

Vsm group: examination of strategic position and development of a competitive str...

[Business](#), [Strategy](#)



1. INTRODUCTION Johnson, Scholes and Whittington (2005, p. 9) define strategy as the direction and scope of an organisation over the long term, which achieves advantage in a changing environment through its configuration of resources and competencies with the aim of fulfilling stakeholder expectations. Strategy is therefore the long term direction of an organisation. Strategic Management can be defined as the art and science of formulating, implementing, and evaluating cross-functional decisions that enable an organisation to achieve its objectives (David 1999, p.). Strategic management therefore focuses on the activities of the organisation that contribute to the achievement of organisational success. These activities include management, marketing, financial management, operations management, research and development, and information systems. The strategic position of the VSM will be analysed by applying the analytical models of strategic management to the current situation in the company. The following models will be used to analyse both the internal and external environment of the company, namely, PESTEL, Five Forces Model, and the SWOT analysis. The examination of the strategic position of VSM will involve analysing the strategy of the company with emphasis on the environment it operates in, its strategic capabilities, and how expectations affect organisational purposes and strategies. The analysis will conclude with a clear statement of the Key Issues and Critical Success factors. The strategic position of VSM will then be used as a base to develop an appropriate competitive strategy for the company.

The development of the strategy will also take into account the organisational cultural issues prevailing in the company.

2. COMPANY OVERVIEW

The VSM (Viking Sewing Machines) Group AB engages in the development, production, marketing, and sale of household sewing machines and related accessories, and software (BusinessWeek, 2008. VSM Group AB: Private Company Information, [internet]). The VSM Group currently has two brands, namely, Husqvarna Viking and Pfaff. The company produces several lines of sewing machines, the top being the Designer series and the lowest being the mechanical (non-computerised) Huskystars (Wikipedia 2007 [internet]).

The company has manufacturing facilities in Sweden and the Czech Republic and produces top-of-the-line household sewing machines with related accessories and software. Each brand has its own unique and separate product line. According to BusinessWeek (VSM Group AB: Private Company Information, [internet]) the company was founded in 1689 and is headquartered in Huskvarna, Sweden. It has offices in many countries including Austria, Australia, Belgium, Canada, Denmark, France, Finland, Germany, Great Britain, Italy, Japan, Norway, Russia, Switzerland, the Czech Republic, Holland, and the United States of America.

As of February 2006 the company was acquired by Singer Sewing Company (BusinessWeek, 2008. VSM Group AB: Private Company Information, [internet]).

3. STRATEGIC POSITION OF THE VSM GROUP

The strategic position is concerned with the impact on strategy of the external environment, an organisation's strategic capability (resources and

competences) and the expectations and influence of stakeholders (Johnson et al 2005, p. 17).

The strategic position of VSM Group will be examined by utilising the following factors, namely, the influence/impact of macro-environmental issues to the strategy, understanding the company's strategic capability and how this strengthens the company's competitive advantage, and thirdly how expectations shape organisational purposes and strategies. The impact of the macro-environment will be analysed using the PESTEL framework, Porter's Five Forces Model, SWOT analysis and the competitive nature of VSM Group's home base of Sweden.

PESTEL identifies six main types of environmental influences, namely, political, economic, social, technological, environmental and legal. Each influence will be discussed hereunder.

3. 1. PESTEL Political variables

- Political stability in Sweden and the United States.
- The prevalence of foreign trade regulations in the USA.

Economic variables

- Decline in demand for sewing machines in past two decades.
- Decline in industry profitability.
- Low sales in respect of Pfaff within three years of acquisition.
- High production costs in the German Pfaff plant.
- Investment by Juki and other industry players into the US market.

Socio-cultural factors

- Not using a consultant for the strategic planning weekend meeting made the strategy process unstructured and was a shift from the company's way of doing things.
- Encouraging participation in the strategy process by middle management through a series of seminars.
- The

adoption of the strategy document changed workers' attitudes. The strategy document served as a guide on operational matters. The mission statement was frequently promoted in the company's public relations. • Focus shift from technical features to customer satisfaction. Technological variables Extended support for business development to encourage retailers to carry the Husqvarna Viking product line exclusively. • Cooperation with Jo-Ann Fabrics & Crafts, a large retailer of fabrics with over a thousand stores throughout the USA, setting up small sewing machine outlets inside their fabric stores. This led to the introduction of ' after-market' services such as training in sewing techniques, software for embroidery construction and ready-made embroidery patterns, spare parts and auxiliary sewing equipment. These after-market services are run by retailers.

