

The Falke Group

A company profile

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Introduction

The Falke Group, based in Schmallenberg, Germany, is a producer of knitted fabrics. The main products manufactured by Falke are socks, stockings and tights. These products belong to the hosiery sector. Other products of Falke are carpet yarns and knitted fashion outerwear.

The products of Falke are manufactured by its three divisions: the hosiery division; the thread division and the fashion division.

Within the hosiery sector, Falke is a supplier of top price-bracket socks and stockings. Nearly 80 percent of the hosiery products are sold under the own brandname 'Falke'.

Most of the fashion articles of Falke, belonging to the luxury segment of the market, are sold under licensed brands like Dior, Karl Lagerfeld, Esprit Joop and Kenzo. The fashion collection items consists mainly of menswear like knitted pullovers and jackets, but it includes also sportswear.

The thread division of Falke produces mainly yarns for the carpet industry.

Stocks, Stocking and tights accounted for 75% of turnover in 1995, while 7% came from menswear and 18% from carpet yarns.

In autumn 1995 the Falke Group celebrated its centenary anniversary. Falke is a family owned and family managed company¹. The company is currently managed by Franz-Peter Falke, the great-grandson of the founder, alongside his cousin Paul-Georg Falke. This fourth generation of Falke owners/directors has also the intention to keep the company family owned.

Falke produces mainly in German factories. The Falke Group has a total number of employees of 2783, of which about 1750 work in Germany.

Outside Germany, Falke has production facilities in Portugal (638 employees), France and South Africa.

In 1992 Falke acquired a plant in Dorfchemnitz in former East Germany. When Falke acquired this plant it had a workforce of 150 employees, while at the moment the plant has 250 employees².

In 1994 Falke constructed a production facility in Hungary, and while it also had plans for a joint venture in the Ukraine. It is not quite clear if this has been realised already.

Falke meets the requirements of the Council Directive on the establishment of a European Works Council.

Falke has a number of sales offices in Europe and in the USA. The export quota of Falke is currently 16%. The Benelux, France, USA and the UK are the main export markets of Falke.

In 1994 and 1995, the Falke Group was unable to escape the negative markets trends, and turnover declined by respectively -8.2% and -0.5%, although the company did better than the market as a whole and is still profitable.

¹ EIU Marketing in Europe, No. 384, November 1994.

² Profound Database, Brief Financial Dun & Bradstreet.

History

The Falke company was established in 1895 in Schmalleberg in Germany.

The environment of Schmalleberg, Sauerland, traditionally accomodate a large number of small knitting plants and weaving mills. The founder of the company, Franz Falke, the great-grandfather of the present-day generation of Falke managers, was a seasonal worker in a small knitting plant. He became an independant entrepeneur when he bought his own knitting machine in 1895 and established the company Franz Falke Rohen-Strumpffabriken.

The son of Franz Falke, Franz Falke Junior, was responsible for the expansion of the company because he no longer worked as a contractor like his father, but started to sell the socks and stockings himself. In 1918, Franz Falke Junior acquired the yarn spinning-mill for carpets, J. Meisenberg in Schmalleberg (nowadays called Falke-Garne) and in 1938 he acquired the knitting plant Stern in Schmalleberg (nowadays called Falke-Fashion). After World War II Falke became an important company in the German textile industry. In 1951 the two sons of Franz Falke Junior (Paul and Franz-Otto) took over the company.

The two sons acquired Uhli-Feinstrumpfwerke in Lippstadt in 1958, and with this acquisition the very important product of tights was added to the product range of Falke. They also established sales offices around Europe and arranged production facilities outside Germany, for example in South Africa were still socks and stockings are knitted for the homemarket of South Africa

The four pillars of stockings, tights, carpet yarns and knitted outerwear still define the image of the Falke Group nowadays. The current management of Falke, the fourth generation, wanted to increase its export quota by extending the core activities of the company to related areas. The Lippstadt facility therefore, now produces lingerie as well as tights. The lingerie collection of Falke is called the Falke-Body-Collection. To take advantage of the fitness rage, Falke launched the Falke-Cen-Fitwear-Collection in 1993³.

The Portuguese subidiary of Falke, Tovartex-Industria Textil Lda. was established in 1980, it produces womens hosiery and has 638 employees⁴.

