



EMCC case studies

Textiles and clothing sector: Utenos Trikotažas, Lithuania

Company development

Overview of textile and clothing sector

Main challenges for Utenos Trikotažas

Localisation strategy

Eco-production

Profile of the workforce and skills needs

Innovation

Future challenges

SWOT analysis

Contact details

Sources

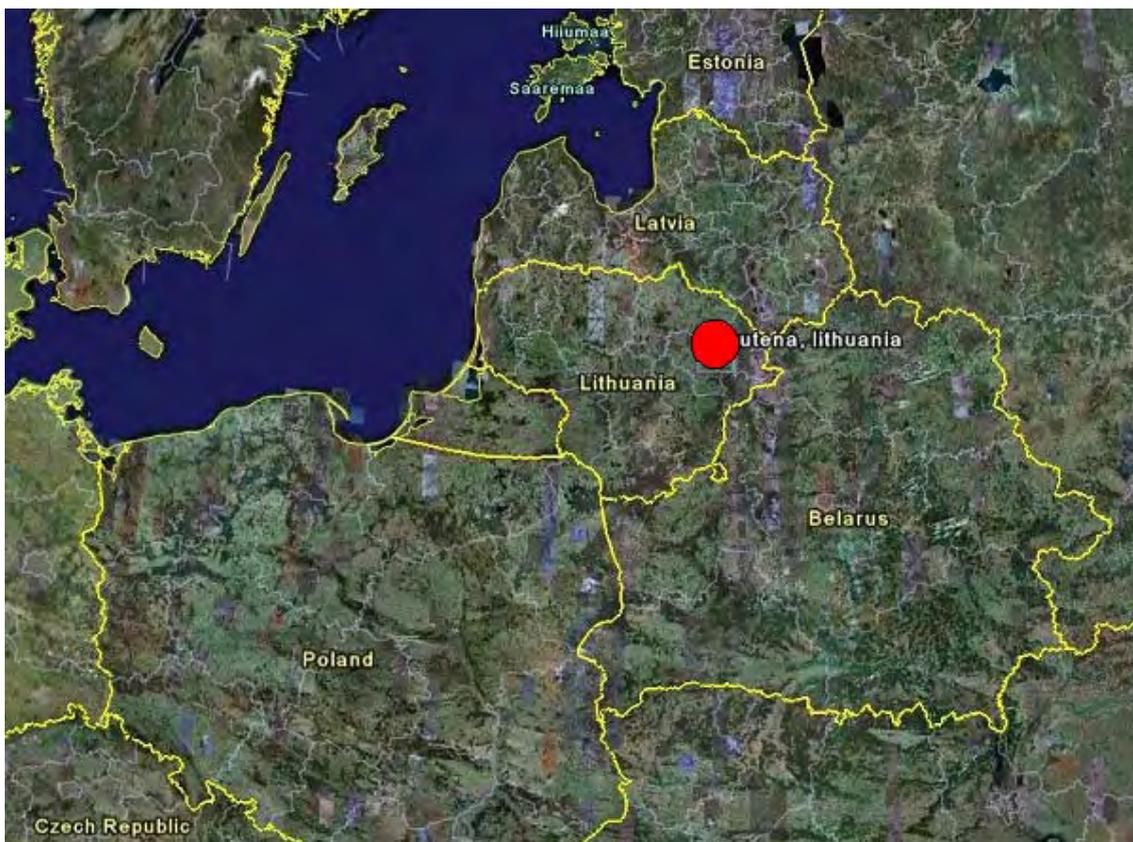


With almost 1,000 employees, Utenos Trikotažas is the largest apparel manufacturer in the Baltic states. It specialises in producing medium to high-quality knitted jersey products and underwear for large clothing retailers. The company provides the full production cycle for its customers, including rapid delivery times, and intends to move up the value chain, focusing on high-quality market segments, and eventually to present its own collection. Utenos Trikotažas has gained an important market share in eco-production, and adheres to a range of international quality standards. The company faces numerous challenges, such as the lack of skilled workers, global competition, regulatory demands, foreign currency fluctuations and rising energy prices. Strategic responses to these challenges include outsourcing labour-intensive activities and investing in skills development, attractive working conditions and new equipment and technologies to enhance performance and promote innovation.