Customers were willing to pay as much as five to six thousand dollars on a three day course with a sewing expert. • A new accounting system was installed in May 1999. • The marketing and the technical development department also moved into the same office building in January 2000. This ensures that the two departments operate in sync from conception of product ideas to production and ultimately, the marketing of the product. • Introduction of the Designer I model of sewing machine in 1999. The model made use of software to control the machine and contained no less than eight motors to cater for all functions.

Customers could download upgrades from the internet site, save it onto the floppy disk that comes with the Designer I package and slide it into the built-in disk drive. This method of upgrading performance was new for sewing

machines. • The acquisition of Embroidery Networks Ltd (Emnet) in March 1999. Emnet produced software for PC-controlled professional sewing. With the advent of the internet people could exchange embroidery patterns through the internet or download them at the VSM website. VSM also expanded the number of software engineers from 3 to 17. Environmental variables Manufacture of environmentally friendly sewing machines. • Manufacture of machines which do not consume much electricity. Legal variables • Quality machines which are safe to use. • Flexible labour legislation in Sweden and the USA. • The mission statement pronouncement on the provision of growth opportunities for employees. 3. 2. Five Forces Model Porter identifies five basic forces that can act on the organisation, namely, (1) the bargaining power of suppliers, (2) the bargaining power of buyers, (3) the threat of potential new entrants, (4) the threat of substitutes, and (5) the extent of competitive rivalry.

The objective of the analysis is to investigate how VSM Group needs to form its strategy in order to develop opportunities in its environment and protect itself against competition and other threats. The bargaining power of suppliers The VSM Group restructured its operations when Pfaff in Germany and the Zetina plant in Czech Republic were taken over. Parts were now obtained from local suppliers and those from the Far East. This resulted in the reduction of costs by 50 per cent on key machine components concurrent with large improvements in quality and rejection rates. In this respect the suppliers' bargaining power can be said to low.

The bargaining power of buyers Buyers of VSM Group sewing machines have low bargaining power because the buyers are not concentrated in one geographical area. VSM is an international company and has a wide customer base. The products from VSM are greatly differentiated and therefore cannot be regarded as the same as those from other industry players. The threat of VSM Group buyers switching to other manufacturers is low. The threat of potential new entrants The ease with which new companies can enter the sewing and embroidery industries will increase the intensity of competitiveness among industry companies.

High unit costs of production may present barriers to entry because they mean that any new entrant has to come in on a large scale in order to achieve the low cost levels of those already present in the industry. The current high technological advancements and innovation levels in VSM Group, strong customer loyalty to VSM Group, strong brand name, large initial capital requirements, government regulatory frameworks in Sweden and the USA, and superior products create barriers to entry for potential new entrants. The threat of substitutes

The threat posed by substitute products by other manufacturers can be countered by continuous investment in technology and 'after-market' services by the VSM Group. The extent of competitive rivalry The sewing machine and embroidery industries are more competitive than other industries. The intensity of rivalry in the industry has increased with the coming into the industry of major manufacturing companies from the Far East. The decline in the demand for sewing machines and price cutting by

VSM Group also increased rivalry among industry players. The differences in company strategies, origins (Europe and Far East) and culture (European and Japanese) increases rivalry as well. As rivalry among competing firms intensifies, industry profits decline, in some cases to the point where an industry becomes inherently unattractive (David 1999, p. 128). This statement manifests itself in the number of major manufacturers (Singer and Pfaff) who are going bankrupt.

3. 3. Identification of Key Issues: SWOT ANALYSIS

A SWOT analysis summarises the key issues from the business environment and the strategic capability of an organisation that are most likely to impact on strategy development (Johnson et al 2005).

It analyses the internal strengths and weaknesses, and external opportunities and threats. The following is a SWOT analysis of the VSM Group AB.

SWOT analysis of VSM Group AB

Internal Strengths		Internal Weaknesses
Market dominance in Europe.		Dependence on few product ranges.
Leadership and management skills.		High production costs.
Financial and cash resources.		Reliance on retailers for distribution.
Manufacturing ability.		Lack of industry information.
Innovation processes and results.		Possession of two brands that compete in the same market.
Reputation.		Product and service quality.
Differentiated brands.		One European currency – Euro.
External Opportunities		External Threats
New markets and segments.		New market entrants.
Free market economies arising in Asia.		Increased competition.
Diversification opportunities.		Increased pressure from customers and suppliers.
New		

takeover opportunities. | Substitutes. | | International growth. | Low market growth. | | Increased demand for sewing machines. | Economic cycle downturn. | | Competitor weakness. | Technological threat. | | Demographic and social change. | Change in political or economic environment. | | New international barriers to trade. | 3. 4The competitive nature of VSM's home country What has become known as Porter's Diamond suggests that there are inherent reasons why some nations are more competitive than others, and why some industries within nations are more competitive than others (Johnson 2005, p. 71). The model will be used to examine how the home base of VSM i. e. Sweden plays an important role in creating competitive advantage on a global scale for VSM.