Falke France was established in 1988 and has 20 employees⁵.

In 1992, Falke acquired a new subsidiary in Dorfchemnitz, former East Germany via Treuhandanstalt. This company, Falke Strumpffabrik, produces womens hosiery. When Falke acquired this plant it had a workforce of 150 employees. It has currently 250 employees, which is said to be raised to 300 in the medium-term. Falke hopes to raise its market share in former East Germany to the same level as in West Germany within a few years.

In 1994 Falke also constructed a production facility in Hungary in joint venture.

³ Frankfurter Allgemeine Zeitung, 14 September 1995.

⁴ Hoppenstedt report, 1989-1996, Infoplus Database.

⁵ Profound Database, Financial Briefly, Dun & Breadstreet.

Structure

The Falke Group consists of the following companies in Germany:

Franz Falke-Rohen OHG, (Schmallenberg) is the parent company.

Production companies in Germany:

- Franz Falke-Rohen Strumpffabriken, (Schmallenberg)
- Falke-Fashion, (Schmallenberg)
- Falke Garne OHG, (Schmallenberg)
- Falke Feinstrumpfwerke, (Lippstadt)
- Falke Strumpfabrik, (Dorfchemnitz)

Holding companies in Germany:

- Falke A. Franz GmbH (Schmallenberg)
- Falke-Garne Beteiligungs-GmbH (Schmallenberg)
- Falke Strumpfwaren Beteiligungs-GmbH (Schmallenberg)

Outside Germany:

- Tovartex-Industria Textil Lda, Portugal (production)
- Falke France, France (Production)
- Falke Nederland, The Netherlands (wholesale distribution centre)
- Falke (U.K.) Ltd., United Kingdom (wholesale distribution centre)
- Falke Sportswear, Denmark (wholesale distribution centre)

(-H. Falke & G. Antonopoulos & Co E E, Greece, the author of this report did not find any proof that this company is part of the Falke group although the name suggests it is. It is active in womens- and childrens clothing and has 10 employees.)

There is a production facility mentioned in one of the articles in South Africa which apparently only produces for the South African home market. It is not clear if this facility, which was set up by Falke, is still a part of the Falke Group.

Falke has a joint venture in Hungary since 1994, further details are unknown.

Management

Today the fourth generation of director/owners of Falke is in charge.

The managers are the cousins Franz-Peter Falke and Paul-Georg Falke.

Since the first of July 1995, the financial director is Thomas Meischner⁶.

The company wants to remain in family ownership. Franz-Peter Falke believes that the current structure of Falke has considerable advantages when it comes to creativity, flexibility and the rapid realisation of ideas⁷.

The management of Industria Textil Tovartex Lda, Portugal consists of:

- Paul Falke;
- Franz Falke;
- Franz Falke;

⁶ Frankfurter Allgemeine Zeitung, 3 July 1995.

⁷ Frankfurter Allgemeine Zeitung, 14 Sept 1995.

- Alfred Tiltmann, he is the managing director;
- Maria Roas Azevedo, financial director, and;
- Robert Lerche, operating manager.

Management of Falke Strumpffabrik, Dorfchemnitz (former eastern Germany):

- Franz-Peter Falke;
- Paul Falke;
- Franz-Jozef Kalde and;
- Franz Traub.

Franz-Peter and Paul Falke are the owner/directors of all the Falke companies in Germany. Otto Falke is a silent partner in these companies, except in the case of Falke-Fashion of which he is also a owner/director⁸.

⁸ Hoppenstedt report, 1989-1996, Infoplus Database.

Activities

The Falke Group has three divisions:

1. Hosiery division; this division has as core activity the production of socks, stockings and tights. This has recently extended with the production of lingerie (the Falke-Body-Collection).

Trademarks are Falke Strickstrumpfen and Falke Strickmoden, and the name recognition of these trademarks is very widespread in Germany where 75 percent of all people are familiar with the brands.

Of the total hosiery production, 80% is sold under Falke's own trademarks, while the remaining is produced under licence (like Esprit). Only 10 percent of total hosiery produced in Germany is exported.

