



The Europeanization of Marimekko: International Growth and Single Market Effects

By Professor Gabriele Suder, SKEMA Business
School and Aalto University of Economics

At the end of October 2007, it was announced that the former president and CEO of Sampo Bank Plc, Mika Ihamuotila, was to become President and CEO as well as principal shareholder of Marimekko Corporation with a 13 per cent ownership investment of his own; 10 per cent of the shares were acquired from the company's leader at that time, Kirsti Paakkanen, and 3 per cent from Finnish Varma Mutual Employment Pension Insurance Company.¹ In the week of his arrival, Marimekko's shares surged 12 per cent in Helsinki, after solid 3Q figures and the announcement of this being a change of generation and expertise in the company's leadership. This new era came in the form of a former highly successful banker driven by the desire for change and a family-rooted passion for the sector, ready for a full set of new challenges in his life. Marimekko was a leading Finnish textiles and clothing design company, and was 57 years old at that time, with great international growth potential.

Mika Ihamuotila observed Marimekko's success in Japan, the emerging success in the USA, and the market share in Nordic countries that had grown steadily in the past few years, but also the market share in the rest of Europe that had suffered tremendously in the mid 2000s and was – despite sound growth figures arriving in the year 2007 – not yet that stable.

Introduction

As part of the Finnish textile industry, Marimekko is an integral part of a large market grouping of more than 500 million consumers and more than 20 million companies: the Single Market of the European Union.

The group designs, manufactures and markets premium clothing, interior decoration textiles, bags and other accessories under the Marimekko brand. Its designs are distinctly known across Finland and abroad. The European Union states: 'textiles and clothing are among the most traded goods in the global economy. After China, the EU is the world's second largest exporter of textile products.' A 2005 surge in imports from the Far East had caused significant damage to this sector in Europe, and the international economic outlook had weakened notably during the second half of

2008, when economic growth slowed down globally into the 2010s. In Finland, growth slowed down quickly towards the end of that year of 2008. At the beginning of 2009, the economic outlook for the Finnish textile and clothing industry further weakened significantly when the number of orders diminished and profitability dropped. In addition, international competition, counterfeit products and illegal imports were weakening the sector.

Deregulation and liberalization of the EU market had led to a business environment that is uniquely integrated but also particularly challenging. It is conceived to enhance competition and, through this, the competitiveness of European companies worldwide. In this context, Marimekko's management decided to give its Europeanization² of cross-border activity a boost, in addition to its interests in the USA and Japan.

This case study sheds light on the strategy of incremental Europeanization of Marimekko; on its challenges and on the benefits stemming from this Europeanization. It also illustrates the importance for European business of adapting to the changing globalized business environment, using advanced politico-economic market group effects to enlarge its home base.

Marimekko: a Finnish design

Marimekko is, first and foremost, a distinctly Finnish company. 'Finnishness' is an important factor in the brand due to its local roots and the origin of its designs; also, most of its employees are Finnish. In 2008, the Marimekko Group employed 414 people, 398 of whom worked in Finland; and amongst the total of 370 employees in 2009, 353 worked in Finland. Also, all three fully company-owned factories are located in Finland. Marimekko's own plants produced slightly less than half of all the products sold by the company and its focus on local knowledge is underpinned by primarily Finnish manufacture.

However, Marimekko also has *subcontractors* abroad that manufacture some minor proportion of its products, and, in the late 2000s, outsourcing from main sites to Finnish and foreign suppliers grew noticeably in all product lines. Marimekko's foreign subcontractors are mostly from the EU area and its international sales are mainly from that area (despite important stakes in Japan), of which Finland has been a Member State since 1995.

Typically for this industry sector, *exporting* is the cornerstone of Marimekko's market entry strategy abroad. In 2008, altogether 27 per cent of the firm's net sales came from foreign operations and exports. Intra-EU operations accounted for 17.4 per cent of total operations (see Table 6).

Overall, Marimekko products were sold in over 40 countries, and – amongst those – in 22 out of the 27 EU Member States at that time. In this period, Marimekko declared its main target to be an increase of international sales by 20 per cent annually.

By the end of 2008, there were around 30 *concept stores* abroad operated by retailers, which Marimekko has considered as the best channel to grow internationally.