Company development

Utenos Trikotažas AB was founded in 1967 and is located in the small northeastern city of Utena, close to the Lithuanian capital city, Vilnius (see map below). Utenos Trikotažas is the largest apparel manufacturer in the Baltic states, and ranks among the largest companies within this group of countries across all sectors. In 2007, the company had 989 employees.

Figure 1: Location of Utenos Trikotažas in Lithuania



Source: Google Earth, 2007

The company is a subcontractor which produces medium to high-quality knitted jersey products and underwear for large clothing retailers, such as Hennes & Mauritz AB (H&M) and Zara, and brands such as Triumph, Remei, and Esprit. The company provides the full production cycle for customers: knitting, dyeing, finishing, printing, cutting, embroidery, quality control and packaging. Moreover, Utenos Trikotažas can also provide other types of services such as assistance with designing, creating and developing new products, including prototypes.

In 2007, the company's total sales declined by 8.1% compared with 2006; exports decreased by 9.6%. Exports to western European and other countries accounted for 87% of total production, while sales in Lithuania represented 13%. Large retail chains are the major customers of the company.¹

Utenos Trikotažas is continuously improving the quality of its products. To this aim, the company adheres to international quality standards: ISO 9001 and ISO 14001, awarded by the International Organisation for Standardisation; Oeko-Tex Standard 100, which is an international testing and certification system for textiles, limiting the use of certain chemicals; and the European Commission's EU Flower or Eco-label for products of guaranteed good environmental performance. The company is constantly upgrading the skills of its workforce, and investing in state-of-the-art equipment and new technologies. In 1998 and 2003, Utenos Trikotažas received the national quality award for the company's ability to meet stringent management requirements. The investment in equipment and technology has enabled the company to increase performance and reduce the costs of production. In the long term, the company wants to launch its own collection targeted at large retailers.

Key strengths

Utenos Trikotažas has invested more than €13 million in manufacturing technologies and information technology (IT) since 2002, so that production now takes place in state-of-the-art manufacturing facilities. This investment has enabled the company to maximise efficiency and minimise production costs. Cost efficiency has been further increased by the establishment of a subsidiary in Ukraine. The new equipment has also resulted in short delivery times – orders are completed within three to six weeks and delivery takes only up to four days to European markets due to the company's relatively central location in Lithuania.

In terms of competitive position in relation to Asian producers, the company management has identified the following strengths:

- good price–quality balance;
- ability to respond quickly to changing fashion trends;
- proximity to important western European and Nordic markets.

Utenos Trikotažas is particularly strong in the expanding segment of ecological products, and ecological cotton and EU Eco-label products now constitute 20% of total production.

¹ Utenos Trikotažas AB Annual report 2007, <https://newsclient.omxgroup.com/cds/DisclosureAttachmentServlet?messageAttachmentId=182731>

Ecological and socially responsible production is an important issue for clients as they seek an ethical image for their brand names, and for years the company has complied with a range of international environmental and social standards. For instance, Utenos Trikotažas holds the Social Accountability Certificate SA 8000:2001 certifying that the company strives to ensure the social welfare of its employees, improve the social responsibility of the company as well as of subcontractors, and undertake transparent management and ethical relations with partners. One specific example of such activities is that the company supervises the manufacturing standards of its subcontractors.

Utenos Trikotažas is actively engaged in the development of the local community and society as a whole, for example by donating to charity projects at local and national level. The company is also active in the field of corporate social responsibility (CSR) and constantly monitors the entire supply chain to ensure that suppliers do not use harmful substances and that working conditions are acceptable. This has increased the need for competence in supply chain management.

Utenos Trikotažas employs 12%–15% of the total population of Utena and cooperates closely with local authorities. However, no other big textiles and clothing companies or relevant research institutions are present in the area, and the company is therefore unable to exploit any ‘cluster’ synergies. Recently, the Lithuanian Apparel and Textile Industry Association (*Lietuvos Aprangos ir Tekstilės Įmonių Asociacija*, **LATIA**) initiated new activities intended to encourage Lithuanian companies to work closely together and form strong clusters.