The following four decisive elements are identified: • Availability of strengths in certain fields especially the automation and technological fields. The technological advancements made by the VSM Group in its Swedish operation since the beginning of the millennium gives it a competitive advantage over its rivals and enable it to compete internationally. • High demand in the Sweden for VSM Group sewing machines provides the basis upon which the characteristics of the advantage of the company are shaped and leads to global dominance of the industry by VSM. • Related and supporting industries in the Swedish economy, . e. , the presence of Bernina Fritz Gegauf AG means that the two companies benefit from each other. Bernina enjoyed a solid reputation and their product range resembled that of VSM with their top model accepting embroidery files developed for other brands including VSM. All these factors made Bernina an important quality

benchmark for VSM. • Domestic rivalry with Bernina and the need by both companies to search for competitive advantage helped to provide the two companies with bases for achieving such advantage on a global scale. 3. 5. Foundations of strategic capability According to Johnson et al (2005, p. 17) strategic capability can be defined as the adequacy and suitability of the resources and competences of an organisation for it to survive and prosper. The strategic capability of a company refers to the resources that the organisation has and the way in which these resources are used. Resources and competences VSM's resources can be considered under the following four broad categories: • Physical resources – manufacturing plants in Sweden, USA and the Czech Republic. • Financial resources – operating cash, budgets. • Human resources – average number of employees (1, 689).

The intangible resources will refer to the skills and knowledge that the employees possess. • Intellectual capital – the brand name VSM Group AB, business systems and customer databases. Threshold capabilities Threshold capabilities are those essential for the organisation to be able to compete in a given market (Johnson et al 2005). VSM's threshold resources refer to: internet based developments, the acquired software company Emnet, increased number of engineers, and Pfaff. Unique resources and core competences The design of the VSM sewing machines make them unique resources in that they give the company competitive advantage and other manufacturers find it difficult to imitate or copy the designs. VSM's core competences refer to: the ' Dealer-Partners' programme, the cooperation with Jo-Ann Fabrics & Crafts, and the accompanying introduction of the '

after-market' services. All these strategies give VSM a competitive advantage. 3. 6. Organisational culture analysis Johnson et al (2005, p. 47) define culture as the basic assumptions and beliefs that are shared by members of an organisation, that operate unconsciously and define in a basic taken-for-granted fashion an organisation's view of itself and its environment.

Every organisation has a culture and it includes values, beliefs, rites, language, metaphors, symbols and rituals. Culture derives from VSM's past, present, current people, technology and physical resources, aims, objectives and values of those who work in the organisation. These cultural products can be used by strategists at VSM to influence and direct strategy formulation, implementation, and evaluation activities. The following cultural factors specific to VSM have been identified:

- The strategy process was changed to include, for the first time, both top and middle management.

The involvement of middle managers had a positive effect on operations in that the strategy document was referred to as a guide on operational matters and the mission statement was frequently promoted in VSM's public relations exercises. The strategy document was also regarded as an ongoing process which could be changed in response to changing situations in the company.

- Retailers were transformed into ' Dealer-Partners' which included extended business support to retailers to encourage them to deal only with the Husqvarna Viking product line. In the USA, VSM entered into a cooperation agreement with Jo-Ann Fabrics & Crafts to set up small sewing machine outlets inside their fabric stores. This led to the introduction of '

after-market' services such as training in sewing techniques, software for embroidery construction and ready-made embroidery patterns, spare parts and auxiliary sewing equipment. These after-market services are run by retailers. Customers were willing to pay as much as five to six thousand dollars on a three day course with a sewing expert. In support of the company's strategy the top management of the company was changed to accommodate the managers of the national sales companies as well as the marketing vice president. • The operating systems also underwent major changes. A new accounting system was installed in May 1999 to assess accounting information in new ways to keep track of the various activities in the value chain. • The acquisition of Pfaff upset some employees and pleased others. The company now had two brands which were competing for the same market.

