

L-Fashion Group

A Company Profile

November 1995

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On Behalf of the ETUC-TCL in Brussels

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Introduction

L-FASHION Group Oy used to have an other name: LUHTA OY. In publications we can see that both names are still used to describe this Finnish clothing company.

L-Fashion is known for its activities in the sports and leisure clothing segment, but is recently moving more and more towards the 'casual clothing' market segment.

L-Fashion exports to 35 countries in all, which is very much for a ski-wear manufacturer.

Today still about 50% of L-Fashion staff is employed in Finland, but job cuts are beginning to be 'normal' in this sector nowadays in Finland.

The remaining 50%, i.e. about 1200 employees, are working outside of Finland. For the end of this year (1995) however, again 130 job losses are announced for people employed in three Finnish plants.

Less than 35 per cent of L-Fashion's production takes place within Finland. This percentage used to be much higher.

History

In March 1993 Luhta Oy changed its name to **L-Fashion Group Oy**. The background to the name change is the need for the group's business units to operate under their own names. The company's former name Luhta Oy and the business unit Luhta were often mistaken for one another¹.

Nowadays 70% of the company's operations are based abroad².

In 1990 L-Fashion restructured its operations. The company split its production into five independent units, and decision-making was to be taken to a lower level³.

In June that same year L-Fashion took over the bankrupt company **Rukka Oy**, and in December the company acquired five registered trade marks from the bankrupt **Torstai Oy**.

L-Fashion acquired all Rukka Oy's properties in Kokkola (Karleby), as well as the bankruptcy estate's fixed and current assets. The company also acquired the Rukka trade name and decided to form Rukka into a separate business unit, with a 100-strong workforce, which would begin operations immediately⁴.

The Finnish sportswear manufacturer in January 1993 planned to set up a new logistics unit in **Helmond**, near the German border, for the coordination and delivery of products.

¹ Kauppalehti, 19-03-1993.

² Kauppalehti, 22-12-1993.

³ Kauppalehti, 05-07-1990.

⁴ helsingin Sanomat, 12-06-1990.

Structure

L-Fashion's activities are structured in seven divisions and one investment company.
The divisions are:

- L-Trading
- Luhta
- Skila
- Story
- Rukka
- Torstai
- JAP

And the investment company: L-Invest

L-Fashion also wants to cut the number of profit centres this year (1995) by merging smaller units⁵.

L-Fashion Group is 100% owned by the Luhtanen family.

The group changed name from Luhta to L-Fashion Group during the fiscal year 93-94. The aim was to have a neutral group name and let the business units develop their own profiles and brand names⁶.

MANAGEMENT

Group	Managing Director	Pekka Luthanen
	Marketing Director	Timo Valve
	Project Manager	Vesa Luthanen
L-Trading	Managing Director	Hannu Flink

⁵ Kauppalehti, 12-04-1995.

⁶ Kauppalehti, 22-12-1993.

Activities

L-Fashion is the major Finnish sportswear manufacturer.

However, in order to improve sales, in 1990 L-Fashion decided to take a brave stand and introduce a second product line in support of its ski wear collection. The company now produces a range of sporting leisure wear and casual clothes, and in Scandinavia today sells hardly any sportswear at all. In Europe, ski wear and sportswear sales still account for around 80% of sales.

In 1993 casual wear already accounted for around 45% of L-Fashion's total turnover, with 55% of invoicing generated from ski wear and sportswear sales. The company intended to push the Preston by Luhta brand name in its casual clothing marketing, and stressed that the company had the resources and the will to carry out such a campaign in order to obtain the goal of 50/50 sports wear/casual wear invoicing.

According to Timo Valve, Marketing Director, L-Fashion is unlikely ever to branch out into the retail market⁷.

Mr Luhtanen said that the company still felt that specialised production was the best way of competing internationally. However in Europe L-Fashion's image is more closely associated with sport than with leisure clothing, and it would take some time for this image to change⁸.

L-Fashion has production in amongst others **Portugal** and **Turkey**. Products intended for sale in Western Europe are increasingly being made in the **Far East**.

L-Fashion's production in Finland is loss-making and suffers from overcapacity. However, Luhtanen stressed (1993) that the group will continue to have substantial production in Finland⁹.

But already today less than 35% of L-Fashion's production takes place in Finland. In Portugal, the company set up production in 1973, more than twenty years ago. The company has in 1992 also began production in Turkey and **Morocco** in order to keep costs down.