Overview of textiles and clothing sector

The textiles and clothing sector in Lithuania is thriving and has experienced an increase in production and exports in recent years. The number of companies, turnover, value added at factor cost and apparent labour productivity have all been increasing, although the number of employees in the sector has declined (Table 1). Value added at factor cost means the gross income from operating activities after adjusting for subsidies and indirect taxes; apparent labour productivity is defined as value added per person employed.

Table 1: *Trends in Lithuanian textiles and clothing sector, 2000–2005*

	2000	2001	2002	2003	2004	2005
Number of companies	1,308	1,502	1,425	1,331	1,214	2,822
Turnover or gross premium written (€ million)	551.4	572.8	622.7	682.9	710.7	717.3
Value added at factor cost (€ million)	216.4	229.4	251.0	262.5	274.5	273.7
Number of employees	59,310	59,503	60,370	67,701	57,077	52,449
Apparent labour productivity (€ per person employed)	3,600	3,800	4,100	3,800	4,800	5,000

Note: Gross premium written means the amount expected over the life of the contract, which may be payable in instalments.

Source: *Eurostat*

According to the Director General of LATIA, Gediminas Viškelis, the textiles and clothing sector in Lithuania faces increasing competitive pressure on prices. Mr Viškelis also points to a change in the type of orders – from large lots to smaller lots requiring speed of delivery and flexibility in production.

Responding to these challenges, Lithuanian companies in the sector have chosen two different strategic directions. One group of companies is focusing on increasing efficiency through automation of the production processes and outsourcing activities to low-cost countries. The other group of companies has focused efforts on efficiency by engaging in the development and sale of new products – for example, fashion items – thus transforming themselves from manufacturing companies to clothing companies covering the whole value chain.

Innovation is one of the primary issues in the sector, and companies need to increase the level of investment in research and development (R&D) if they want to compete in global markets. Furthermore, the sector needs to develop new skills, not least at management level. Company managers have to focus more on strategy and marketing, engage in organisational transformation and be able to manage global supply chains. One method of transforming the work organisation is by implementing new managerial practices such as the concept of lean manufacturing; this strategy aims to eliminate waste and ensure an optimal production flow with no stockpiling.

Many Lithuanian companies are currently in a transformation phase but, according to Mr Viškėlis, it is difficult for the industry to get financial or political support for this development. The textiles and clothing sector is among the most important industrial sectors in Lithuania, but the national situation is not reflected in the priorities at European level. For instance, many applications for research funding or cross-border cooperation projects have not been accepted. The sector needs an indication that Europe still wants a strong and innovative textiles and clothing sector, for example by giving the sector priority in European research programmes.

At national level, the need arises for more cooperation in the textiles and clothing sector in Lithuania – between companies in the sector, as well as between the industry and the national government. The sector needs the government to be more responsive to industry demands by integrating sectoral issues in national strategies and by supporting the development of strong clusters. Relations with trade unions are improving and both employers and employees must focus on new ideas and creating win-win situations.

Main challenges for Utenos Trikotažas

In its annual report for 2007, Utenos Trikotažas identified a range of risk factors:

- the overall economic situation of Lithuania;
- foreign currency fluctuations;
- legal and regulatory changes, including taxes.

The economic situation of Lithuania and foreign currency fluctuations affect company investment and exports, while new legislation and the introduction of high social and environmental standards are increasing the regulatory burdens on the company.

A key issue for the General Manager of Utenos Trikotažas, Gintaras Pileicikas, is to ensure a level playing field at global level. Currently, European companies operate in an environment characterised by high social and ecological standards for industrial activities, while companies located outside Europe do not have to adhere to such high standards. Regulation and high standards are costly and have a negative impact on the global competitiveness of European companies. Legislators need to ensure a level playing field, that is, by making CSR mandatory for non-European companies and enforcing high standards at global level.

In addition to these risk factors, Mr Pileicikas has identified the following specific and strategic challenges for Utenos Trikotažas.

