



RePro Case



EJ-Laukku Oy / Three Bags

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A Study Case by RePro



From past till present

The firm EJ-Laukku has been manufacturing Finnish leather bags over 50 years. In 1953, Erkki J. Juutilainen, the founder of EJ-Laukku Oy, registered his firm and started leather bag manufacturing and retail with his wife Mirjami Juutilainen. In 1963, the firm and its personnel (7 persons) moved from Rantasalmi to Varkaus. An export firm, Three Bags Oy, was started in 1967 in cooperation with two other Finnish bag factories. As early as in 1969, EJ-Laukku got hold of the brand Three Bags exclusively. The first export countries were Sweden, Norway and Switzerland. In 1970's, export expanded to Holland, England, Ireland, Austria and Iceland.

In 1982, EJ's daughters Liisa and Tarja Markkanen (former Juutilainen) began to help their father at the firm. The generation change took place in late 1980's. Today the business is continued by Tarja Markkanen as the general manager.

The manufacturing of Three Bags labelled leather bags employs 20 persons in Varkaus. The turnover of the company in 2004 was about 1 million euros. Exports brought in about 30% of the sales. EJ-Laukku produces approximately 25 000 various leather items in a year. Sweden was the first country of export for Three Bags products. It was followed by Austria and Switzerland and other Nordic countries. Nowadays the most important export countries, in addition to Nordic countries, are the United Kingdom, Russia and Japan. Three Bags factory shop is located in Warkauden Portti Travel Center, Varkaus.

During the decades EJ-Laukku has had various cooperative partners, for instance Nokia, Vertu, Kalevala Koru, Iceland Air and Finnair. EJ-Laukku was manufacturing the shoulder bags for Finnair stewardesses for 30 years. Now, since 2003, Finnair is using imported bags made of different materials. When Finnair started its direct flights to Tokio also the Japanese became interested first in stewardesses' Three Bag leather bags and then also in the whole collection. Export to Japan was started in 1987. The production of Nokia mobile phone cases and portable computer cases was a remarkable part of business in early 1990's. Originally Nokia was even taking care of the export of the cases. Later on it was done by EJ-Laukku. At that time export was up to 75% of EJ-Laukku's annual turnover. The production of mobile phone cases and portable computer cases was a big increase in sales at the time of decline in the economy and sales of leather bags. Now the case boom is over because the size of mobile phones has decreased a lot and they fit into pockets and hand bags. Nokia has given the production of portable computer cases to a Turkish company. The decline in case production was not fatal because it was organised mostly through subcontracting avoiding big investments.

The production has changed from traditional bag manufacturing. EJ-Laukku has specialised in high-quality leather bags, but substitute materials are as well used today. There have also been bags for special demand in production, for example bags covering electronic equipment and leather cases for Nokia mobile phones.

Product development is continuous. Model designers pay special attention to timelessness, durability and practicality as well as to the newest trends from the world, which are constantly followed by two free-lance designers. Specialization, flexibility and high quality are the firm's strong points. The managing director designs herself the basic traditional line. New models are presented four times in a year. The Model Master is managing the production lines.

Three Bags items are mostly handcraft. Leather is a distinguished and demanding natural raw material and the maker must be careful and skilled. About half of the workers have been employed more than twenty years in EJ-Laukku; therefore the bags are made by skilful ladies.

Excellent quality, modern classicism and Finnish design are special features of Three Bags products.

Handmade in Finland

EJ-Laukku Oy manufactures and markets shoulder bags, briefcases, travel bags and small leather goods. Prices of the products vary from under 100 euros to over 450 euros, for over 100 different models each year. Some models are classics, designed decades ago and still selling strongly, some models new and contemporary, with a limited lifetime. Novelties are launched four times a year.

A very high percentage of the production is done by hand, thus enabling the slogan "Handmade in Finland". Most of the production is aimed at consumer markets, however, cooperation has occurred manufacturing bags or pouches for electronic equipment, as mentioned earlier. The raw material is Buffalo-leather or Nordic Elk. Three Bags products are of very high quality, from handiwork, material and design point of view. Designs are made by 2 freelance-designers abroad, thus keeping an eye on the trends of the world. Guidelines for designs are mainly timelessness, durability and usability, as well as Three Bags image and trends.