The companies that make up the stockings division are: Falke Feinstrumpfwerke, Falke-Rohen Strumpffabriken, Falke Strumpffabrik, Tovartex and Falke France.

2. The thread division; mainly producing yarns for carpets and rugs, but also felts for carpet underlays and yarns for furnishings. These products are made by Falke-Garne.

3. The fashion-division; this division produces knitted mens outerwear, such as knitted pullovers, slipovers, tee-shirts, suits and trousers for men and boys. These products are made by Falke-Fashion, of which 70% is produced under licence (of Dior, Lagerfeld, Kenzo and Joop).

Of the fashion articles 37% is exported, with the Benelux, US, France and UK as the main destinations.

Some 16% of Falke's turnover was generated by exports in 1995.

The following table shows that the contribution of hosiery to the total turnover of Falke has increased during the last six years. There is therefore a shift in the composition of turnover from fashion wear and yarns to hosiery. The hosiery division is accounting for 75% of total turnover now, while five years ago it was 58%.

Tabel. Percentage of turnover by division.

Division	1990	1991	1992	1993	1994	1995 ⁹
Hosiery	58%	65%	68%	72%	74%	75%
Carpet yarns	27%	22%	20%	19%	19%	18%
Fashion wear	15%	13%	12%	9%	7%	7%

Falke is experiencing difficulties in its men's clothing division. The proportion of turnover generated by this division fell to 9% in 1993 (12% in 1992). Neither the new Kenzo-maille collection nor the Falke collection was able to compensate for the fall in turnover from the Boss-Knitwear collection. The licence cooperation with

⁹ Frankfurter Allgemeine Zeitung, 13 May 1996.

Hugo Boss AG, for which Falke produced pullovers and socks, came to an end at the end of 1993, after ten years of supplying. Falke lost this contract to an Italian producer. The licence agreement for Joop! and Kenzo knitwear still did not fill the resulting gap in 1994. Turnover in this division fell to DM 26m in 1994 from around DM 36m in 1993.

The carpet yarn business was affected by worsening market conditions. The market shrank by 8% and Falke-Garne's turnover fell to DM 70m from DM 76m.

In June 1994 Falke introduced an insulation material made of sheep's wool under the name of Clima Wool. This new insulation material can be used in housebuilding but also in other areas such as upholstery filling. The new insulation material is however about three times as expensive as conventional mineral wool and the product is still in an introductory phase and a significant contribution to turnover is not expected in the near future¹⁰.

Production

Falke planned to issue a production licence to a Ukrainian joint venture partner in 1994. In the future the Ukrainian factory could thus also produce for the local market¹¹

The management of Falke wants to target foreign markets for future growth. In 1994 a production facility was constructed in Hungary with a joint venture partner.

The selection of these countries for new production facilities is in line with the trend in the textile industry. Traditional lower-wage European countries such as Portugal and Greece are becoming too expensive for out-sourcing.

There is a choice to upgrade the factories in those countries with more automated machinery, or look elsewhere to countries such as Russia, Hungary and even South Africa, according to producers of knit fabric and knitwear. Producers say that most of the machinery investments being made these days are in offshore plants, and that much of the investment there is in secondhand machinery.

Where there has been investment in Europe, it has been in the area of computerization, both directly in machinery and in the improvement of marketing and logistics systems. But, essentially, capital investments in local plants have been on the back burner¹².

Falke, has however made 'sizable' investments in the last years, although spokesman Andreas Falke did not reveal the amount.

'We are permanently making investments in machinery,' he said. Most machinery is from Italy and Germany, he said. Lately, with the rising costs of labor, the emphasis has been on computerization.

'Computers are always coming up with new things, more sophisticated things,' said Falke. 'Just because there are limits now in what can be done with automation in knitting doesn't mean that those limits won't be broken.'

He added that the speed of the machines was another important factor in the knitting industry, and he felt there had been 'big improvements' in that area.

¹⁰ Handelsblatt, 7 Jun 1994, p.20.

¹¹ Handelsblatt, Globalbase, 26 July 1996.

¹² Daily News Record. 25 February 1993.

Falke emphasizes a two-tier system of production, with more specialized goods being manufactured in Germany and with the labour intensive products being produced in low-wage countries.