- The company needs to speed up production, ensure an efficient supply chain and constantly strive to provide high-quality products to customers. Such products mean better prices and necessitate the development of in-house competencies.
- The shortage of qualified workers in Lithuania – particularly in relation to sewing – means that the company will need to consider outsourcing opportunities.

- The shortage of technical specialists implies that the company will have to put effort into recruiting talent and upgrading the skills of its existing workforce.
- In order to move up the value chain, the company needs to invest in skills development and new equipment and technologies. It is also vital that the enterprise can provide a full range of services – from manufacturing to design and development of new products. This must be underlined by strengthening in-house competencies in design and product development.
- Energy costs are rising. Lithuania is currently closing down its nuclear power plant near the eastern town of Ignalina; this will affect energy cost levels in Lithuania as alternative sources of energy are more expensive.

Localisation strategy

In addition to the company headquarters and main production site in Utena, the enterprise has established a plant in Ukraine. Some 40% of its knitting and sewing activities are now based in Ukraine, while the production unit in Lithuania specialises in fabric production and producing prototypes. During 2008, Utenos Trikotažas intends to develop stronger relations with suppliers in Asia to gain access to cheaper production materials.

The company's location decisions mostly depend on the type of activities in question, the availability of resources – including human resources – in Lithuania and potential sourcing destinations. Fabric production, dyeing and finishing are technology-intensive activities that require specialised knowledge. Such knowledge is difficult to find in other countries, and this means that these activities will probably continue to be located in Lithuania.

On the other hand, the knitting and sewing of clothing is labour intensive and cost sensitive; it is currently difficult to recruit qualified workers in Lithuania for these activities. However, a large number of sewing staff are available in Ukraine. Furthermore, Ukraine is very close to Lithuania and the country is characterised by a relatively low cost base, making it possible for the company to reduce production costs. These different factors have influenced the company's decision to outsource a large proportion of its sewing and knitting activities to Ukraine. Utenos Trikotažas has also been considering outsourcing activities to Belarus, but a range of political problems have discouraged the company from establishing a presence in this country.

Significant challenges in terms of outsourcing activities are the cultural barriers and different business approaches in other countries. In Ukraine, Utenos Trikotažas decided to hire new managers to ensure that the management of the production site there was in line with the management in Lithuania. Quality assurance is also important to guarantee that the sourcing of activities does not pose a risk to the quality of the companies' products.

The decision to outsource activities to Ukraine has resulted in a need for new skills at managerial level. Management is faced with issues such as the following:

- making the sourcing decision, for example deciding on which activities, which destination and how to do it;
- implementing the sourcing decision, for example handling redundancies, and operating two plants in two different countries.

According to Mr Pileicikas, such sourcing decisions could be facilitated if companies in the sector shared their experiences and contacts.

Eco-production

The sustainability trend among consumers and increasing demand for eco-products open up new opportunities for Utenos Trikotažas. According to Mr Pileicikas, the market for such products is growing by more than 80% every year. The company has considerable experience in eco-production and is currently manufacturing these products for several important customers, including the Swiss company CoopSwitzerland, one of the three largest chain stores to sell eco-products in the world. Utenos Trikotažas has a strong and longlasting relationship with the Swiss company Remei AG which has a huge experience in organic cotton production. The Scandinavian market has also shown interest in the company's eco-production.

As noted earlier, Utenos Trikotažas was granted the international standards certificate for ISO 14001:1996 environmental management systems, and the ISO 9001 compliant quality management system has been implemented successfully at the company. Furthermore, the company's cotton and elastane products have been certified with the EU Flower and the enterprise is one of the first in the Baltic states, and the only one in Lithuania, to have received the right to mark its products with this label.

Mr Pileicikas considers Utenos Trikotažas to be the leader of eco-production in eastern Europe and the company's focus on high quality and eco-products means that competition on costs no longer constitutes the main challenge. As a result, China is no longer the company's chief competitor. Rather, the company's foremost competitors are now countries such as Portugal and Turkey.

Eco-products and sustainable production constitute a vital element in the business strategy of Utenos Trikotažas. This strategy, however, requires extensive investment in modern production facilities and has increased the administrative burden on the company, as eco-products require additional documentation.

