

**UNIVERSITY OF BOLTON**

**BOLTON BUSINESS SCHOOL**

**BA (HONS) BUSINESS ADMINISTRATION PATHWAY**  
**(BY DISTANCE LEARNING)**

**&**

**BA (HONS) ACCOUNTANCY PATHWAY**  
**(BY DISTANCE LEARNING)**

**SEMESTER I EXAMINATION 2008/2009**

**(INTAKES ACC30&32/BUS17&18)**

**BUSINESS POLICY MODULE - BST3003DL**

**&**

**CORPORATE STRATEGY MODULE - ACC3005DL**

Date: Saturday 14<sup>th</sup> March 2009

Time: 3 hours

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**INSTRUCTIONS TO CANDIDATES:**

There are **FOUR** questions on this paper.

Answer **ALL FOUR** questions.

**Note:**

1. All questions are equally weighted and carry 25 marks each.  
2. This is an open book examination. During the examination you are allowed to use your own notes (**not textbooks or module handbook**).

3. A fresh copy of the Case Study is attached to the examination paper.

Candidates are advised that the examiners attach importance to legibility of writing and clarity of expression.

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Bolton Business School  
BA (Hons) Business Administration Pathway by Distance Learning  
BA (Hons) Accountancy Pathway by Distance Learning  
HK Intake 30/32 (BUS)  
HK Intake 17/18 (ACC)  
Semester I Examination 2008/2009  
Business Policy  
Corporate Strategy  
Module No. BST3003DL, ACC3005DL

**Answer ALL FOUR questions**

**Question 1**

Using appropriate academic frameworks identify and evaluate The VSM Group's organisational capabilities.

**(25 marks)**

**Question 2**

Using appropriate academic models and frameworks identify the key business environment factors presented in this case and evaluate the impact they have on The VSM Group.

**(25 marks)**

**Question 3**

Analyse the strategic choices made by The VSM Group and evaluate the extent to which The VSM Group changed the world of sewing.

**(25 marks)**

**Question 4**

Identify and evaluate The VSM Group's sources of competitive advantage.

**(25 marks)**

**END OF QUESTIONS**

# The VSM Group<sup>1</sup>

Jonas Dahlqvist and Anders Melander

*This case describes the developing strategy of the VSM Group from 1997 to 2003, a time of considerable organisational and contextual change. During this period, the VSM Group became an independent company after being divested from a major industrial group. It also acquired a major competitor in distress. The case describes the strategic impact of these events in a situation of global competition in a declining market. The case provides an opportunity to consider the emerging strategic capabilities of an organisation, the bases and direction of competitive strategy, the integration of a major acquisition and issues of strategic change.*

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## A new beginning

Sometimes, things just happen all at once. Electrolux's intention to divest its sewing business was well known, but the ownership question had been lingering for years before the deal was finally closed. It was not until 1997 that Electrolux actually did sell VSM AB to the investment fund Industri Kapital.<sup>2</sup> The deal was concluded on 6 February 1997, exactly 125 years after a decision was taken by the board of directors at Husqvarna AB to start manufacturing sewing machines.

During 1996, the Electrolux Group worked actively to find a buyer for their sewing machine business. During this period, the then CEO of VSM, Jörgen Johansson, resigned and a new CEO, Svante Runnquist, was appointed. Mr Runnquist had worked in a number of different positions, mainly in marketing, with Volvo for over 25 years. He had also held the position as CEO of Volvo Germany for five years.

## A new direction

VSM AB developed, manufactured, marketed and sold household sewing machines. Electronic and computerised models were manufactured at the Husqvarna plant in Sweden, while low-priced mechanical machines and over-lockers were sourced from Asian manufacturers. When Svante Runnquist came to VSM, much of his work was directed towards improving the company's market orientation. The number of concurrent changes in the company made for a window of opportunity to redirect the strategic focus of the company. An intense weekend meeting in April 1997 marked the beginning of a very busy period for the top management team. Mr Runnquist explained:

<sup>1</sup> This case was formerly known as the Viking Sewing Machines AB. The title was changed to reflect new developments in the case. Since this is an account of major organisational change in and around the focal business over a period of 15 years, names have changed on various points in time. On the 30 April 1998, Husqvarna Sewing Machines AB changed its name to Viking Sewing Machines AB. In 2002, the name was 'acronymised' to VSM Group AB. Before it was purchased by Electrolux in 1977, the company name was Husqvarna AB. For simplicity, we will use the name 'VSM Group' to denote the sewing machine manufacture that stems from Husqvarna AB. Additional information on the company's history and performance as well as the current owner is given in the appendices.