Production units in Russian Karelia, in **Estonia** and near St Petersburg in **Russia**, where wages are 10% of the wages paid in Finland, also help to reduce costs. In Estonia in particular, the quality of work is comparable to quality in Finland¹⁰.

Already in 1991 Mr Luhtanen said that L-Fashion would continue to buy up clothes under its own brand names. L-Fashion clothes produced in Morocco and Poland by then already accounted for one-fifth of the group's turnover¹¹.

L-Fashion exported, in 1993, to 35 countries in all - a record for a ski wear manufacturer, according to a Japanese competitor. Germany and France, with the Netherlands and the UK neck-and-neck, were the company's main export markets¹².

⁷ Kauppalehti, 19-01-1993.

⁸ Kauppalehti, 05-07-1990.

⁹ Kauppalehti, 22-12-1993.

¹⁰ Kauppalehti, 19-01-1993.

¹¹ Kauppalehti, 07-06-1991.

¹² Kauppalehti, 19-01-1993.

In January 1993 L-Fashion started to set up a new unit in Helmond, The Netherlands, near the German border, for the coordination and delivery of products. Construction of the new 3,000 square metre building was completed in spring 1994.

The Netherlands is close both to L-Fashion's producers and its main markets, that is Germany, France, the UK and the Netherlands.

According to marketing director Timo Valve, the new unit, which would have direct computer links with the parent company, the manufacturing units and the subsidiaries, would facilitate more efficient logistics. The Helmond unit must coordinate and assemble pieces of clothing manufactured at the various manufacturing units throughout Europe into complete entities ready to be delivered.

Valve said that the Netherlands was a good location also because the Dutch specialise in international transports and logistics. He said customs and other formalities were considerably more flexible in the Netherlands than in many other European countries.

Another reason L-Fashion chose to set up operations in the Netherlands may have been that the company was reported to have received government grants from the Dutch authorities towards the investment.

L-Fashion has for years been moving production out of Finland, with Finnish production in 1993 accounting for less than 35% of turnover¹³.

L-Fashion in the Netherlands is represented by the agency called Lankhorst/Tesselaar BV, which is an import and wholesale company in Lelystad.

Trademarks are amongst others: Luhta, Rukka, plus 5 Torstai trademarks, of which the author of this report doesn't know the names.

L-TRADING

This unit markets textiles, clothes and footwear. It chiefly sells imported goods and has no production of its own¹⁴.

L-Trading is Finland's largest textile and clothing **wholesale company**, and had an 93-94 turnover of around FM 400m, which corresponded to around half of the turnover of L-Fashion Group.

L-Trading's operations have grown considerably in the past few years.

L-Trading goods, manufactured in the Far East, can be bought at the Lafayette department store in Paris, for instance, and the group's Estonian operations are also very successful¹⁵. L-Trading's growth has chiefly been generated abroad. The company has furthermore set up a successful chain of 11 outlets in the Baltic States, and Hannu Flink, the Managing Director said the number of outlets would at least double.

The company has three stores in Lithuania, two in Latvia and six in Estonia.

Although L-Trading is a L(uhta)-Fashion unit, it is very independent and does not sell Luhta products. L-Trading has some twenty agents who sell the clothes manufactured for the company in China, Hong Kong, Laos, Vietnam and Portugal¹⁶.

¹³ Kauppalehti, 19-01-1993.

¹⁴ Kauppalehti, 19-03-1993.

¹⁵ Kauppalehti, 23 August 1994.

¹⁶ Kauppalehti, 16-11-1993.

L-Trading, and Rafael Trading Company, which is owned by Ralf Jaari, have in August 1994 opened a clothing cash-and-carry unit in **St Petersburg**. According to Jaari, the cash-and-carry unit is one of the first to sell clothes from the West in St Petersburg. The initial reaction of buyers has been good.

Rafael's wholesale operations are financed by L-Trading, but as Rafael Trading was already registered in St Petersburg, operations will be run under the Rafael banner¹⁷.

RUKKA

Rukka, since 1990 part of the L-fashion company, specialised in clothes for golfing, sailing, jogging and motorcycling. After the acquisition Rukka's production of waterproof clothes was discontinued in Kokkola. According to Mr Luhtanen, waterproof clothes would continue to be designed in Finland, but were supposed to be produced abroad¹⁸.

TORSTAI

In December 1990 L-Fashion acquired five trademarks from the bankrupt Torstay oy. It was then decided that Torstai would form an independent business unit within the L-Fashion group.

The first collection of Torstai clothes was shown in January 1991¹⁹.