Falke purchased a plant in Dorfchemnitz, in the former East Germany, where wages are still only about 60 percent of those in western Germany.

When Falke acquired the plant in Chemnitz, it had a workforce of 150 employees, in 1995 the plant had 244 employees and which is said to be raised to 300 in the medium term.

Market/sector

1995 was not a good year for the international hosiery sector. Turnover declined for almost all the international producers. Exceptions were the Italian company Golden Lady S.A. and the Austrian company Wolford AG, their turnover grew with 11,6% respectively 18%.

Sara Lee is still the market leader in the hosiery sector, although they experienced a decline in turnover of 4%. Sara Lee is the parent company of Vater and DIM, they also belong to the ten largest hosiery producers in the world.

The decline in turnover in the hosiery sector is mainly due to the decreased sales of tights, which is one of the most import products within the hosiery sector. One of the specialised magazines of this sector (Textil-Wirtschaft) estimates that during the last five years the use of tights is declined with 30 percent in Europe and North America. In Germany the use of tights declined with 7 percent in 1995. In America they speculate that the changes in the working environment cause the diminished use of tights. More and more women in the USA are working at the computer at home, so they can dress casually instead of formally¹³.

The table on the following page shows the largest hosiery producers worldwide with the turnover figures of 1995. The turnover figures are compared with those of 1994 and this is expressed in changes in percentage. The number of employees in 1995 are also mentioned.

¹³ Frankfurter Allgemeine Zeitung, 21 June 1996.

Table. The largest Hosiery producers in 1995.

Company	Turnover '95	Changes in %	Employees
Sara Lee, USA	2450	-4	n.a.
Kunert AG, Germany	540	-3.4	3900
Kayser Roth AG, USA	471	-7	3800
Golden Lady, Italy	470	+ 11.6	2686
Vatter-Gruppe, Germany	451	-8	1100
Falke-Gruppe, Germany	369	-0.5	2783
DIM, France	375	+5	3500
Wolford AG, Austria	212	+ 15	1441
Ergee-Gruppe, Austria	210	n.a.	700
CSP Internationale Industria, Italy	191	n.a.	700

Financial data

In 1993 many jobs were lost in the hosiery sector because of declining turnover figures. Turnover of Falke declined by 3.3 percent in 1993.

In 1994, turnover declined with 15 percent in the entire knitting industry, Falke reported a decline of 8.2 percent¹⁴.

In the financial year 1995, turnover of Falke declined by 0.5 percent. In the sector as a whole, sales declined by 7 percent.

Table. Group turnover of Falke

	1990	1991	1992	1993	1994	1995
Turnover in million DM	364	408	418 ¹⁵	404	371	369
Changes in %	+ 6.4%	+ 1- 2.1%	+ 2.5%	-3.3%	-8.2%	-0.5%

Within the hosiery division of Falke, turnover of tights decreased by one percent in 1995, which is quite good compared with the results of the sector as a whole. The turnover of socks and stockings even increased a little.

¹⁴ Frankfurter Allgemeine Zeitung, 16 May 1996.

¹⁵ In 1992, 67 percent (DM 282 million) of group turnover was achieved in Germany.

The turnover of Falke-Fashion remain on the same level in 1995, while the total turnover within the sector of knitted men's clothing decreased by 7 percent, the performance of Falke fashion can therefore be considered as satisfactory. Turnover of Falke Garne decreased with 7 percent in 1995. Falke does not disclose turnover figures of its divisions¹⁶.

Employment

The majority of the employees of Falke work in Germany. In 1994, Falke employed 2860 workers of which 1760 in Germany.

Of the employees working outside Germany, 638 work in the Portuguese subsidiary Tovartex-Industria Textil, Lda.

Tabel. Employment level of the Falke Group.

	1990	1992	1993	1994	1995
No. of employees ¹⁷	2650	2860	2860	2860	2783
of which in Germany	2000	n.a.	1800	1765	n.a.

Of other knitting German companies, a 1000 jobs were lost at Kunert and in 1992, 430 jobs were lost at Vatter because of the declining turnover figures in the German knitting industry. Falke reduced the employment level in Lippstadt with 60 jobs in 1994, which made the number of employees in Lippstadt 390.

