Strategic study of the vsm group essay

1. Introduction

VSM group having been developed, manufactured and sold household sewing machines for more than 130 years after its first sewing machine was launched in 1872. It became an independent company after it was divested from Electrolux and acquired by the investment fund, Industri Kapital in 1997. With the advent of the new CEO, Mr. Jorgen Johansson, the company carried out a series polices to survive and develop in the new circumstance.

Regarding the retailers as very important sales channel, VSM group adopted the ‘ Dealer-Partner’programme which encourages the retailers to deal their products exclusively. This obtained a great success in the US market. VSM group also expanded after-market activity, such as installed new accounting system, improved software programme and set up e-business system. During this time it acquired Embroidery Networks Ltd (Emnet); a small British producer of software for PC controlled professional sewing.

Three years later, when VSM group executing its reviving plan, it stopped a while and acquired its former competitor, Pfaff, a German company with a powerful brand name in domestic sewing machines in 2000. To avoid any confusion with the groups brand names, the company was renamed the VSM Group. By this moment it hold two strong brands.

However, things are not optimistic to VSM Group, as a matter of fact the sewing machine market keeping declining in the past 20 years and VSM group encountered sharp competition from Asia manufacturers as well. In addition, the conflict of VSM group between the two brands was emerged.

This paper seeks to analyse the decisions taken by the VSM Group especially with regards to Pfaff and the challenges facing the group during 1997 to 2003. Porter's five forces and SWOT analysis are used to better understand the industry and analyse the competition in view of the company's resources and capabilities. In conclusion and recommendations are offered to possibly give solutions to the main problems identified.

2. Competitor analysis

There are three main competitors which are all from the Far East (see Appendix 1 for Strategic Group). Janome is the largest competitor by volume, and is specialised in the domestic sewing machines and obtained several important industry innovations. The second competitor is Brother which is famous for office machinery but it is also active in the sewing industry. Their total production was 1. 3 million machines in 2003 and their innovative products' prices were lower than those of VSM as much as 20-30 percent. The third competitor is Juki who manufactures both domestic and industrial machines as well as computer-controlled machines, but they did less for the product development. Porter's Five Forces frame (Appendix 2) was chosen to do the competitor analysis in this case.

Threat of new entrant

The threat of new entrants is not high because intense competition and the demand for the sewing machine have been shrinking. The VSM Group and other three main competitors (Janome, Brother and Juki) have most of the market share. However, if new entrants come into the market, it is difficult to sustain in this market because of the brand identity. As the technology is changing very rapidly and the companies need to look at R&D as well. One more aspect of this field is that the companies are already working in the low labour market i. e. in the Far East, so it will be difficult for the new entrants to penetrate into this market.

Competitive rivalry

As the market of sewing machine is declining, therefore the competition is becoming more intense. There were the smaller companies, which did not do well and got into trouble. For example, Pfaff went bankrupt in 1999 and was acquired by VSM. Almost all of these companies produced the same products. Fortunately, one of competitive advantages of VSM was the production of special models produced in Zetina plant which gives VSM a competitive edge over to its rivals.

Power of buyers and suppliers

Within the sewing machine industry VSM Group is a global leader that it dominates American and major European market. As it has been mentioned, there are still several competitors in the Far East. They also possess some important industry innovation and enjoy at a lower cost (cost advantage), therefore the buyers have other alternatives if the VSM products could not meet their requirements. Thus, the buyer bargaining power is high.

The VSM Group manufactures products with their own brand, but they had changed their parts suppliers for both brands from Europe to the Far East due to the price competition. It has cut the cost down to meet the competition, as a result of this it has increased the suppliers power.

Threat of substitutes

For the costume manufacturing industry, there is no other machines could substitute the sewing machine so far, therefore the threat of substitutes to sewing machine is low. But it is notable that the demand of sewing machine is keeping decline for more than 20 years in Western countries. This probably attributes to the flowing of costume manufacturing industry from the Asia.

3. The role of resources and capabilities in strategy formulation

In order to outline the key strengths of VSM, an internal analysis will have to be undertaken. This is a process of identifying and evaluating an organisation’s specific characteristics, including its resources and capabilities. These factors have sustained VSM’s competitive advantage, therefore Porter’s Value Chain need to be looked at (see Appendix III) (Grant, 2001).