L-FASHION GROUP BV, Netherlands (formerly named: Luhta-Trading BV) is a Sports Goods Wholesaler, which was established, and incorporated in the L-Fashion group on 7 January 1992. The Dutch company imports 100 per cent of its products from Finland. The parent of this L-Fashion Group BV is **Luhta Holding BV**, which is also based in Andelst. And the Dutch wholesaler also has an associated company named: **Pelser Mode Agenturen BV**²⁰.

L-FASHION LIMITED, in the UK, is importer and wholesaler of sports and leisure wear. The company was acquired on 02-07-1970, and before April 1993 was named: Luhta (UK) Limited²¹.

Unfortunately there is no further information available on the other divisions: Luhta; Skila; Story and JAP, nor on other subsidiaries or associations of the company.

¹⁷ Kauppalehti, 23-08-1994.

¹⁸ Helsingin Sanomat, 12-06-1990.

¹⁹ Kauppalehti, 19-12-1990.

²⁰ D&B European Financial Records, nr. 41-586-6987.

²¹ Jordans Company Reports, 983574, 31-01-1995.

Financial Data

The Financial year of L-Fashion does not run parallel to the calendar year but from the 1st of August to the 31st of July the following year.

KEY FIGURES

in Million. FMk

YEAR	89-90	90-91	91-92	92-93	93-94
GROUP					
Turnover	658.7	749	802	848	902.5
*	720		959	915.2	903
Profit(Loss)	(3.4)	5.5	16	12	--
*		13	18		
Prof.bfr.Tax	29.5	24.7	--	24.9	35.6
L-Trading					
Turnover	--	--	298	260	349
*				355	460
Luhta					
Turnover	--	--	436	382	292
Skila					
Turnover	--	--	99	86	--
Rukka					
Turnover	--	--	63	62	--
Story					
Turnover	--	--	45	43	--
Torstai					
Turnover	--	--	9	10	--
JAP					
Turnover	--	--	8	7	--
L-Fashion <u>UK</u>					
Turnover	--	--	25	--	--

* Figure according to an other source of information.

GROUP

L-Fashion's production in Finland has been loss-making throughout the 1990s. The rise in the Finnish Markka has made the situation worse in the last year, since two-thirds of production is sold abroad.

L-Fashion recorded profits after tax of FM 5.5m in 1990/91, compared with a deficit after tax of FM 3.4m in the year to end-July 1990.

Turnover increased from FM 658.7m to FM 749m. The return on capital employed fell from 7.8% to 7.2%²². Exports to the USSR dried up completely, while previous year's exports to the Soviet Union still amounted to FM 20m and accounted for 8% of export income. Exports to the West dropped by around one-fifth compared with the fiscal year 89-90²³.

The combined sales of all L-Fashion (at that date still named: Luhta Oy) units in 91-92 totalled FM 959m, FM 436m of which was generated by the Luhta division²⁴.

In that same financial year the company recorded a 50% increase in sales to the UK, and recorded a turnover of FM 25 million. This was no mean feat in a market where clothing sales were down to levels only equalled in the big recession in the 1930s.

L-Fashion then held an 11% market share of ski wear sales in the UK, and according to Timo Valve, the group's marketing director, ski wear sales in the UK had by then clearly overtaken sales in Germany and France.

The last four winters of the 1980s, when snow conditions in the main resorts in Europe had been poor, the ski wear sector was tried sorely, and even L-fashion, with many years' experience of the marketplace, suffered badly²⁵.

L-Fashion Group Oy recorded a net profit of FM 12m in the year to end-July 1993, down from FM 18m in the previous fiscal year.

Turnover grew by 5.7% to FM 848m and the operating margin was more or less unchanged at 3.5% (1991/92: 3.6%).

The return on capital employed rose from 9.3% to 9.5%, while the return on shareholders' equity slipped from 4.1% to 2.7%²⁶.

The consolidated result of L-Fashion Group, improved in the next fiscal period 1993-1994, despite of a slight decline in sales²⁷. Consolidated Sales declined by 1% to FM 902.5 million (cf. Fmk 915.2 million in the previous fiscal year) and operating profit before depreciation Fmk 79.6 million. Profit before reservations and taxation totaled Fmk 35.6 million, a 25% improvement on the previous fiscal year (cf. Fmk 24.9 million). Managing Director Pekka Luhtanen considered the return on capital invested satisfactory considering the circumstances²⁸. L-Fashion Group's operating margin was 8.8%, while the return on investment was 8.4%²⁹.