<sup>2</sup> The full name of the formal owner is the Industri Kapital 1994 Fund. However, we will refer to the owner as Industri Kapital. Further details on the activities of Industri Kapital can be found in an appendix.

This case was prepared by Jonas Dahlqvist and Anders Melander, Jönköping International Business School. It is intended as a basis for class discussion and not as an illustration of either good or bad management practice. © Jonas Dahlqvist and Anders Melander, 2004. Not to be reproduced or quoted without permission.

We started off with a week-end meeting on a country resort. I didn't even bring in a consultant this time. I have done that in the past, but this time I was so fresh on the job that I was the one who could ask all those 'stupid' questions.

During the first meeting, the basic scope of the strategy document was laid out while further refinements and changes were made during the summer of 1997. The new mission statement<sup>3</sup> and the companion strategy document were presented to middle management in a series of seminars. The opportunity to participate in the strategy process was a new experience to most of the people involved. Some took a dim view of the amount of time spent away from more pressing matters such as low sales or the installation of a new accounting system. Nevertheless, the high involvement seemed to pay off. The strategy document was often referred to for guidance on operational matters and the mission statement was frequently promoted in the company's public relations. The physical appearance of the strategy document was very plain; it consisted of folded and stapled photocopies wrapped in a two-colour sleeve. This was a reflection of the concern that the VSM management had about setting in stone something that was inherently an ongoing process. The strategic conversation within the top management team continued with at least five off-site workshops a year, formally dedicated to assessing the company's current strategic position. Summing up this initial process, Mr Runnquist said:

The first attempts were very unstructured and people were complaining about how it was all empty phrases and buzz words. My point is that, it is only when you engage in that type of discussion that you may come to realize that your thoughts aren't that clear after all.

## Making it happen

Retailers were very important to VSM in their new plans for future profitability. This crucial link to the customers became a targeted area for VSM with the arrival of the new CEO. One important effort in this direction was the programme to transform the retailers into 'Dealer-Partners'.<sup>4</sup> The concept included extended support for business development to encourage them to carry the Husqvarna

Viking product line exclusively. Marketing Director Söfia Axelsson put it this way:

There have been tremendous changes in VSM since Svante [Runnquist] came here, there really have. But we may change all we want; the customer only meets the retailer and as long as the retailer doesn't change, the customer won't perceive any change at all.

In the US, VSM started to cooperate with Jo-Ann Fabrics & Crafts, a large retailer of fabrics with over a thousand stores nationwide, setting up small sewing machine outlets inside their fabric stores. By May 1999, VSM had opened 47 exclusive Husqvarna Viking shops in the US, many in cooperation with Jo-Ann Fabrics & Crafts. Mr Runnquist explained:

The US is our biggest market,<sup>5</sup> then comes Sweden. This country [Sweden] is the only country where we have had exclusive retailers for a long time. In the U.S. we only started this a couple of years ago. You can make a living on the Husqvarna Viking brand there. In most other parts of the world we have very few exclusive VSM retailers; we're a brand among many others in the shop. A retailer in Europe typically carries 3-4 brands. Unfortunately, that's often the type that just 'peddles' machines. We don't believe it's our future.

It was in the light of the expanding after-market that retailer integration became really important, since the company's strategy expanded the core product beyond the sewing machine. The 'after-market' included services, such as training in sewing techniques, software for embroidery construction and ready-made embroidery patterns, together with spare parts and auxiliary sewing equipment. But how did the average retailer respond to VSM's proposal to expand their activities? Mr Runnquist again:

You really can make money on training and that's what we are trying to teach the retailers. Our organisation in the U.S.A. is particularly successful. Over there, people willingly pay 5-600 dollars to be in on a three-day course with a sewing expert.

## Supporting the strategy

Changes in organisational structure and routines accompanied the company's claims of a new commitment to think more about the customer

<sup>3</sup> Please refer to the mission statement in the Appendix.

<sup>4</sup> VSM's name for exclusive retailers under special contracts.