Case Study Table 6 *Net sales by market area (in € million)*

	Market Area	Market Area	Market Area
	Finland	Nordic	Rest of Europe
1999	19.6	2.4	2.5
2000	23.638	2.954	4.247
2001	28.959	3.129	6.509
2002	35.937	3.481	5.807
2003	43.297	4.160	5.568
2004	50.244	5.136	5.183
2005	54.180	6.074	2.674
2006	53.826	7.373	3.655
2007	56.826	8.581	4.725
2008	59.175	9.423	4.700

Marimekko products have been manufactured under *license* in Finland, Sweden, The Netherlands, the USA and Denmark.

By 2009, Marimekko had 23 *stores* of its own in Finland, one in Stockholm (Sweden) and one in Frankfurt (Germany). At the end of March 2009, the company added a subsidiary to its cross-border investments: in the UK, Marimekko UK Ltd was created to administer the operations of the Marimekko store in London. The store was acquired from Skandium Ltd on 1 April 2009.

Despite the global economic crisis starting at the end of 2008, Marimekko's net sales increased by 5 per cent to €81.1 million in 2008 (from €77.3 million in 2007). In Finland, its net sales grew by 4.1 per cent to €59.2 million (from €56.8 million in 2007). Most of the international growth came from the neighbouring Nordic countries and in the market area referred to as 'other countries', where Japan is the most important country for exports. The breakdown of the net sales by product line, including all market areas, demonstrates that 36.9 per cent of sales come from clothing, while interior decoration accounts for 46.5 per cent and bags for 16.6 per cent.

Marimekko's industry sector in Europe

Marimekko is part of the textile and clothing industry. According to the European Commission, the definition of this industry comprises the treatment of raw materials, the production of knitted and woven fabrics, finishing activities such as bleaching and printing, and transformation of fabrics into usable products (see <http://ec.europa.eu/enterprise/textile/development.htm>).

The industry had undergone significant strain: in the late 2000s, the European textile markets were suffused with textile products from the Far East, in particular from China, Vietnam, Bangladesh and Sri Lanka. Imports from those latter four countries accounted for almost half the imports of textiles into Europe in

2009 (Eurostat, January 2009). They represented strong competition to Euro-Mediterranean textile activities (linked to the European Union since 1995 through a partnership and free trade agreement) and helped European textile firms that were hoping to hold onto competitiveness through cheap manufacture and outsourcing in Morocco, Tunisia, Turkey and Egypt, as a circumvention of high labour costs in Europe. European manufacturers there benefited from geographical proximity and higher quality standards.

This scenario was soon to change. The WTO Agreement on Textiles and Clothing, which eliminated quantitative restrictions on imports into the European textiles market, was signed in 2005. This agreement stirred much concern amongst those producers who held privileged access to the EU market comprising, at that time, 25 Member States. The resulting global liberalization of textile and clothing exports was followed by the end of the textile import monitoring system between the EU and China which created its own challenges for the European textile and clothing industry (see http://www.ec.europa.eu/trade/issues/sectoral/industry/textile/pr091007_en.htm).

Because at the same time, ATC (Agreement on Textiles and Clothing)/Multifiber agreements with, for instance, the Mediterranean countries, were phased out, China was able to increase its exports to the EU massively at the beginning of 2005. Consequently, the EU imposed quotas that were immediately used up by importers (wholesalers and retailers) who hoped to get their orders in as soon as possible, and as cheaply as possible, using up those quotas instantly. This led to the deadlock of about 75 million items of imported Chinese garments in European ports in summer 2005.

The following September 2005 textile deal ('Memorandum of Understanding') between EU Trade Commissioner Peter Mandelson and the Chinese Commerce Minister Bo Xilai resulted finally in the release of those textiles and the further opening of the EU market under a monitoring system, in 2008, allowing for action to be taken in case of a new surge in imports that would cause serious harm to EU industry. The Chinese scenario had a major impact on the organizational structure and operations within Europe.

At the same time, Marimekko's management decided to further increase its cross-border activity and to strengthen its design.

Marimekko and EU integration

Marimekko had begun its cross-border activities more than half a century ago. In the 2000s, however, Marimekko was still in the early stages of internationalization, if measured by market share and market entry strategy.

