shops in China to 500.

Next year Luxottica's all-Italian 12-member board will probably become more international when some members' terms expire. The modernisation of the group began when Enrico Cavatorta, the chief financial officer, and Mr Guerra joined in 2002 and 2004 respectively. Until then Mr Del Vecchio ran the company pretty much single-handedly. Today, Luxottica's founder, who is 70 years old, has no operational role as chairman, although as owner of 70% of the company's stock he remains very involved. None of his four children works for the company. Managing his succession will be the last step in the transformation of an Italian family company into a true multinational. ■



Dazzled by China

Pharmaceuticals in South Africa

Aspen's upward slope

JOHANNESBURG

Can South Africa's top generics manufacturer become a global giant?

THE number of South Africans with HIV-AIDS is tragic and alarming. The country has over 800,000 people who need treatment—but only about 100,000 of them are getting it. That is a huge social problem, but it is also a big challenge for business. Aspen Pharmacare is the local firm that is doing most to supply the market with the generic drugs South Africa will need. It now has ambitions to do the same for the rest of Africa—and then to expand into the market for generic HIV-AIDS drugs in the United States and Europe.

Founded in a suburban house in the coastal city of Durban in 1997, Aspen has grown at an average of over 40% a year and is now South Africa's leading drug-maker. Last August it announced annual revenues of 2.9 billion rand (\$467m) and net profits of 494m rand. Its success is associated with the rise of generic medication. Both the government and health insurers—keen to keep medical costs down—have pushed for generics against the more expensive patented drugs. As a result, over 40% of prescribed drugs in South Africa are now generics.

The government and local pressure groups have arm-wrestled with the pharmaceutical multinationals over anti-retrovirals (ARVs)—the drugs used to fight HIV-AIDS. As a result, companies such as Merck and Eli Lilly have licensed local manufacturers to produce their patent-protected drugs. The first South African company to obtain licences to produce anti-AIDS drugs still under patent, Aspen now offers six different ARVs. Last March, it won the lion's share of the government tender for ARVs.

In its quest to build up volume, Aspen—which still makes 80% of its profits in South Africa—is now planning to spread its wings elsewhere. It will supply the Clinton Foundation and the Bush administration's AIDS relief programme, both of which aim to spend millions of dollars on drugs for Africa. Over the long term, Aspen hopes to supply ARVs to the more lucrative American market once patents expire there.

Will Aspen pull it off? Its focus on specialised niches, the stamp of approval from important foreign regulators such as America's Food and Drug Administration, and the ARV contracts it has already bagged certainly put it on the right footing. It already has a successful operation in Australia.

Providing treatment to the many AIDS-



A generic problem

afflicted Africans, however, is far more complicated than simply supplying drugs, and although the market is large, the uptake may be very slow. Competition in developed markets such as the United States is also far fiercer than in South Africa. Companies as far afield as Ireland and India are also expanding aggressively into the generics business. Aspen has managed to dominate its local market, but replicating its success abroad is likely to be much harder. ■

Internet geopolitics

Gulliver's travails

GENEVA

The battle to control the internet

SINCE the internet was created in the 1960s as a military-research project, America has co-ordinated the underlying infrastructure. But other countries are increasingly concerned that a single nation enjoys such power, and want to place the internet in the hands of an inter-governmental organisation—something America says might hobble the network.

At a diplomatic conference last month in Geneva to prepare for the United Nations World Summit on the Information Society, taking place in November, vocal critics such as Brazil, China and Iran led the opposition to America's control. On September 28th, the European Union abandoned its support for the current system and proposed a new, governmental approach, leaving America more isolated than ever. ▶▶

Although the internet is largely decentralised and so difficult to regulate, the domain-name system is one of the few levers by which it can be controlled. Today, the internet is managed by a private-sector group called the Internet Corporation for Assigned Names and Numbers (ICANN), which America helped to set up in 1998 and still oversees. ICANN already has an international board of directors and a governmental advisory committee, but many non-Americans want to strengthen the role of governments.

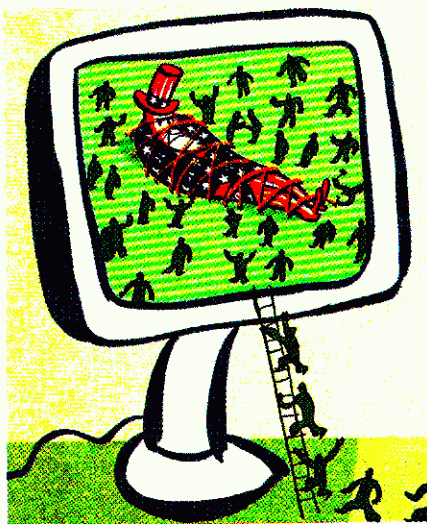
The EU proposal, announced by Britain, which currently holds the EU's rotating presidency, was intended as a compromise between the UN supporters and America. It would create a new organisation to set policies over distributing routing numbers, creating new domains and the like. Because of its role as chair, Britain, usually America's closest ally on internet issues, had to stay neutral and could not beat back calls by Denmark, France, Spain and the Netherlands for greater government influence over the internet. After the announcement, Brazilian and Iranian delegates rushed to congratulate British officials, whose faces dropped when they realised the EU policy was being lauded by America's loudest opponents.