In 1996 a new CEO, Svante Runnquist came to VSM AB, much of his work was directed towards improving the company’s market orientation. He changed the culture and redirected the strategic focus of the company. He laid out the new mission statement which focused on developing market for growth, providing superior satisfaction to the consumer and their Dealer-Partner, and continuously adding value to their brand (at this time only for VSM AB).

Retailers were very important to VSM in their new plans for future profitability, therefore the customers became the main targeted area.

Runnquist announced the programme to transform the retailers into ‘ Dealer-Partners’. The concept included extended support for business development to encourage them to carry the Husqvarna Viking product line exclusively.

In order to achieve economies of scale and become more profitable, VSM AB started to cooperate with Jo-Ann Fabrics & Crafts in the US and acquired a small British producer of software for PC-controlled professional sewing. By 1999, VSM had opened 47 exclusive Husqvarna Viking shops in the US, which signed that the company become successful. By the end of 2003 VSM had reached the number of 120 shops solely in the United States.

The strength/success of VSM was the organisational structure change which facilitated its growth and to dealt with customers. This allowed having a rapid response to the demand. Moreover, there were changes in operating systems, mainly focused on developing customer value by innovative functions. This was also a key strength lie in the resources of VSM and their effective utilisation of people.

Other key strengths, in terms of resources were VSM excellent IT model. The use of software to control machine, it opened up completely new ways of customer support. There were crucial for vertically integrated firm. The new versions of downloads via the Internet and web-shop which was a sign of VSM’s intention to stay on good terms with their customers and retailers.

The VSM also exploited opportunities of growth and internationalisation through competencies, especially the ability of leading innovation in the retail industry. They also targeted the needs of their customers, being unique/distinction in design concepts.

4. Downward movement ; SWOT analysis

Because of demand for sewing machines in the Western had been declining in terms of units sold, industry profitability had deteriorated. As a result of this, Pfaff and Singer, ones of the professional markets, went bankrupt in 1999. However, the downturn of Pfaff/Singer bankruptcy proved to be very important for the development of VSM AB. To expand market and continue to grow, the owner, Industri Kapital, decided to buy Pfaff in 2000. The combined company was renamed the VSM Group. Now, the VSM Group was in possession of two strong global brands that partly competed for the same market place.

As mentioned above VSM AB was on a successful way to grow in their major markets – Sweden and the United States. The acquisition of Pfaff opened unknown opportunities for the new founded VSM Group, but it also raised some strategic problems.

Because Pfaff lowered its sewing machine prices in its home market to meet the competition from Asian manufactures and also reduced the prices to German retailers.

It turned out that Pfaff had grossly underestimated the costs associated with the German market and made losses for years. VSM Group could not maintain this low price, therefore they pushed their price up. As a result of this, within three years sales were down 20% by volume and a number of Pfaff retailers had chosen not to stay exclusive with Pfaff any more. Consequently, VSM had incurred losses for five years in the German market and market penetration was not achieved. The VSM effort has expanded in the US market successfully, but the question is whether they manage in the German market as successfully as in the US.

To understand the situation of VSM Group, it is necessarily to have a look on its strengths, weaknesses, opportunities and threats (SWOT) analysis in order to give any recommendations for the company.

SWOT analysis

Starting with the strengths of VSM Group, it is obvious that their two strong brands are very powerful for the company. Pfaff is well-known in the German speaking countries and the rest of the world, except Sweden and the United States. In these two areas Husqvarna Viking is a well-known brand which has been attracting lots of customers. The increase of exclusive stores in the US market seems to be the right way for pushing their position forward.

Another strength is that the VSM Group could solve the problems with their production after buying Pfaff. The acquisition of the Czech company sets VSM Group in a position that they can lift up their production capacities by cutting the costs at the same time. Moreover, the broad product range is a significant strength for the company. The combination of experience and reputation both companies, the VSM Group have an opportunity to gain an enormous potential of synergies i. e. economies of scale offers, if the management is able to solve the problem.