Milestones in Marimekko history

The company had started exporting as early as 1956, and the first company-owned retail outlet was opened in 1960 in Stockholm, Sweden (Stengg, 2001). This was a

natural choice for expansion due to the small psychic distance between the countries as well as the high demand of Marimekko products in Sweden. Even today, Sweden is amongst the five biggest exporting countries for Marimekko in Europe, having gained its pole position since the mid 2000s when consumption of Marimekko's Grünstein products fell dramatically (Karesvuori, 2004). The Nordic countries, separately listed in the Annual Reports due to their importance, have always been easily accessible for Marimekko for cultural, logistical and common market advantages, and, thus, a strong brand awareness. In 2009, a new concept store was opened in Copenhagen, Denmark and Marimekko's own shop in Stockholm was refurbished. The openings support Marimekko's long-term internationalization strategy and strengthen the company's presence in the Nordic capitals.

Some other milestones in Marimekko history are of great interest in this context. In 1974, Marimekko was listed on the Helsinki Stock Exchange, quite an unusual move in an industry dominated by privately owned SMEs. In 1979, the (known-to-be passionate) leader of Marimekko, Armi Ratia, passed away. The impact on the firm was great, and is thought to be one of the main reasons for the decline in sales at the beginning of the 1980s. In 1985, Marimekko was sold to Amer Group Ltd and its shares were removed from the stock exchange. Marimekko's business strategy was renewed and, amongst other activities, outsourcing of production began. The advantageous cost-cuts, however, raised issues in regard to the quality of the garments. Sales began to further decline, and the brand image suffered further. In 1991, the company Workidea, owned by Kirsti Paakkanen, bought Marimekko, and Paakkanen took over as the new head of Marimekko.

The company went public again in 1999, and, as a turning point, results got back to their status quo ante in the Finnish market with a new design team supplemented by several, young talents as well as top names in the industry. In 2000, Marimekko acquired a Finnish firm, Grünstein Product, which manufactured leather and fur products, outdoor clothing and other branded products, and had a strong foothold, in particular, in Germany. This move opened up significant export channels to countries such as France, Russia and the USA at that time.

The company's position in international markets in the 2000s strengthened substantially through numerous Marimekko concept stores that were set up by retailers, based on the strong design and quality concepts of Marimekko. Most of the international expansion was led through concept stores, licensing sales and cooperations. Exports were handled directly and through local agents. The concept stores exposed Marimekko's colourful print design as a differentiating factor. Several Marimekko exhibitions organized around the world also helped increase exports and drove the recognition of the Marimekko brand. A sales target of 20 per cent growth in international sales annually was then set. The major countries for export for Marimekko were Sweden, Denmark, Norway and Germany, and – outside of Europe – Japan and the USA.

Indeed, Marimekko's international sales increased significantly from €9.4 million in 2000 to €21.9 million in 2008. Sales in the Nordic neighbour countries have experienced a steady increase of between 15 and 20 per cent annually since

1999. However, sales stemming from the rest of Europe (which had increased by more than 50 per cent from 2000 to 2001 with the acquisition of Grünstein Product Oy) fell dramatically from 2002 onwards when Grünstein was hit by increasing competition on the continental European market and a fire ravaged its facilities in 2003. Grünstein was finally sold in 2004, and the European market picked up at a moderate pace through shop openings and efficient marketing efforts in Germany, Belgium, Spain, Portugal and other countries. These efforts were also rewarded by the 2007 licensing cooperation agreement with Sweden's H&M (Hennes & Mauritz AB) and the Design Management Europe Award for outstanding management of creative assets.

European integration effects

In 1961, Finland became an associate member of the European Free Trade Association (EFTA) and, in 1986, a full member. EFTA members entertained free trade arrangements amongst themselves and bilateral trade agreements with the EEC (the predecessor of what is now called the European Union), thus expanding the access of Finnish firms to the European market significantly.

Membership of its home country in a free trade union significantly eased Finish companies', and Marimekko's, internationalization opportunities, mainly into the rest of Europe, including its Nordic neighbours, through the benefits of free trade areas, such as the lifting of import restrictions amongst EFTA members, and the European Economic Area (EEA). For those EFTA countries joining the EEA (excluding notably Switzerland), members began to incorporate two-thirds of the EU legislation. This was paving the way for Finland, among other countries, to join the EU for a more harmonized playing field.