Former competitors were now brought to the same stable and the company faced a challenge of how to keep them apart on other dimensions than price and quality. • The relocation of the German Karlsruhe operation to the Swedish Huskvarna plant resulted in only a handful of research and development engineers staying on. The company had to re-orientate the German engineers into the Swedish way of doing things since the engineering principles of the two countries were fundamentally different. 4. FORMULATION OF COMPETITIVE STRATEGY Long-term objectives represent the results expected from pursuing certain strategies (David 1999, p. 76). Strategies represent the actions to be taken to accomplish long-term objectives (David 1999, p. 176). Objectives take the generalities of the

mission statement and turn them into more specific commitments: usually this will cover what is to be done and when the objective is to be completed (Lynch 2003, p. 440). Objectives will therefore possess the following characteristics, namely, they should be measurable, realistic, understandable to all, hierarchical, achievable, and should contain time frames. Clearly communicated objectives, according to David (1999, p. 77), are vital to the success of the company as they provide a basis for consistent decision making by company managers and help stakeholders understand their role in the company. Formulating the competitive strategy for the VSM Group will consist of aligning the internal resources and skills and the external opportunities and risks. The alignment will make use of the Threats-Opportunities-Weaknesses-Strengths (TOWS) Matrix. The TOWS matrix will be developed based on the information obtained in the SWOT analysis of the VSM Group and will identify options that address different combination of the internal factors (strengths and weaknesses) and the external factors (opportunities and threats).

4. 1. Critical Success Factors: TOWS MATRIX

Johnson et al (2005, p. 96) define critical success factors (CSFs) as the product features that are particularly valued by a group of customers and, therefore, where the organisation must excel to outperform competition. Critical success factors relate to the aspects of the competitive strategy in which a company must excel.

The TOWS Matrix identifies four types of strategies, namely, SO Strategies, WO Strategies, ST Strategies, and WT Strategies. SO Strategies make use of the company's internal strengths to take advantage of the external

opportunities. WO Strategies take advantage of external opportunities to improve internal weaknesses. ST Strategies make use of the company's strengths to avoid or reduce the impact of external threats. WT Strategies are defensive tactics directed at reducing internal weaknesses and avoiding environmental threats (David 1999, p. 81). The VSM Group TOWS Matrix

Strengths (S)	Weaknesses (W)	INTERNAL	Market dominance in Europe.
Dependence on few product ranges.	FACTORS	Leadership and management skills.	High production costs.
(IFAS)	Financial and cash resources.	Reliance on retailers.	EXTERNAL FACTORS
Manufacturing ability.	Lack of industry information.	(EFAS)	Innovation processes and results.
Opportunities (O)	SO Strategies	WO Strategies	New markets and segments.
Continued investment in Europe and the USA.	Explore new products and ranges.	Free market economies arising in Asia.	Penetrate high-end embroidery segment further.
Exploit mergers and takeovers.	Diversification opportunities.	Abandon high cost operations.	New takeover opportunities.
Diversify into new markets in Europe and Asia.	International growth.	Enhance retailer network which focuses on hobby	One European currency - Euro
segment.	Threats (T)	ST Strategies	WT Strategies
New market entrants.	Emphasise after-market sales of accessories and	Withdraw from declining markets, etc.	Germany.
Increased competition.	software.	Increase brand awareness in current markets.	Increased pressure from customers and suppliers.
Continued investment in Europe and the USA.	Reduce reliance on retailers.	Substitutes.	Build on current management capacity. Where possible,
develop barriers for new	Low market growth.	entrants.	2. Strategic

options at VSM Group AB Development directions are the strategic options available to an organisation, in terms of products and market coverage, taking into account the strategic capability of the organisation and the expectations of stakeholders (Johnson et al 2005, p. 340). The following strategic options are proposed for the VSM Group: 1. Protect and build on current position

Consolidation Consolidation is where organisations protect and strengthen their position in their current markets with current products (Johnson et al 2005, p. 342). The sewing market situation is forever changing and requires industry players to continuously innovate to improve the value of the products. The threat of new competitors or new entrants into the sewing industry means that VSM has to pay particular attention to how the company's resources and skills should be adapted and developed to maintain its competitive advantage.

Withdrawal by VSM from the German market should be regarded as consolidation. Market penetration A market penetration strategy seeks to increase market share for present products or services in present markets through greater marketing efforts (David 1999, p. 50). VSM should therefore strive to penetrate the high-end embroidery market further by utilising aggressive marketing efforts. These efforts should be focused on existing markets in the countries mentioned in the company overview. 2. Product development

Product development refers to significant new product developments and not minor variations on an existing product. According to David (1999, p. 51) product development is a strategy that seeks to increase sales by improving or modifying present products or services. Continued development and innovation on the Designer series will counter new entrants into the market, will maintain the company's reputation as an innovator, and will protect the company's overall market share.