<sup>5</sup> About 45 per cent of the turnover.

and less about technical 'features'. The top management team was changed to incorporate the managers of the major national sales companies as well as the marketing vice president. The new management structure was not only a change at the top level. There were also changes in operating systems. One of these was the installation of a new accounting system in May 1999. Earlier, VSM had only a vague idea about how much they spent on marketing of *specific* products, let alone what their competitors spent. The old system may have seemed sufficient during the Electrolux period when worries tended to end at the factory gate. However, as an independent company, VSM needed to assess the accounting information in new ways to keep track of the various activities in the value chain.

The marketing and the technical development department also moved into the same office building in January 2000. Earlier, Production and Technical Development had always been in the same building away from other departments. Perhaps it was no surprise that the turn-around programmes launched during the 1980s mainly focused on streamlining production efficiency, rather than developing customer value by innovative functions.

## Into cyberspace by design

When VSM presented their new top-of-the-line Husqvarna Viking in early 1999, it was meant to be a 'world's first' in several respects. The *Designer I* came out as an engineering *tour-de-force*, retailing at a hefty \$5,000.<sup>6</sup> The new model made extensive use of software to control the machine and contained no less than eight motors to cater for all functions. Several features were logical developments and refinements of existing solutions but the new sensor control for the needle plate with an automatic thread cutter, the built-in disk drive and a 'flash' memory made for a re-definition of what a sewing machine really is.

Each of these innovations was important for the overall impact of the final product. The construction of the new needle plate sensor made it possible to control all its functions by a microprocessor running proprietary software. The 'flash'

memory could be upgraded by the end-user by just inserting a floppy disc into the sewing machine. Not only the stitches or embroidery pattern could be upgraded in this way, but also the more fundamental characteristic of the sewing machine.

Since all the functions of the *Designer I* were now controlled by a microprocessor, it opened up completely new ways of customer support. One illustration was the way VSM started to make new versions of the operating system available to download via the internet, free of charge. The customer downloaded the upgrade from the internet site, saved it onto a floppy and slid it into the built-in disk drive of the *Designer I*. This method of upgrading performance and introducing new functions was well developed in the computer business, but was new for sewing machines.

The great e-business shakeout during the late 1990s and the plethora of 'dotcoms' raised serious doubts about the internet as a viable medium for the distributive trades. VSM's position on this was uncompromising and followed the lines developed in their strategy document. Since VSM tried to promote exclusive 'Dealer-Partners', there could be no parallel channels of distribution of Husqvarna Viking sewing machines. However, VSM did start a web-shop for low bulk accessories and software on their website. As a tangible sign of VSM's intention to stay on good terms with their exclusive retailers, a bonus clearing system on internet sales was instigated. Each customer was given a unique identification code linked to the area retailer. The area retailers were given a bonus based on web sales to clients within their assigned area. The information on the customer was not passed on to the retailers, only the money. As Anne Jansson, a manager of internet marketing, put it:

Up till now, we haven't had one single complaint from the retailers. I think they rather like the idea of getting a bonus automatically without any work involved.

VSM and Embroidery Networks Ltd (Emnet) had started to cooperate in 1993 to develop software for embroidery. In March 1999, VSM declared that they had acquired this small British producer of software for PC-controlled professional sewing. CEO Svante Runnquist commented:

The idea is not that strange if you think about the fact that we want the after-market to grow more than the total business. We cannot do that by selling more spare parts; we will probably be selling fewer . . . It's

<sup>6</sup> In 2004, the *Designer I* retailed for approx. \$5,900 on the US market.

by selling more auxiliary equipment and developing new products for the after-market that we will grow and then software will be an important part for our computer-controlled machines.

With the breakthrough of the web, distribution of software and embroidery files took a new turn. People could exchange embroidery patterns through the internet or download them at the VSM websites. In the period 2000 to 2003, VSM expanded the number of software engineers from 3 to 17, not counting the new R&D director that was also hired from the software industry.

## Competing in an international arena

The sewing machine industry lacked the market transparency normally associated with a mature manufacturing industry. Very little information was collected by official bodies and VSM cooperated with competitors to collect figures on volume in different price brackets through a third-party intermediary. VSM also collected information on competition through the sales companies and retailers. In addition, the R&D department as well as Marketing and Sales regularly compared their own machines to the ones manufactured by competitors. To the CEO Svante Runnquist the lack of market information came as a surprise:

For me, coming from the car industry, all this lack of information is very frustrating. That was one of my first questions [when I came to VSM]: what does it [the market] look like? The industry is rather poorly monitored as to market shares. You know what models and specifications exist, but there are actually rather few that start from the customer and develop the product definition that way.