The weaknesses of the VSM Group are – the market is declining and the prices pressure from Far East. The lack of information about competitors, customers and retailers are unable to compete in the market. It is obviously that before acquisition of Pfaff , VSM AB had lack of information about Pfaff. They did not know that Pfaff had made losses in the German market by decreasing its prices before 2000.

Furthermore, another weakness is that the company is not willing to change the strategy for the two brands. It should be more flexible. The strategy they followed only concentrating on the retailers, it is possible the best way for the US market but in the Europe market is not the same. Therefore they need to make a clear strategy, otherwise the partly ‘ trail-and-error process’ will continue.

An opportunity for VSM Group is the option to rethink the marketing strategy. It is likely that the company needs to offer their products in a flexible way. The use of the internet to separate their products from their competitors and also to get further information about their customers, therefore it is an opportunity to launch and add the information system of customers and retailers together. The cooperation with the European retailers could be the opportunity for the company.

It is obvious that the biggest challenge (threat) is the unsolved problem of integrating Pfaff. The trail and error process offers competitors a chance to gain from the inflexible and undefined strategy of the VSM Group. Also the different systems, single and double loop production could be threats for the company. In addition, the lower production costs in Asia are another problem, therefore the company has to look at. If they cannot compete with the low cost (cost advantage) labour, their marketing strategy has to react and possibly they can focus on differentiated products, such as high quality broad product range. If the company positions itself in the industry through choice of differentiation, the company can pursue to create and sustain a competitive advantage (www. quickmba. com).

5. Conclusion and recommendations

As aforementioned the VSM Group has faced some problems, therefore they should solve the problems in the future. In the conclusion will figure out the main problems of the company and give some recommendations how the company can compete successfully.

The main problem of VSM Group is " at the same time their biggest opportunity". This statement has to be explained. The VSM Group has two strong brands battling in the same market place. If the company could solve this problem they could gain synergies. The competition in the same market is problematic. The company waste resources facing against each other. Each brand is strong in different countries. For example Husqvarna Viking is strong in the domestic market, Sweden, and the whole US market, while Pfaff is strong in the German market. If Pfaff supports the strong brand, Husqvarna, Pfaff could offer at a lower price with a broad product range and try to gain more customers from other segments, e. g. in Europe and elsewhere in the world, they will compete successfully.

The opportunity of the two strong brands has to be seen in the context of the marketing strategy of the VSM Group. As it is mentioned in the case, the CEO followed the same marketing strategy for the both brands. The company should find different strategies for different markets. The European market is different compared to the US market. Also, the European market is different from the Asian market, therefore it is necessary to have different marketing strategies. Until 2004 the marketing strategy of the VSM Group is too narrow for facing challenge in the future.

Another problem is that the company is still in a process of redefining and setting up their international market portfolio without thinking of penetrating the Asian market. As it could be seen in the competitor analysis, the Asian market is a big market where Juki and Janome competing each other. Another imaginable solution is that the strong brands could enter the high premium sector in Asia to boost their units.

On the other side, the problem of the low labour costs of the Asian competitors is also a problem. The VSM Group could increase their production volume in Asia or acquire a manufacturing company in Asia to access into the new market. The lack of information of competitors as it is described in the case, which is another unsustainable situation that has a great impact on the strategy. If the company could not get adequate information about customers, competitors and retailers, it is not able to set up a market strategy.

The reason why VSM AB could not face against Pfaff in the German market in 1999, because of lacking information about Pfaff. With sufficient information about the competitors, VSM could be able to react against the competitors' future strategies, but if without the information system the trail-and-error process will continue. To gain more information, it should be a supposable scenario to keep contact with the retailers more via the internet selling process and the company should gain more information about customer needs from retailers.

The sewing machine market is an oligopoly, therefore it is possible to think about a cooperation or a collaboration with another competitor to gain more synergies concerning of expertise and information about the market, customers and competitors, but also in a form of market penetration into the Far East.

Despite VSM Group’s ability to sustain a differentiation advantage, once the sewing machine market decline, growth will inevitably slow and competition will become increasingly intense. From the case, it has become apparently that VSM Group is continually seeking ways to expand its business. Therefore, as growth slows in the differentiation market, they will find continued growth increasingly difficult, forcing them to consider alternative strategies to continue expanding.