Profile of the workforce and skills needs

The 989 employees at Utenos Trikotažas in 2007 include workers – representing about 85% of the workforce – and specialists, amounting to about 14%. In addition, five managers are employed in the company. Table 2 outlines the educational distribution of the company's workforce.

Table 2: *Educational background of employees at Utenos Trikotažas*

	Higher education	Professional education	Vocational education	Secondary	Basic	Higher non-university
Managers	5	-	-	-	-	--
Specialists	99	23	2	-	-	9
Workers	12	274	180	294	76	15
Total	116	297	182	294	76	24

Source: [Utenos Trikotažas AB Annual report 2007 \(4.5Mb PDF\)](#)

Each year the company enters into a collective agreement, which is signed by the chief executive officer on behalf of the employer and by the chair of the trade union committee on behalf of the staff. Furthermore, Utenos Trikotažas has participated in the project 'Development of social partnership in the Lithuanian apparel and textiles industry', described in the textbox.

Development of social partnership in the Lithuanian apparel and textiles industry

This project was initiated by LATIA in partnership with the Trade Union of the Light Industry of Lithuania, the Lithuanian Trade Union 'Solidarity' (*Lietuvos profesinė sąjunga 'Solidarumas'*) and the Lithuanian Labour Market Training Authority (*Lietuvos Darbo Rinkos Mokymo Tarnyba*).

The project aims to strengthen the competitive advancement of the Lithuanian apparel and textiles industry and to increase the productivity of companies by raising the qualifications, knowledge and abilities of workers, executives and the social partners. Financed by the **European Social Fund**, the project was launched in 2005 and will end in 2008.

Specific tasks include:

- specialised support for the development of social dialogue in the Lithuanian apparel and textiles industry, the drafting of a standard collective agreement and the issuing of publications about social partnership. Workers and executives of 12 companies have been trained to develop social dialogue in their companies;
- training of 'moderators' who are responsible for the management of social dialogue between workers and executives, with the aim of increasing the competitive advantage of the Lithuanian apparel and textiles industry in the EU market;
- creation of web-based learning software to provide standard training for all levels of specialists to serve the ever-changing demands of social dialogue in the Lithuanian apparel and textiles industry;
- creation of a social dialogue monitoring and information system to ensure smooth development of social dialogue and quality information to the social partners.

Source: [LATIA website](#)²

Utenos Trikotažas is focused on ensuring good working conditions and engaging in social dialogue. However, Mr Pileicikas would like to see a more constructive attitude from trade unions; in his view, the global competitive pressure facing the company is a challenge for both the management and employees.

Training strategy

Demographic changes mean that Utenos Trikotažas has to recruit a number of young people to compensate for the large proportion of employees about to retire. However, the young recruits lack experience and this has increased the need for basic training. Furthermore, many young people do not find the sector attractive, making it difficult to hire new employees at shop-floor level.

In terms of skilled workers, experienced technicians are in short supply at national level, as are persons with competence in marketing and sales. The company also faces a shortage of technical specialists, such as chemical specialists, and of experienced senior managers. Moreover, sewing skills are scarce and, according to Mr Pileicikas, design skills in Lithuania are limited; Utenos Trikotažas therefore has to work closely with designers from other countries.

² <http://www.latia.lt/index.php?nr=229&projects=7>

Unfortunately, the textiles and clothing sector is not considered very attractive and it is thus difficult to entice people with such specialised skills. Furthermore, the company is located away from urban centres, making it difficult to compete with other, more centrally located companies for human resources, particularly managers and specialists.

In order to ensure access to specialist skills, the company is training and upgrading the skills of its existing workforce. External companies provide the training services, which are financed by Utenos Trikotažas and by EU funds. A key challenge in relation to training is to find qualified teachers and this is currently difficult in Lithuania.

Recruitment problems and labour shortages pose a serious threat to the future of the sector. Moreover, the industry has to compete with other sectors for talent, resulting in an increase in wages. High wages are a problem for a cost-sensitive industry such as the textiles and clothing sector, and have a negative impact on the sector's global competitiveness.