Finnish consumers are less fashion-oriented than most Europeans; therefore the classic models are the backbone of sales. However, younger generations are adopting new trends and changing trends quickly, and bags as accessories are becoming more and more common.

The company sees its main target group as somewhat career oriented, with relatively high income, temperate, traditional and classic ladies, for the company offers no products for gentlemen.

In 2003, the sales could be divided among shoulder bags 46%, office bags 17%, evening purses 13%, roomy bags 9%, fashion 6% and travel 9%. Development against earlier sales would suggest shifting more and more towards shoulder and office bags. In 2003, most bags were sold among the price group 150 - 200 euros,

although most of the company's models during that year were in the 150 - 300 euros group.

Cheap imports moving in

Today EJ-Laukku is the biggest bag manufacturer in Scandinavia and almost the only one in Finland. Main competitors in the Finnish markets would be Nabo, Okay's, and PT-Design. Okay Style and PT-Design have their manufacturing mainly in Estonia but also as home manufacturing in Finland. Nabo is positioned differently, for regular working mothers, living in small towns or suburbs. Nabo products are somewhat more affordable than Three Bags. Okay's customers on the other hand are youthful, temperate and stylish, active, with genuine personality, city type of person. Okay's products are also manufactured in Finland, of leather. PT-Design products are either of leather or other substitute, manufactured abroad, targeted apparently to ladies over 35 years of age, possible with family, home oriented.

Not only Finnish brands, but world wide brands are also moving in. Mulberry, LongChamp and such compete in basically the same product category. Cheap imports from Asia are increasing, and what is more worrisome, the quality of these imports is rising as well. Private label production can also be seen as competition.

EJ-Laukku has studied how their customers make their buying decisions. To purchase a high quality and quite expensive bag can be regarded as a process related to an investment decision. The process includes a lot of thinking and comparison between different options. So it is necessary to think about the different elements in the products and their marketing.

The main competitive tools are

- 1) Made in Finland (and the Finnish flag brand)
- 2) High quality (handmade, raw materials, unique models)

The raw material is 90% from the domestic markets.

Three Bags products are at the high-end of the price scale. The company sees the name Three Bags close to the pricing area of LongChamp, Hermes and Mulberry, basically due to high quality raw material and the amount of hand labour required in production. The technical quality of the products is exceptionally high, thus somewhat justifying the high price.

Three Bags products are sold usually through higher-profile department stores, as well as independent specialty shops. Growth in that area is seen as limited. EJ-Laukku has also a factory outlet in Finland, in Varkaus. The factory shop has long traditions and it is popular among the local people as well as with the tourists because a lot of people know that EJ-Laukku is located in Varkaus. In April 2005, a factory shop in Lahti was opened. The shop had a special image and was supposed to bring new experiences for visitors. The indoor decoration was a combination of old furniture and leather bags. The furniture and the bags formed a homelike and at the same time interesting interior. Also the furniture and the lamps were for sale. The bag selection covered the whole production of Three Bags and included also unique prices and test models. However, the store was closed in November 2006.

Distribution in Europe follows the same pattern, minus the factory outlet. In Japan distribution is done by postal catalogues, as is the way of the culture with high-end products. Three Bags has agents in various countries and for special areas:

- Finland
- Sweden and Norway
- Iceland
- Denmark
- United Kingdom
- Moscow (Russia)
- St. Petersburg (Russia)
- Japan

One of the competitive advantages towards distribution channels that Three Bags has is the possibility of small batches, thus making the need for storage space

minimal for distribution channel members. Small batches however, can easily eat away the profits.

“Like a friend, with you everywhere”



Picture 1. EJ-Laukku Oy, logo.

The name EJ-Laukku Oy was taken into use in 1963. The name comes from the initials of the founder Erkki Juutilainen. It can only be seen as the manufacturer, all communication is done in the name of Three Bags, with the exception of Japan. Three Bags would be too difficult for pronunciation in Japan, therefore EJ-Laukku is used. Three Bags product name is quite well known in Finland, according to a recent study 70% of population recognizes it. When divided by age, most well known it is among groups “family founders” and career oriented, lowest awareness is among students, 46%.