The volume manufacturers of sewing machines were located in the Far East. They mainly consisted of a number of medium-sized manufacturers, primarily acting as OEMs<sup>7</sup> for established brands in the lower price bracket. However, there were three competitors that set themselves apart. Brother, Janome and Juki were all major competitors to VSM. Janome alone produced over 1.5 million units in 2003. Not only were these companies high-volume manufacturers with complete product

ranges but, more importantly, they also sported their own R&D facilities capable of developing sewing-embroidery machines. Being Japanese, their location gave them access to low-cost production facilities in, for example, Taiwan, Thailand and Korea. However, this seemed to be a mixed blessing since the competition from local low-cost brands was fierce for modestly priced mechanical sewing machines.

The largest competitor by volume was Janome of Japan. Their main activity was domestic sewing machines, although they maintained some side activities in small industrial robots. They had no manufacturing of industrial sewing machines. Janome had introduced several important industry innovations such as touch-screen controls.

Brother was a well-known manufacturer of office machinery such as labellers, typewriters, faxes and copying machines. However, they were also very active in the sewing industry, both in the consumer and industrial markets. Their total production was an estimated 1.3 million machines in 2003. In addition, they continued to produce innovative products coupled with prices that undercut VSM by 20–30 per cent.

Another big player was the Juki operation. Being more specialised on sewing machines than Brother, they manufactured and marketed both industrial and domestic machines. After the Singer reconstruction, Juki made the entire range of computer-controlled machines for Singer, including their top-of-the-line embroidery models. Juki did not market these expensive models under the Juki brand in the US. Rather, the Juki models were very modest in features. After entering the embroidery segment, Juki had also been less aggressive in pursuing product development.

In Europe, the VSM Group and Bernina Fritz Gegauf AG were the only remaining independent manufacturers. Bernina was a fourth-generation family company located in Switzerland, enjoying a solid reputation and actively demonstrating their Swiss heritage. Their product range resembled that of VSM and their top model accepted embroidery files developed for other brands, including VSM. The relative geographical proximity and a similar corporate situation made Bernina an important quality benchmark for VSM. However, during the first years of the new millennium, Bernina had shown signs of lagging behind in product development. Although a competitor, Mr Runnquist deplored the fact that Bernina seemed to be losing ground.

<sup>7</sup> Original Equipment Manufacturer.

They have a good brand and a good reputation, but we think they have started showing signs of lagging in product development. To make a market you need each other – Mercedes needs BMW and BMW needs Audi and together they make a market. So nobody would be happier than I if Bernina were more active. Don't get me wrong though – I would still like to take over some of their retailers. But they are not helping us much today to create demand for creative sewing.

The demand for sewing machines in the western hemisphere had been declining for more than two decades in terms of units sold. As a result, industry profitability had deteriorated. This downturn had been particularly hard on manufacturers of industrial machines and low-price mechanical machines for domestic use. In Europe and in the US, the manufacturers competing on the professional side were severely affected by the sharp drop in demand for industrial sewing machines. Firms such as Pfaff, with production of domestic and industrial machines bundled together in the same company, experienced major difficulties in the 1990s. Pfaff, with about two-thirds of the sales in the professional market, went bankrupt in September 1999. A week later, the almost mythical Singer was on the brink of bankruptcy and filed for a Chapter 11, partly as a result of their 80 per cent ownership in Pfaff's industrial division. After a reconstruction, Singer was up and running again but with little or no in-house manufacturing. However, their huge global network of retailers was severely reduced.

The aftermath of the Pfaff/Singer bankruptcy proved to be very important for the development of VSM. When news about the demise of Pfaff reached VSM, it posed new and intricate challenges to the owner, Industri Kapital. Their original plan for VSM was to set a good track record over a five-year period in order to make a profitable exit through an IPO. The choice facing Industri Kapital in 1999 was to go ahead as planned or to support a bid for Pfaff's domestic sewing machine division. However, the latter alternative would necessitate a postponement of the planned exit on VSM. In the past, Industri Kapital had been known to seek out structural deals to develop companies in their portfolio. True to form, they decided to give the green light on the acquisition of Pfaff and the deal was closed on 2 May 2000. The combined company was renamed the VSM Group to avoid any confusion with the group's brand names and a new company slogan was coined – 'Changing the World, of Sewing'.