Finland joined the EU, with its (partially) supranational powers, in 1995 (together with Austria and Sweden). Cross-border operations and further growth were now facilitated significantly because of market group effects that came from the EU's advanced European integration: in particular, for shift and share advantages, for the harmonization of economic policies, the abandoning of much red tape and transaction costs in intra-EU trade, and the reduction of economic, financial and political risk. The harmonization of the political, economic and regulatory is part of this environment. Customs, tariffs or any other type of restrictions no longer hindered Marimekko's export activities to other Member States and were harmonized across the entire market. A common customs tariff of all EU members towards imports from non-EU countries added an advantage in terms of supplies from abroad and international competition (Stengg, 2001). Finland now had direct and full influence and impact on/from trade policy instruments such as taxation and tariff instruments, anti-dumping duties against injurious imports, local content requirements and rules of origin for all actors in the market, funding opportunities for cross-border R&D and innovation initiatives, standards and IP protection, and similar regulations common to organizations in the Single Market.

The voice of united European voices in international negotiations added negotiation power to the Finnish industry and to a sector under strain across the common market.

For instance, Marimekko was part of the EUROCOTON member companies that had filed an anti-dumping complaint in 1996, against a certain type of cotton bed linen. The complaint led to anti-dumping fines mounting up to 20 per cent of anti-dumping duty on, amongst others, Indian exports in 1997. The case was then taken to the WTO in 1999 by India, and taken to the WTO panel in 2000, where European representatives support its industry with a common voice, and was asked to bring its measures into closer conformity with WTO rules. The WTO backing of the EU in 2000 was later nuanced and revised.

In 1999, the euro-zone came into effect, based on the Treaty on the European Union (Maastricht Treaty) signed in 1992. The euro later proved efficient when handling global economic crises for the stronger EU economies including Finland. More immediately, the common currency helped reduce economic, financial and transaction costs further between the members of the EMU. It was first adopted by 12 Member States, and then grew to 16 euro members by 2010, with an increasing cohesion to the euro-zone by CEE countries.

With one of the two foreign sales subsidiaries of Marimekko located in the euro-zone, benefits of this alone were considerable. But the EU also provided challenges. The economic union and the opening up of the market increased competition and trade creation, especially after the 2004 enlargement which added 10 new Member States, with another two countries joining the EU for full membership in 2007, and pre-accession negotiations and agreement well under way for more countries to join, in particular Croatia and Macedonia, and later, Iceland.

The widening of the European market was prepared by the Treaty of Nice signed in 2001, and resulted in an enlarged EU Single Market of more than 500 million citizens (and potential customers) through the biggest accession of all, in 2004 (coinciding with Grünstein's loss of competitiveness in Germany).

The process of trade liberalization, according to the WTO Agreement on Textiles and Clothing, had been completed in 2005 (Stengg, 2001) with implications, in particular, for competition on the EU market which, all at once, had become openly accessible to low-cost competition that had been previously diverted: 'The significant labour cost differential between many third world countries and Europe put prices under constant pressure.' In this time period, Marimekko invested in new printing and digital screen-making equipment, in a new 'Design, meet the user!' design competition for new talent and innovation, and in international growth through brand and design.

For the EU to remain competitive, firms had to focus on higher productivity or excel in other competitive strengths such as innovation, quality, creativity, design and fashion in this wide market. The textile and clothing industry also became increasingly active in the field of institutional relations, including those in Brussels and Strasbourg that govern the biggest part of regulations implemented in the European marketplace.

Marimekko's interests in common EU market regulations

Marimekko has multiple interests that are influenced by the European market and its regulation. They are based on the company's values (that are defined on the company website, <http://www.marimekko.com/eng>) and include issues such as:

EU internal trade: as Marimekko's international operations are mainly based on exports, a well-functioning EU trade environment is vital for the company's success. It is important that EU internal trade functions according to common policies, and, as a result, that cross-border European trade is as easy and cost efficient as possible.