The Three Bags logo depicts 3 bags seen from the side, with the text “Made in Finland” beneath them. The slogan “Like a friend, with you everywhere” was designed in the 1980’s, but has not been used lately.

The company follows a collection of constant graphic directions, including guidelines on the look of business cards, envelopes and other office stationary. The trademark and logo have been defined down to used fonts and sizes. The visual image was created and is updated by an advertising agency or the company’s own freelance designer Jonna Ager-Wick. Ms Ager-Wick also supervises all promotional photo shoots, brochure design and website.

Adopting new media

Three Bags uses a number of methods for communication. First of all, for retail outlets and members of distribution channel Three Bags provides posters for walls and display boards. Stand up logos are provided as well. Each product has care instructions placed in when purchased.

Three Bags focuses on print advertising. Professional magazines, such as Kauppalehti Optio for business and Muotimaailma for fashion professionals form the basis of advertising. These magazines are seen as high level and high quality media. The ads themselves are more for image enhancing than for product advertising, usually depicting an attractive, classic kind of beautiful and young lady with a bag.

The products are actively offered for magazine photo shoots by PR-Agency Leena Sergin. Usually these magazines include high-end lifestyle or ladies magazines.

Product demonstrations are done both for distribution channel and consumers by 2 employed representatives. Sales reps usually have samples and leaflet material to work with. Full product catalogues are mainly used with distribution channel members.

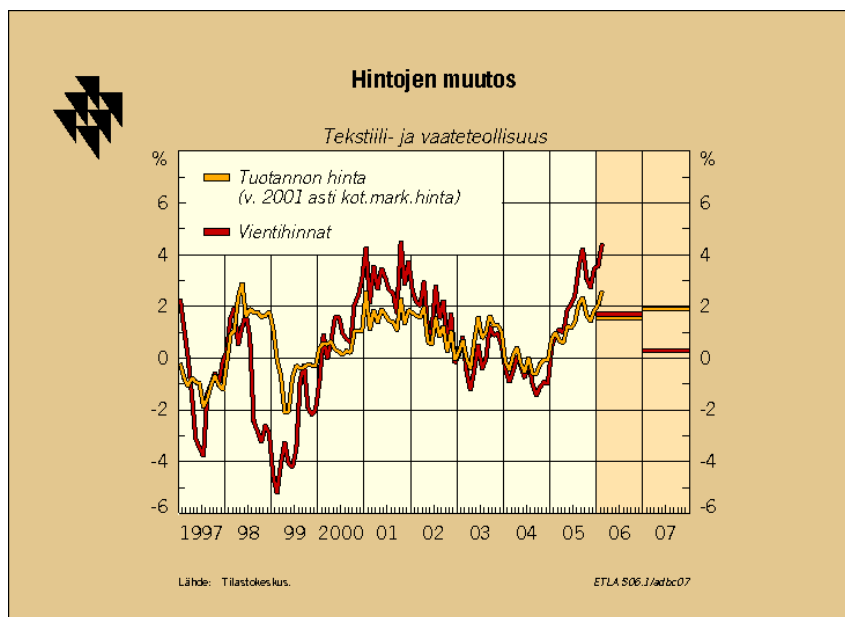
A Three Bags design competition was also organized during winter 2004 - 2005. Two designs were accepted into production, and the proposals and prototypes toured Three Bags outlets around the country.

Finally, the company website was opened in 2002, describing the company, its history and presenting mainly photographic information on the products. The website address is <http://www.threebags.fi>