3. Market development

Market development is where existing products are offered in new markets (Johnson et al 2005, p. 46). This may involve seeking new market segments, new geographical areas, or new uses for its products that will bring in new customers. Expansion to bring in new customers to the company for its existing company could involve some slight repackaging and then promotion to a new market segment. It will often involve selling the same product in new international markets, especially in China and Asia.

4. Diversification: related markets

Diversification is defined as a strategy that takes an organisation away from both its current markets and products (Johnson et al 2005, p. 46). When an organisation diversifies, it moves out of its current markets and products into new areas. Diversification carries with it an element of risk as it involves a step into the unknown. Moving into related markets however minimises the risk. VSM can diversify into related markets by becoming involved in the activities of its outputs such as distribution, transport, and logistics.

3. Methods of strategy development at VSM Group AB (Action Plan)

A development method is the means by which any strategic direction will be pursued (Johnson et al 2005, p. 348).

For an international company, VSM can use the following means of pursuing its strategic direction: acquisition and mergers, joint ventures and alliances, franchising, licensing, overseas offices, and overseas manufacture. 1.

Acquisition and mergers Acquisition is where strategies are developed by taking over ownership of another organisation (Johnson et al 2005, p. 349).

According to David (1999, p. 59), an acquisition occurs when a large organisation purchases a smaller one and vice versa. Mergers occur when two organisations of similar size unite to form one enterprise.

The acquisition of Pfaff by the VSM Group represented a coup for VSM. The VSM Group had in its stable two strong brands that competed for the same market space. Acquisitions of manufacturing companies in the Far East would also assist VSM to break into new markets (market development), new technologies, and low cost raw materials. 2. Joint ventures and alliances A strategic alliance is where two or more organisations share resources and activities to pursue a strategy (Johnson et al 2005, p. 353). It is a form of weaker contractual agreement between two parent companies.

A joint venture is the formation of a company whose shares are owned jointly by two parent companies (Lynch 2003, p. 483). In order to diversify into related markets and to access new markets like those in the Far East it will be crucial for VSM to form joint ventures and strategic alliances with current manufacturers namely, Brother, Janome or Juki. These types of agreements lock out other competitors, utilises joint expertise and commitment, and allows potential partners to learn about each other. 3. Franchise

A franchise is a form of licensing agreement in the contractor provides the licensee with a pre-formed package of activity (Lynch 2003, p. 484). The package may include offers of the VSM Group brand name to retailers, technical service expertise and advertising assistance. This can be an attractive proposition to retailers willing to take up a franchise licence as it possesses lower risk and provides exclusive territory to the franchisee. This will also enhance dealer network which focuses on the hobby segment of the market

4. Licensing According to David (2003, p. 84) licensing refers to a situation where technology or other assets are provided under licence from the home country. Payment for such services is usually in the form of royalty or some form of arrangement.

5. Overseas offices The VSM Group has sales companies and representative offices in Europe, Russia, North America and Australia. The VSM Group could gain competitive advantage by expanding their operations into the Far East and Africa. These additional offices would provide a permanent presence for the VSM Group in those new markets.

6. Overseas manufacture

The VSM Group currently has two manufacturing plants in Sweden and the Czech Republic. The establishment of new manufacturing plants in overseas countries like the USA carries risks for the company. However the risks may be offset through the savings that could be derived from no longer having to export to those overseas countries.

4. CONCLUSION Strategy was defined as the direction and scope of an organisation over the long term, which achieves advantage in a changing environment through its configuration of

resources and competencies with the aim of fulfilling stakeholder expectations.

Strategic Management was also defined as the art and science of formulating, implementing, and evaluating cross-functional decisions that enable an organisation to achieve its objectives. The strategic position of the VSM Group AB was analysed by applying the analytical models of strategic management to the current situation in the company. The following models were utilised to analyse both the internal and external environment of the company, namely, PESTEL, Five Forces Model, and the SWOT analysis.

The examination of the strategic position of VSM Group involved analysing the strategy of the company with emphasis on the environment it operates in, its strategic capabilities, and how expectations affect organisational purposes and strategies. The analysis of the environment concluded with a clear statement of the Key Issues (SWOT Analysis) and Critical Success factors (TOWS Matrix). The strategic position of VSM Group was used as a base in the development of an appropriate competitive strategy for the company.

The development of the strategy took into account the organisational cultural issues prevailing in the company.

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