22 Kauppalehti, 19-12-1991.

23 Kauppalehti, 07-06-1991.

24 Kauppalehti, 19-03-1993.

25 Kauppalehti, 19-01-1993.

26 Kauppalehti, 22-12-1993.

27 Kauppalehti, 12-04-1995.

28 Etela-Suomen Sanomat, 13 December 1994, p.14.

29 Helsingin Sanomat, 18-12-1994.

L-TRADING

L-Trading, recorded sales of FM 298m, in the financial year 91-92³⁰.

The fastest-growing unit in 1993 was the wholesale and trading unit L-Trading, whose turnover grew by 9% to FM 260m.

According to the group's managing director, Pekka Luhtanen, L-Trading showed the largest growth potential of all the group's units. However, he rejected suggestions that the group could turn into just a trading house, with no production³¹.

In 93-94 L-Trading was still going strong in spite of the recession. The company even budgeted for a turnover twice as large as the preceding year's turnover³².

L-Trading actually expanded to become the biggest business unit in 1994 with total sales of Fmk 349 million. According to the Managing Director L-Trading achieved good results in selling clothing made in the Far East in Sweden, Germany and France³³.

LUHTA

L-Fashion Group's former largest division was Luhta, which accounted in 1992/93 for FM 382m of the group's consolidated turnover of FM 848m. Luhta's exports grew while domestic sales declined³⁴. Having become the second biggest business unit, after L-Trading, in 1993/94, Luhta recorded sales of FMk 292 million. The sales of Luhta fell with exports declining, but domestic sales developing positively. Export was affected by e.g. a declining demand for skiwear³⁵.

FINANCIAL DATA OF OTHER L-FASHION'S BUSINESS UNITS

L-Fashion Group's other units are Skila, whose 92-93 turnover declined by 2% to FM 86m; Story, which saw turnover rise by 19% to FM 43m; Rukka, which posted a 5% increase in turnover to FM 62m; Torstai, whose turnover doubled to FM 10m; JAP, which reported a turnover of FM 7m; and the investment company L-Invest³⁶.

In the financial year 91-92 Skila's sales amounted to FM 99m, Rukka's to FM 63m, Story's to FM 45m, Torstai's to FM 9m and Jap's to FM 8m³⁷.

³⁰ Kauppalehti, 19-03-1993.

³¹ Kauppalehti, 22-12-1993.

³² Kauppalehti, 16-11-1993.

³³ Etela-Suomen Sanomat, 13 Dec 1994, p. 14.

³⁴ Kauppalehti, 22-12-1993.

³⁵ Etela-Suomen Sanomat, 13 Dec 1994, p. 14.

³⁶ Kauppalehti, 22-12-1993.

³⁷ Kauppalehti, 19-03-1993.

Employment

The Finnish clothing and textiles industry, including L-Fashion, seems to be moving its activities from Finland to low-cost, to lower-cost and eventually to lowest-cost countries.

Finnish workers feel bitter about the move away from Finland, where unemployment is rife. Managers, on their hand argue that Swedish and German competitors are also using production facilities in lower-cost countries, which forces Finnish manufacturers to follow suit in order to remain competitive³⁸.

The Finnish clothing industry is increasingly looking to the East European countries for cost-effective production. For example in Poland a machinist can expect to earn FM 400-800 per month, which is a great saving on wages in Finland. As a result of the low production costs, many clothing manufacturers from Sweden, Germany, Norway and Denmark produce their merchandise in Poland.

Estonia in 1993 was rapidly becoming the new Taiwan for the Finnish clothing industry, which was continuing to move production to Estonia.

A number of major Finnish textile and clothing manufacturers such as L-Fashion, Finlayson (Asko Oy Group) and the PTA Group Oy are already ensconced in Estonia³⁹.

Finnish clothing manufacturers have furthermore been subcontracting sewing activities to stitching units in Russia, which charge 30% less than similar establishments in Estonia, where the costs are already low, often as much as two-thirds lower than in Finland.

The quality of work in Poland is considered better than in either Estonia or Russia, but the distances involved increase transport costs.

L-Fashion too has (1992) tried out production in Russia, and was reported to be quite happy with the results. Pekka Luhtanen believed that in the long term production in Russia would be more cost-effective than in the Baltics, which, as a result of the close proximity to Central Europe would soon be affected by rising prices⁴⁰.

GROUP

In 1991 L-Fashion Group employed 3,000 people. In June of that year the company announced that it would cut its workforce by 215 people that autumn. In addition, staff were warned that lay-offs might be implemented in the winter. The reasons for the measures were the large losses recorded by the Finnish production units and the decline in exports.