International trade agreements on textiles and clothes: the general development of the textile sector is of interest not only to Marimekko but to all actors in the textile industry. International trade agreements on textiles and clothes represent an increasingly important development in this sector in Europe. Both the multilateral and bilateral free trade agreements negotiated by the EU are interesting for Marimekko. According to the European textile and clothing industry, these negotiations should be governed by the principles of reciprocity and symmetry, and the outcome 'should be visibly and undeniably free trade between the EU and the trading partner concerned' (European Commission, 2008).

Intellectual property rights (IPR): Marimekko's core competence and competitive advantage are largely derived from its designs. Therefore, fighting counterfeiting is of greatest importance to Marimekko. Violations of its IPR were handled, for example, in the case of unauthorized use of the poppy pattern (Unikko design) by Dolce & Gabbana in 2008. It appears quasi impossible for the company alone to deal with the worldwide IPR issues, stemming from over 3000 patterns and designs. In addition, the EU lobbies in the World Intellectual Property Organization (WIPO) (Euratex, 2006). Finland can – within the strong negotiation position of 27 countries together – have a greater impact in voicing concerns.

Environment: environmental responsibility and ecology are very important concerns for this company (Lehtinen, 2009). Environmental regulation is part of the EU-governed legislation that supersedes national law on many occasions (80 per cent of Member States' laws are of EU origin) including, amongst others, the EU regulation concerning the use of chemicals such as those used in design manufacturing. Marimekko implemented the REACH regulation (Regulation 1907/2006) which entered into force in 2007. Although Marimekko is a downstream user and is therefore not obliged to register, it voluntarily pre-registered all substances used at the Herttoniemi fabric printing factory. Also, Marimekko, as an importer of certain goods including chemicals, is required to inform the Chemicals Agency and downstream users if a product imported by it contains a specified amount of a substance causing specific concern.

Water, waste water and transport are equally important for Marimekko's activities. The EU transport policy and the goal of the EU Commission to '... aim at fostering clean, safe and efficient travel throughout Europe, underpinning the internal market of goods and the right of citizens to travel freely throughout the EU' (see <http://www.marimekko.com/ENG/marimekkocorporation/socialresponsibility/environmentalresponsibility/frontpage.htm>) coincide with the development of

flexible human resource movement as well as the movement of goods within the Member States. The EU-wide initiatives allow companies to deliver goods anywhere in the EU in the most practical manner, instead of having to deal with red-tape considerations. The utilization of packaging is arranged in accordance with the Government Decision 962/97 and the EU packaging directive. As the website reads: 'The ecological aspects of product packaging are becoming increasingly important at Marimekko.'

Another example is the possible introduction of a uniform sizing standard for clothing in EU Member States as requested by European clothes manufacturers. The introduction of such a policy has been discussed and would not only make purchasing textiles more convenient for consumers but the manufacturing process would benefit from a simplification of production.

Marimekko's EU interest representation: shaping the market

Marimekko's interests are, directly and indirectly, represented at the EU institutions that shape the Single Market and its business environment. Multiple actors and interest groups can be appropriate for institutional relations. Some lobbying strategies require higher or lower resources, permanent or sporadic presence in Brussels and direct and/or indirect lobbying strategies. In any circumstance, it is essential for the company to play an active role in the institutional arena (in which its competitors and partners are active too), and to find the right partners to cooperate with. Some of the institutions and organizations in this context are as follows.

The European Commission (CEC)

The CEC stresses its need and desire for consultation with stakeholders of the EU, and provides an opportunity to impact legislation at its early stages. At this early stage, an 'issue' is being drafted as a 'proposal' initiating the decision-making process. It is thus a prime EU institution to lobby. As Marimekko's interests are varied, there are multiple policy areas, which affect its operations, and, thus, multiple Directorate Generals (DGs) that constitute the Commission.

Enterprise and industry governs, amongst other areas, the free movement of goods and the use of energy that are important for manufacturers like Marimekko. Another important area for Marimekko is *Internal Market and Services* as protecting industrial property and industrial designs are among its portfolio of policy sectors. *Trade* is in charge of the EU trade policy, which is important for all actors in the textile sector, taking into account, for example, the impact of the WTO trade agreements. Chemical use and ecological issues are among the key policies of the *Environment* directorates general and, as a result, decisions made there have an effect on Marimekko's operations. Heads of Units in these DGs can be contacted easily with

information provided to the approximately 20,000 civil servants that are in charge of the various dossiers, and to about 9000 external experts.