If ICANN already has a degree of government representation, why is a new organisation needed? Many of the arguments advanced come down to suspicion of America, and fear that ICANN is a tool of American hegemony. But another reason is that, although today the internet's address system identifies digital devices, in future it may be extended to encompass objects (through melding addresses with radio-frequency identification tags), location (via global-positioning satellites) and even individuals.

Meanwhile, countries demand sovereignty over their two-letter national address suffixes, which due to a quirk of history still ultimately reside under American control. Such concerns—which are political as much as technical—call for greater government involvement, or so the argument goes. All governments calling for change repeat the mantra that the new system would be a “multi-stakeholder” process that includes industry and civil-society groups.

However, the disingenuousness of the position was made clear during the meeting last month in Geneva. Some countries demanded that groups representing business and public-interest causes be thrown out of the room when governments drafted documents for the summit in November. In one instance, delegates from China and Brazil actually pounded on tables to drown out a speaker from industry.

To break the impasse, some countries are trying to devise a compromise before the summit that will temporarily appease



all sides. America has endorsed a proposal that would create a forum—devoid of formal powers—to discuss these matters. This will enable the issue to remain on the diplomatic radar after the UN summit. Indeed, the real battle will come in 2006 when America's contract with ICANN comes up for renewal and there is a big conference of the International Telecommunication Union, a UN body that aspires to fill ICANN's shoes.

Ultimately, the political squabbles are overshadowing more important things that could improve the lot of internet users, such as widening access to the internet and using technology for development. The good news from the UN meetings is that governments increasingly understand the importance of technology to society. The bad news is that the internet risks becoming suffocated in their embrace. ■

Online music

Calling the tune

Music firms are emboldened, but risk strangling the golden goose

THE music business has long wailed that internet piracy is destroying its business. Now, it is fighting back on two fronts—first, by driving illegal operators out of business; then by driving as hard a bargain as possible with those firms selling legal downloads. Indeed talks between Microsoft and the major music firms have just broken down because the software company thinks the music business is demanding unreasonable levels of royalties.

Things are going better for the major record labels on other fronts. Last week the founder of a popular “peer-to-peer” (P2P) file-sharing program, Sam Yagan, told a

Senate committee that his company will soon stop operating in its current form. He explained that eDonkey—which accounts for around half of all P2P traffic—can no longer afford to fight the music industry in the wake of the Supreme Court's ruling in June against two other P2P firms, Grokster and StreamCast, which declared that such applications are illegal if they induce users to violate copyright.

As expected, the music industry is now using its legal victory to hound commercial P2P operators out of business. Last month the music industry's trade body sent them threatening letters. WinMx, another P2P network, appears to have shut down, while eDonkey says it plans to start making its users pay for music. Grokster is reportedly on the verge of selling itself to a company called Mashboxx, which has a similar strategy to go legitimate. In Australia last month, a court ruled against Kazaa, another popular file-sharing service, and ordered it to use filters to stop the trading of copyrighted content.

Nobody, however, including executives at the major labels, believes that file-sharing is defeated. When the industry forced Napster, the first big file-sharing network, to shut down in 2001—it has since relaunched as a fee-based service—a host of free alternatives sprang up immediately, and that is what will now happen again. Because of the Supreme Court's ruling, says Mr Yagan, the new P2P services will simply move offshore and underground, and will offer more anonymity. In fact, the Supreme Court's decision is likely to encourage a move towards free, “open-source” P2P applications. Since they do not make money from advertising or bundling software, they are less vulnerable to the accusation that they are illegally inducing piracy for their own benefit.

In the first half of this year, digital-music sales from mobile-phone “ringtones” and legal download services such as Apple's iTunes more than tripled compared with last year, and now represent 6% of total music revenues, according to industry estimates released this week. That rapid growth has restored confidence to the music industry, as have its victories in court.

So much confidence, indeed, that some of the major labels are urging Apple's iTunes service—the epitome of success in online music sales so far—to shift to variable (ie, higher) prices from the consistent \$0.99 per track it currently charges in America. That would be a mistake. Despite its rapid growth, the legal market for music on the internet is still in its infancy. Apple's boss, Steve Jobs, believes that higher prices would stifle legal sales and encourage P2P-based piracy. Microsoft might even deserve better treatment, too. Since the major labels' legal stick will never be completely effective against P2P, it is vital that they also offer an attractive carrot. ■