Business in general

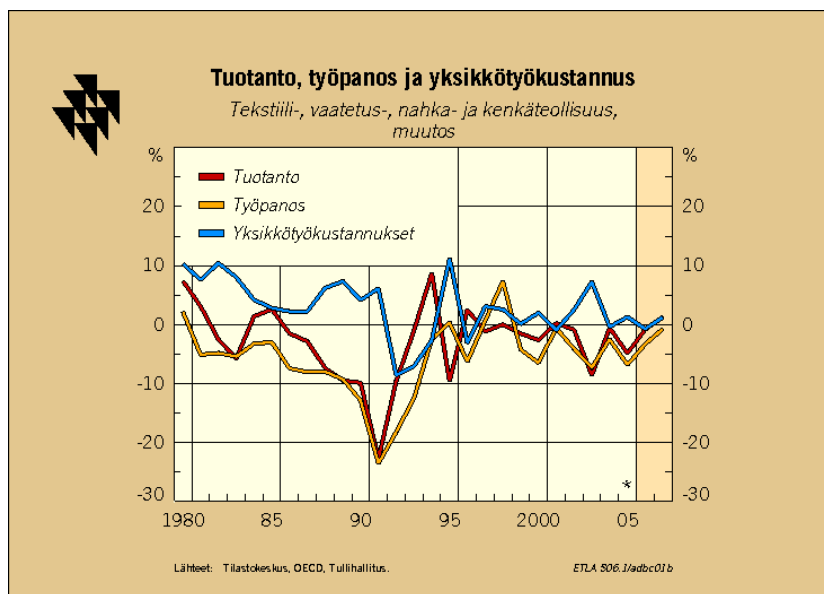
Leather goods industry in general in Finland exported for little over 57 million euros in 2001. The imports amounted to just under 47 million at the same time. Both exports and imports have declined since the top years of 1997 and 1998, when exports rose to over 80 million euros. The biggest export countries in leather goods have been Estonia (10 million euros), Italy (6 million euros) and Turkey (5 million euros). (National Board of Customs)

Chart 1. Price changes in textile and garment industry in Finland.



The Chart 1 shows that export prices (depicted in red) in the industry have risen at the same time as production costs (in yellow) have declined. One must notice that until 2001 the chart depicts only domestic costs.

Chart 2. Production, work contribution and unit cost of labour in textile, garment, leather and shoe industry in Finland; the change.



The Chart 2 shows the production (red), work (yellow) and unit costs (blue) in the industry. As can be seen, unit costs have dropped by almost 10% since 1980. Production volume has also decreased.

Ownership-wise the managing director Tarja Markkanen (former Juutilainen) owns 55% of the company and her sister the rest 45%. The establisher of the company Mr Erkki J. Juutilainen and a cousin are members in the board of the company. A true family business, then.

When there have been big booms in the demand EJ-Laukku has been using sub-contracting to enlarge their production. The company, as a family firm, has been careful not to make big investments. That has been also helpful during the declines in sales. The strategy has been to be small and flexible with the help of sub-contractors. Today the number of employees is about 20, out of which 12 are within production. EJ-Laukku takes care of the training of the personnel itself. The essential skill for the production employee is the ability to sew. Everyone will be trained at work by making test series and providing personal guidance. The employees are hired based on monthly salary.

EJ-Laukku is looking for new opportunities all the time. One of the latest experiments has been to move production to Estonia with lower production costs (salary) and with lower priced raw materials. Also bags made of other materials than leather have been tried. The experiments with lower prices and lower quality have not been very successful.

Mother, wife of an entrepreneur, managing director, commuter

Mrs Tarja Markkanen, the daughter of Erkki J. Juutilainen, the founder of EJ-Laukku Oy and Three Bags Oy graduated from Varkaus Business College in 1982 from the specialisation in financial administration and bookkeeping. Right after her graduation she started to work in EJ-Laukku, first as sales secretary, afterwards as a sales manager and in 1989 she took the position of managing director in her father's firm.

The Managing Director Tarja Markkanen is responsible for many things and also for the future of the firm. The turnover is now about 1 million euros but it has been

even 4 million euros. So the company has been under different times and big changes and always survived. When Tarja is asked how she is able to combine the challenging job and her family life with another entrepreneur and two small children on the other side of Finland, she says that it is because of her activity, positive attitude and mental strength.

Further sources of information in English also:

www.tulli.fi (Finnish customs, statistics on trade)

www.tilastokeskus.fi (Statistics Finland)

www.finpro.fi (promoting internationalization of Finnish organisations)

www.finvera.fi (financing company promoting exports and internationalization)

www.yrittajat.fi (Federation of Finnish entrepreneurs)



Education and Culture

Leonardo da Vinci

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