The European Parliament

The Members of European Parliament (MEPs), directly elected in their constituencies every five years, are accessible without difficulty and play a central role in developing the business environment in the EU (see the European Commission's *Charlie McCreevy Portfolio* at http://ec.europa.eu/commission_barroso/mccreevy/portfolio_en.htm), in particular because they are close to citizens and companies, and because the European Parliament has gained significant power in the past decade, and through the Lisbon Treaty (the simplified European Constitution). This is thus another central institution for Marimekko to lobby. Finland counted 14 members in the Parliament in 2009, members of important committees and commissions preparing the adoption of legislation by, for the most part, co-decision with the Council. Participation in theme-oriented committees within the Parliament is crucial: the most appropriate committees (and their MEPs) for Marimekko are the Legal Affairs committee (responsible for intellectual property law), the Internal Market and Consumer Protection committee (responsible for identifying and removing potential obstacles to the functioning of the internal market), and the Industry, Research and Energy committee (responsible for the EU's industrial policy). All of these committees have Finnish representation.

Ministries on the national level

National ministries offer Marimekko an indirect way in to the Council of Ministers and, on a head-of-state level, to the European summit. Lobbying on the national level requires fewer resources but needs to be well defined. The most relevant ministry for Marimekko is the Finnish Ministry of Employment and Economy. Although lobbying nationally requires fewer resources, its outcome is debatable as it is possible that the national government does not deliver the desired end result because of last-minute bargaining (Suder, 2007). For certain decisions, such as the enlargement of the EU, the Council needs to have obtained the consent of the European Parliament to be able to adopt the legislation. For most other legislation and for the EU budget, a co-decision of both institutions is needed. The direct powers of ministers are hence limited, but their lobbying is of interest because it spans across national and supranational institutions.

The Federation of Finnish Textile and Clothing Industries (Finatex)

Marimekko is a member of this national interest group, which can be identified as a lobby, training and service organization. Finatex has about 200 members, which

altogether employ almost 10,000 people. That is over 90 per cent of the total for the Finnish textile and clothing sector. The main mission of the federation is to 'enhance the business potential of members operating in the highly competitive Finnish and international markets by furthering their business and labour-market interests' (see the European Parliament's *Your MEPs* at <http://www.europarl.europa.eu/members/public/geoSearch/search.do?country=FI&language=EN>).

The European Apparel and Textile Organization (Euratex)

Euratex is the voice of the European textile and clothing industry supporting its members' interests in the context of the EU's institutional framework and the EU's international obligations. Finatex is one of its members. Euratex has the objective of creating 'an environment within the European Union which is conducive to the manufacture of textile and clothing products'. It is in close contact with the different decision-making institutions of the EU. In recent years, Euratex' major concern areas have included, for instance, the objective of a smooth transition to the quota-free era, promoting intellectual property legislation and supporting environmental protection (see the Finatex presentation at http://www.finatex.fi/html_en/presentation.htm).

The Confederation of Finnish Industries (EK)

All Finnish business sectors and companies of all sizes are represented by EK. Finatex and Marimekko are members of this confederation. EK supports 'a better and more competitive operating environment for the business community in Finland' on an EU level because it is the EU which increasingly regulates the rules concerning Finnish companies (see the Euratex mission at <http://www.euratex.org/content/mission.html>).

Expert groups

Amongst the great number of interest groups and lobbying experts at the EU, some are officially (CEC) registered expert groups. For Marimekko, groups that advise the Commission in preparing policy initiatives and legislations in its field are those related to free trade agreements, intellectual property rights (no groups focusing solely on IPR in the textile sector can be found), and the textile and clothing industry in general. Some other such groups are:

Expert Group on Trade Facilitation: 'to provide a forum for discussion between the Commission and Member State experts on issues relating to Trade Facilitation, notably in relation to the WTO' (see the Euratex mission at <http://www.euratex.org/content/mission.html>).

Expert Group on Tariffs: 'to provide a forum for discussion between the Commission and Member State experts on issues relating to Tariff Negotiations, notably in relation to the WTO' (see the EK's *About Us* at http://www.ek.fi/www/en/about_us/index.php).