The number of employees of the subsidiary in former East Germany, Falke Strumpffabrik, increased with 100 employees since Falke took over this company and a further increase of 50 employees can be expected in the near future.

¹⁶ Frankfurter Allgemeine Zeitung, 13 May 1996.

¹⁷ The various sources used for this company profile reported the same number of employees for 1992, 1993 and 1994. The absence of an annual report of Falke made it not possible to check these numbers.

Strategy

In the future Falke wants to cooperate more closely with the retail sector.

To be able to respond quicker on changes in the market and new tendencies Falke ought it to be necessary to connect the logistic side and the communication side of the company stronger with each other. With this background, the Falke managers Franz-Peter and Paul-Georg Falke, explained that the company will invest more in the improvement of the production proces, in the information technics and the communication system.

The emphazis of the investments in Germany to improve the production proces lays on computerization.

The labour intensive products of Falke are mainly produced in Portugal and since 1992 in former East Germany, which are still countries with lower wages.

Falke is also working on a clearer definition of the brand identity, Falke wants to differentiate the brand for the different targets groups, men, women, sports(wo)men and young people.

Beside these strategies Falke wants to expand its international activities. The exportquote until now is 16 percent, for the middle long term, they aim at a export quota of 40 percent. To achieve this exportquote, Falke concentrates in the first place on Holland, Belgium, France, Austria, Switzerland and England. To open up this market, Falke wants to establish Falke International. All the foreign activities of Falke will be concentrated in Falke International¹⁸.

¹⁸ Frankfurter Allgemeine Zeitung, 13 May 1996.

1ANNEX 1. List of addresses Falke Group

Falke-Rohen Strumpffabriken

Oststrasse 5a
57392 Schmallenberg
Postfach 1109
57376 Schmallenberg
Germany

Tel: +49 (0)2972 7991
Fax: +49 (0)2972 799319

This is also the address of:

- The headquarters of the parent company **Franz Falke-Rohen**.
- Franz A. Falke**, holding company.
- Falke Strumpfware Beteiligungs-GmbH**, holding company.

Falke-Garne OHG

Kutscherweg 1
57392 Schmallenberg
Postfach 1130
57376 Schmallenberg
Germany

Tel: +49 (0)2972 3070
Fax: +49 (0)2972 307323

This is also the address of **Falke-Garne Beteiligungs-GmbH**, holding company.

Falke-Fashion

Ohlgasse 5
57392 Schmallenberg
Postfach 1108
57376 Schmallenberg
Germany

Tel: +49 (0)2972 3080
Fax: +49 (0)2972 308300

Falke Feinstrumpfwerke

Am Tiergarten 9 u. 11
59555 Lippstadt
Postfach 1560
59525 Lippstadt
Germany

Tel: +49 (0)2941 7440
Fax: +49 (0)2941 744160

Number of employees: 390

Falke Feinstrumpffabrik GmbH

Fabrikstrasse 4
Dorfchemnitz
D-09380
Germany

Tel.: +49 (0)37754 2342
Number of employees: 250

Falke France

9 Rue d'Aboukir
75002 Paris
France

Tel: +33 1 42361138
Fax: +33 1 42361346
Number of employees: 20

Tovartex-Indústria Têxtil Lda

PT-3880 Ovar
Estrada da Marinha
Portugal

Tel: +351 (0)56 586121
Fax: +351 (0)56 586176
Number of employees: 638

Falke Nederland BV

Kon. Wilhelminaplein 2-4
1064 HK Amsterdam

Tel: +31 (0)20 6170530
Fax: +31 (0)20 6158556
Number of employees: 14
(Wholesale distribution centre)

Falke (U.K.) Ltd.

Palmerston Business Centre
11 Palmerston Road
Sutton
Surrey, SM1 4QL
United Kingdom

Tel.: +44 (0)1162552277
Number of employees: 10
(Wholesale distribution centre)

Falke Sportswear

Skolegade 9

Aulum

Ringkobing

7490

Denmark

Tel.: +45 97472585

Number of employees: 5

H. Falke & G Antonopulos & Co E E

219 Ymittou

Athens

Attiki

116 32

Greece

Tel.: 301 7012843

Fax: 301 7521477

Number of employees: 10