## Back to square one

The review process of the Pfaff acquisition started over a year before the closing of the deal. Deciding what had to go and what would stay was a daunting task. Based on the strategic plan of the VSM Group, it was clear from the beginning that VSM was only interested in the household part of Pfaff. But where was the value for VSM in their former competitor? In early 2004, Svante Runnquist commented:

Looking back on May 2000 . . . Well, our main interest was of course the brand – it was a deal breaker. We said 'If we're not getting the full rights to the brand, we'll simply take the next flight home. No deal.' And we got it alright. But the legal stuff really takes longer than you would expect. I think I signed for Surinam just last week! But we're getting there.

The VSM Group was now in possession of two strong brands that partly competed for the same market space. Solving this threatening strategic conflict became a top priority – it was back to square one. A new process for crafting the strategic positions for Husqvarna Viking and Pfaff was launched and it would last two years. A basic premise was not to change the strategy that had turned VSM into a profitable operation. Mr Runnquist recollects:

We wouldn't change Husqvarna Viking because that had been really successful and it was the one that generated good money. So, we asked ourselves: what is the soul in Pfaff? Frankly, there wasn't many left that could tell. But we just went head on and it took us two years to chisel it out. We held workshops with retailers in different markets; workshops with our staff; workshops with designers that had worked with Pfaff; with co-workers that had left us; with co-workers that had just been hired . . . We really worked it. And then we had this meeting in London . . . It was bloody war! That meeting was the first time we presented our new strategy. Whoa . . . it was fun! Half of the people were really upset and against it. But we just thought: Great! We're on the right track! There was just this huge involvement.

But what was it that so upset some people, and pleased others? Having two strong brands made for some interesting choices on how to separate the former competitors. It seemed to call for some sort of subordination of the Pfaff brand – at least when thinking only in terms of quality and price. However, it was not an idea that appealed to the VSM top management team; Pfaff was a very strong brand, and it did not seem like a good idea

to buy it only to use it for simple medium- and low-priced models.

The solution was to pull the brands apart on other dimensions than price and quality. This meant keeping a full product range under each brand. To illustrate the difference in market offer, VSM developed dedicated key words for each brand. While Husqvarna Viking kept their 'innovative', 'family', 'caring' and 'fun', Pfaff's new keywords were 'elegant', 'individual' and 'sophisticated'. While the Husqvarna Viking brand sported pictures of families in the warm colours of red and yellow, Pfaff portrayed young professional women in cool surroundings in blue and green hues.

Another deal breaker was the production capacity in Karlsruhe, Germany. VSM's analyses showed that the German plant had fundamental problems with cost. In fact, VSM decided not to buy a single bolt from the German suppliers. The effect of this decision was of course drastic: 140 years of German sewing machine manufacturing came to an end. Only a handful of R&D engineers stayed on.

Moving production from Karlsruhe to the Swedish Husqvarna plant was no small feat. Through a deal with the German receiver, VSM continued buying manufacturing capacity from the Karlsruhe plant for another year while preparing to move production. Despite this period of grace, moving the production proved to be more complicated than expected since German and Swedish engineering principles were fundamentally different. The machines produced under the Husqvarna Viking brand were explicitly designed to take advantage of their single-loop manufacturing line and machines were assembled, tested and approved by a single team of workers. The Pfaff machines were manufactured in a double-loop line. The machines were first assembled but were then routed to a second line where *Meisters* adjusted and tweaked each machine into compliance. In the long run, this incompatibility needed major re-engineering, but in the short run, the Husqvarna plant had to solve these problems as they went along. In addition to this, the rejection rates on some German-made parts were soaring and this caused recurring hiccups in the production system.

Luckily, the VSM Group had an ace up their sleeve: the Zetina plant. A well-kept secret by Pfaff, the Zetina production plant located in Brno in the Czech Republic had produced over a million machines for Pfaff since 1992; only a few special models were still produced in Karlsruhe. Although the Czech plant was very cost-efficient, Pfaff had

not used it to its full potential. The Czech operation had functioned purely as an assembly line. Parts sourced from high-cost German suppliers were sent in brown boxes to be assembled in the Czech Republic for a fixed price per machine and then shipped back to Germany. No development or sourcing was done locally.