Recruitment and retainment strategy

As an integral part of its recruitment and retainment strategy, Utenos Trikotažas offers its employees benefits which exceed national minimum standards. The employees are part of a company pension and insurance scheme, have free access to a gym and can consult a healthcare centre located at the production site. Healthcare services at the centre include medical assistance, massages and dental care for the employees and their families.

Innovation

The company's research activities currently focus on improving production technologies, developing new materials, developing an own-design collection, and certifying production processes.

A range of specialised research institutions, such as the Lithuanian Textiles Institute (**Lietuvos Tekstilės Institutas**), are able to provide support to the sector and raise the level of innovation. According to Mr Viškėlis of LATIA, research institutions are often criticised for not being able to provide relevant services, but such institutes cannot 'help everyone with everything'. In his opinion, there is need to identify areas where Lithuanian research institutions have a strong position and then develop research capabilities in these areas. At the same time, research institutes need to focus their efforts more on the needs of the textiles and clothing sector and on providing results, if they want the industry to invest money in their activities.

Mr Viškėlis feels that more European pilot projects should help the industry to adopt modern managerial practices such as lean manufacturing and Six Sigma; the latter strategy seeks to identify and remove the causes of defects and errors in manufacturing and business processes. These pilot projects could also help to increase the innovation capacity of Lithuanian companies in the sector. Such projects could involve cooperation between textiles and clothing companies in Lithuania and those in other EU Member States; research institutes could likewise cooperate in this endeavour. In general, more cross-border cooperation could make textiles and clothing companies in Lithuania and other Member States aware of business opportunities and potential partners outside their own countries.

Innovation is also a question of skills, and in Lithuania a new culture should be developed among workers at shop-floor level in the sector. In particular, they need to change their understanding of their role in the production process – workers are now expected to become involved in production processes and actively contribute to the development of the company. However, such a cultural change can only happen if senior management provides leadership and training for the trainers.

Future challenges

As a large and well-performing apparel company in Lithuania, Utenos Trikotažas intends to move up the value chain, focusing on high-quality market segments, and in time to present its own high-quality collection. The company faces a range of challenges, not least the lack of skilled employees and global competition from European as well as non-European countries. Strategic responses to these challenges include exploiting opportunities for the sourcing of labour-intensive activities and investing in skills development, attractive working conditions and new equipment and technologies to increase performance and promote innovation. In addition, the introduction and implementation of new management strategies could contribute substantially to the positive development of the company.

SWOT analysis

Table 3 outlines the company's main strengths, weaknesses, opportunities and threats.

Table 3: *SWOT analysis*

Strengths	Weaknesses	Opportunities	Threats
<ul style="list-style-type: none"> • Strong relationship with key customers • State-of-the-art manufacturing facilities • Socially responsible and ecological production • Rapid-response production • Cost-efficiency advantage due to recently integrated full-cycle manufacturing subsidiary in Ukraine • Good reputation • Investment in skills development, equipment and technologies • Skilled workforce • Proximity to important markets in Europe 	<ul style="list-style-type: none"> • Lack of skilled employees • Shortage of qualified trainers • Not part of a cluster 	<ul style="list-style-type: none"> • Providing full service to customers, that is, production as well as the design and development of new products • Sustainability trend provides opportunity for eco-production • High-quality production • Implementation of new management strategies 	<ul style="list-style-type: none"> • Recruitment problems and increasing wages • High energy prices

Contact details

Company name: Utenos Trikotažas AB
 Website: www.utenostrikotazas.lt
 Address: J. Basanaviciaus str. 122, LT 28214 Utena, Lithuania
 Phone: +370 389 51 445
 Fax: +370 389 69 358
 Email: utenos.trikotazas@ut.lt

Sources

Lithuanian Apparel and Textile Industry Association (LATIA) website: <http://www.latia.lt>

Utenos Trikotažas AB Annual report 2007, available online at:
<https://newsclient.omxgroup.com/cds/DisclosureAttachmentServlet?messageAttachmentId=182731>

Utenos Trikotažas website: <http://www.utenostrikotazas.lt>

Interviews

Gintaras Pileicikas, General Manager, Utenos Trikotažas

Gediminas Viškelis, Director General, LATIA

Henrik Noes Piester, Danish Technological Institute (DTI)