Expert Group on Best Practices on Strengthening the IPR Enforcement of EU Industry and SMEs: 'to provide an opportunity to review existing IPR enforcement support measures to identify best practices and to make policy recommendations in this field' (see the EK's *About Us* at http://www.ek.fi/www/en/about_us/index.php).

Contact Committee for Copyright in the Information Society: 'to establish close cooperation between the institutions of the Member States and the Commission on issues relating to copyright in the information society; to monitor the development of policies in the area of copyright in the information society; to facilitate the exchange on information, experiences and good practices in the area of copyright in the information society' (see the European Commission's *Register of Expert Groups* at <http://ec.europa.eu/transparency/regexpert/detail.cfm?ref=1025&l=all>).

Advisory Committee for Coordination in the Internal Market Field: to advise the CEC in regard to the Internal Market.

Expert groups which focus on a narrower section of the textile industry include:

Accords Textiles Pays Tiers: discusses technical/practical aspects of the textiles licensing system (SIGL): the management of licences for imports of textiles, clothing, footwear and steel to the EU; information on quota levels for imports of clothing, footwear and steel products applied in the EC (see the European Commission's *Register of Expert Groups* at <http://ec.europa.eu/transparency/regexpert/detail.cfm?ref=1025&l=all>).

In some instances, partnering up with other textile and clothing companies (that support the same issues as Marimekko at a given moment in time) becomes important in gaining 'voice' and power. Partner(s), depending on the issue in question, are clothing-related (for instance, Ivana Helsinki and Nanso) or design-related topics (such as Artek and Iittala), or focused on interior decoration textiles (for example, Finlayson and Luhta Home), to mention only the Finnish stakeholders. In regard to IPR issues, cross-industry cooperation proves effective: Marimekko joins forces with companies from other industries combating or supporting the same issues, no matter their home base or sector.



Marimekko and EU enlargement

The textile and clothing industry plays an important role in the manufacturing sector of many of the new Member States of the EU countries, in particular in accession countries of the (biggest) 2004 and 2007 enlargements of the Single Market. For example, the share of textiles and clothing in the overall manufacturing production in the Baltic States was over 11 per cent, followed by Romania and Slovenia

with approximately 10 per cent. The share of textiles and clothing manufacturing in the EU-15 (the 15 Member States that had already grouped between 1957 and 1995) for comparison was 4.2 per cent on average at the time. Also, manufacturing employment in textiles and clothing denoted a large share, with 24 per cent in Lithuania, 15 per cent in Slovakia, 14 per cent in Estonia and 13 per cent in Poland. The EU average was approximately 7.6 per cent. The new EU member countries were able to offer existing Member States not only skilled and cheaper labour, but an opportunity to outsource their production to achieve lower costs in proximity, and a vast new market. Many EU countries did so, exporting EU fabric to low-wage Eastern European countries, which then took care of the transformation into finished pieces of clothing for re-import into the western part of the EU. Since the EU enlargement in 2004, mass production within the EU has been altogether repositioned. Initially, the majority of textile and clothing manufacturing was shifted to Central and Eastern Europe, and then from there to Bulgaria and Romania. Some production has also been shifted towards the Mediterranean area, historically linked to the EU and enjoying special partnership agreements (see the European Commission's *Register of Expert Groups* at <http://ec.europa.eu/transparency/regexpert/detail.cfm?ref=1025&l=all>).

Even though production prices in Asia would have been cheaper, these countries offered the advantage of being close to the European market, furnishing reliable products because of EU regulations, and with privileged import conditions. Turkey's accession to the EU would also significantly affect the textile and clothing industry within the EU. At the end of the 2000s, Turkey (in a customs union with the EU) was indeed ranking second among the EU's biggest suppliers of clothing right after China. Turkey also has approximately 2.5 million workers employed in its textile and clothing sector.

For Marimekko, the opportunities associated with the enlargement of the EU not only provide the company with wider market opportunities but also facilitate the development of operations and prolong the life cycles of the company's products (see the European Commission's *Enlargement* at <http://ec.europa.eu/enterprise/textile/enlarg.htm>). EU membership increases the purchasing power of the new joining countries (normally within less than 10 years), and consequently also increases demand for goods and services. Additionally, the removal of trade barriers with more countries makes it easier to enter markets previously dominated by domestic producers. Further, Marimekko could consider saving on its production costs by moving some of its manufacturing to new EU countries.