L-Fashion was to cut the workforce at its Lahti plant by 154 from 870, while staff at Nastola and Hamina would be reduced by 19 and 42 respectively. The company also implemented a FM 6m training scheme in Finland in order to improve the professional skills of staff and to develop cooperation⁴¹.

While cutting its workforce in Finland, L-Fashion was expanding its production abroad.

³⁸ Helsingin Sanomat, 17-01-1993.

³⁹ Helsingin Sanomat, 17-01-1993.

⁴⁰ Kauppalehti, 27 January 1993.

⁴¹ Kauppalehti, 07-06-1991.

The company was at that time, June 1991, setting up a FM 10m clothes cutting plant in **Portugal**. The plant, which came on stream in the summer, would increase the opportunities for subcontracting.

Furthermore, in order to improve price competitiveness, L-Fashion also acquired a majority shareholding in a **Turkish** company in conjunction with Finnfund. The clothes, which are sewed by subcontractors, are chiefly sold in the EC⁴².

In March 1991 the company decided to use **Polish** subcontractors for part of its production. Before that date L-Fashion purchased ready-made merchandise from Eastern Europe through its trading company L-Trading. Now L-Fashion's collections could also be made in Poland from its own patterns. Some of the models were cut in Finland and stitched in Poland⁴³.

(Estimated) employment figures 1990-1995

<u>year</u>	95	94-95	93-94	92-93	91-92	90-91
GROUP	--	2400	2600	--	--	3000
Finland	--	1200	1460	1460	--	--
*			1305			
Abroad	--	1200	1300	--	--	--
Plants						
Lahti	611	--	716	--	870	--
*	543		611		716	
Hamina	125	--	150	--	192	--
*	80		125		150	
Nastola	95	--	100	--	119	--
*	80		95		100	
Rukka	--	--	--	--	--	100

* These second figures are the lowest figures reported after job cuts in that time period. (The first figures are those of the situation before job cuts.)

With the start of 1993, the number of L-Fashion employees in Finland amounted to about 1,460. A similar number was in that period employed abroad⁴⁴.

In April 1993 L-Fashion announced to reduce the workforce of its three plants by 135 at the beginning of October. According to the company's managing director, Pekka Luhtanen, this was the minimum action required, and would remove only part of the excess capacity at the plants.

⁴² Kauppalehti, 07-06-1991.

⁴³ Helsingin Sanomat, 25-03-1991.

⁴⁴ Kauppalehti, 22-12-1993.

105 jobs were to go at the **Lahti** plant, while the staff complement in **Hamina** would be reduced from 150 to 125. In **Nastola**, where the company had a workforce of around 100, five jobs were to go.⁴⁵ At that moment already more job cuts in future were to be expected.

L-Fashion this year (1995) is to scale down its sewing operations in Finland, cutting around one in ten jobs in the process. The cuts will affect nearly 130 employees, again in the company's plants in Lahti, Hamina and Nastola. They will be implemented towards the end of the year, chiefly by means of redundancies.

L-Fashion's production in Finland has been loss-making throughout the 1990s. The rise in the markka has made the situation worse in the last year, since two-thirds of production is sold abroad. The company has implemented long lay-offs this spring, but has now decided to cut the overcapacity in its highly unprofitable Finnish operations.

At the Lahti plant, 68 people will have to leave, while in Hamina and Nastola the number of job cuts will amount to 45 and 15 respectively.

L-Fashion has just over 1,200 employees in Finland and a similar number abroad. L-Fashion is also to cut the number of profit centres by merging smaller units⁴⁶.

Conclusions

As with many other textile companies we have also seen with L-Fashion that it has moved its production to low cost countries, and even lower-cost countries.

The 'excuse' is, as always, that the competitors are doing the same, in order to remain competitive.

The presumption (of managers) that these movements of production could also mean the creation of some new jobs, such as quality control and design⁴⁷, still needs to be verified....

What is already clear is the fact that many jobs have been lost in Finland, with the result that Finnish production now accounts for less than 35% of turnover. At the same time there were investments in new factories in 'cheaper countries' and subcontracting increased.

Due to worsening results the company has also decided to make a shift from sports wear manufacturing to the highly competitive market of casual clothing, in order to obtain the goal of 50/50 sports wear/casual wear invoicing.

⁴⁵ Helsingin Sanomat, 01-04-1993.

⁴⁶ Kauppalehti, 12 april 1995.

⁴⁷ Helsingin Sanomat, 17-01-1993.

ANNEX I AVAILABLE ADDRESSES

Netherlands

LUHTA-Holding BV

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