Along with an intention to adopt the euro, new member countries must accept the *Acquis Communautaire*, abiding thus to all EU regulations. For companies such as Marimekko, the risks and costs of doing business with these countries is reduced as their legal systems strengthen, corruption and fraud is reduced, and the market economy functions. The adoption of those tools eliminates fluctuation risks and exchange costs. Specifically, the 2004 enlargement welcomed, amongst others, the country of Lithuania as a new member. After gaining independence, Lithuania's clothing and textile sector had experienced tremendous growth and turned into one

of the country's main employer industries. The industry attracted a considerable amount of foreign capital (see the European Commission's *Textiles and Clothing in the Euro-Mediterranean Region* at <http://ec.europa.eu/enterprise/textile/euromed.htm>). Lithuania's close proximity to Finland makes this location particularly attractive for Marimekko. Mika Ihamuotila, CEO of Marimekko, recently stated that the company has decided to concentrate on developing its internationalization in locations where there is the most natural demand for the company's unique products and designs. The Nordic countries and Japan are a good example; the Baltic countries may lead to a step forward. Certainly the greatest challenge, stemming from EU enlargement, for the textile and clothing industry is the increased competition from opening markets. The WTO Agreement on Textiles and Clothing eliminated quantitative restrictions on imports, which leads to competitive strain in the EU, and affects the new Member States more than the older EU countries. Those new EU countries, which rely heavily on textile production, experience increased pressure to modernize and restructure the sector, in the face of mass production being relocated to developing countries. Additionally, they incur extra costs in regard to respecting the *Acquis Communautaire* and its regulations in the fields of environmental protection and health and safety. The new member countries do, nonetheless, benefit from their close proximity to Western Europe, a very mature market, which results in higher speeds of delivery for products, compared to China, for example, which transports its clothing products to Western Europe by sea.

Impacts of Europeanization

The Europeanization of Business Operations deals with advanced forms of organizations that reflect the diversity of markets and cultures, the diversity within companies, as well as the scope of their operations (Suder, 2007; Tekniikka & Talous, 2008). Mika Ihamuotila, Marimekko's new CEO and president, announced that 'the Marimekko concept stores – both the company's own shops and those owned by retailers – continue to play a key role in the internationalization of Marimekko. This strategy allows us to present the Marimekko brand in depth and to expand our loyal customer base. Our geographic focus will be on areas where the Marimekko brand is already recognized. The goal is to have a sufficient number of stores in each region, so that each shop can benefit from the economies of scale in marketing and other areas.' Marimekko's leadership could not help but wonder what further benefits it could yield from additional market integration. How Europeanized should Marimekko become, and what options are available in terms of benefiting more from market group effects and integration in Europe? Would a company with strongly emphasized Finnish origins be able to leverage more advantage from this large and deeply integrated market, so as to gain further competitive advantage?

In its early stages of true cross-border Europeanization, Marimekko had long been influenced by EU integration. When Finland joined the EU in 1995, Marimekko's export activity did become easier due to the harmonization of the political and

economic environment. However, the firm lost out on serving major markets at that very time in the context of its Grünstein challenges. With the biggest EU enlargement in 2004, competition did certainly increase but, also, access to skilled workers, suppliers and talented designers increased across Europe.

The possible Europeanization of consumer preferences, needs and purchasing power raised questions as to marketing strategies in and across Europe, and affected growth strategies, with new locations, new licensing agreements, new European awards and events, and new stores; European integration will continue to fundamentally affect Marimekko and European industry overall. The company is prepared to seize the opportunity.

Questions³

- 1 How did market integration shape Marimekko's business environment?
- 2 Is European integration a benefit for Marimekko or rather a challenge? Why?
- 3 Compare Marimekko's net sales development (Table 6), company evolution and the chronology of market integration in the European Union, and report your findings.
- 4 Does Marimekko's expansion strategy follow the Uppsala model? Do you find its international strategy consistent with its ambitions? Could outsourcing be a benefit?
- 5 For Marimekko, was the euro a benefit or a challenge during the economic crisis and following it?