The Zetina plant was an independent Czech company and the VSM team realised that controlling it was crucial to the production of Pfaff machines since the Husqvarna site could not produce even a fraction of the volume needed. Before the Pfaff deal was closed, the owners of Zetina were secretly invited to the Husqvarna site for a meeting and an offer they could not refuse. The VSM group offered to buy the Czech company, take over all personnel, and hire the owners as managers for the new company. The production facilities would be leased long-term by VSM, sweetening the deal even further. Having dealt with the withering Pfaff for years, this was all the Zetina owners could wish for. The purchasing function was now partly decentralised to the Brno plant, with some central coordination provided by VSM on the group level. Parts were now sourced locally or from suppliers in the Far East common to both brands. Compared to Pfaff's former suppliers, cost was cut up to 50 per cent on key parts concurrent with large improvements in quality and rejection rates.

Although the VSM team remained unimpressed with the cost of Pfaff's manufacturing organisation, marketing and distribution were all the more appealing. Pfaff dominated the German-speaking markets (Germany, Austria and Switzerland), and had higher market share and brand awareness than Husqvarna Viking pretty much everywhere else except for the Scandinavian markets and the US. However, as the process of integrating Pfaff into the VSM Group unfolded, an unpleasant discovery was made: Pfaff was losing money in its home market in a big way. In an effort to defend its market share in all segments, Pfaff had successively lowered their prices to meet the competition from Asian manufacturers. In order to keep their retailers alive they had had to lower the prices to German retailers to a level where they started to undercut the internal transfer prices to Pfaff's own sales companies. It turned out that Pfaff had grossly underestimated the costs associated with the German market and had incurred substantial losses for years. Even though production costs on the Pfaff products were cut by the VSM Group, margins were still inadequate and only one course

of action remained: raising prices. This was tough medicine indeed and not something that VSM was expecting – the Pfaff marketing network was believed to be an asset, not a liability. Within three years, sales were down some 20 per cent by volume and a number of Pfaff retailers had chosen not to stay exclusive with Pfaff any more and were now carrying competing brands.

VSM had previously incurred losses for five years in a row on the German market and market penetration was going nowhere. Now they understood why; the market leader had been subsidising its home market. When Pfaff was declared insolvent, Germany had the lowest price level in the world on sewing machines. In February 2004, the pricing in Germany of the Pfaff and Husqvarna Viking ranges were back on a level with the rest of the European markets.

## Looking back into the future

In 1999, VSM's focus was to nurture their relations between the company and its retailers in what they referred to as the Dealer-Partner programme. In 2004, that still topped their agenda, but with the addition of the Pfaff brand VSM needed to rethink their marketing strategy. The VSM effort to expand in the US market by setting up store-in-stores for the Husqvarna Viking brand in collaboration with Jo-Ann Fabrics had expanded rapidly.

## APPENDIX 1

### Company history of VSM

An unbroken tradition of engineering and manufacturing since 1689 is something that is often emphasised in the company's own presentations of VSM Group AB. In 1846, a machine that could sew a lock stitch, using an under-thread and a shuttle, was patented by the American engineer Elias Howe. The sewing machines of today basically use the same principle. Towards the end of the 19th century, Husqvarna AB, then a manufacturer of guns for 200 years, needed something to support the company's declining sales and the new invention was seen as a solution that matched their skills in machining and precision casting. The company's first sewing machine appeared in 1872 but was relatively unsuccessful. In 1883, the engineers of Husqvarna AB presented a new model, the 'Frøja'. It was an instant success and was manufactured for over 40 years.

In more recent times, the Husqvarna Company was early to investigate the possibilities of sintered metal technology in the 1950s and held the European patent rights for this special technology. Using sintered metal, the Husqvarna engineers were able to make the moving parts of a sewing machine permanently lubricated, thereby eliminating the need for oiling and greasing.<sup>8</sup> OEM production of sintered metal parts is still part of VSM's business.

<sup>8</sup> A sintered metal is made from a blend of metal powders that is compressed under high pressure and temperature to form a solid metal. A sintered metal can be given a number of properties (e.g. controlled porosity) that are not obtainable through traditional methods such as cast alloys. A porous metal can be permanently impregnated with oil, which gives a self-lubricating effect.

By the end of 2003, the number of store-in-stores run by VSM in the US had reached 120.

A lot of energy was also being devoted to the integration of Pfaff and the problems in the German market. When VSM decided to continue Pfaff and Husqvarna Viking as two separate brands with separate product programmes, they also created potential for a clash especially when trying to cut costs by coordinating marketing and distribution activities. Svante Runnquist openly acknowledged that their struggle to strike a balance between exploiting synergies while safeguarding the integrity of their two global brands was partly a trial-and-error process.

We announced from the beginning that there was only going to be one sales company with two brands for each market. And we did make substantial savings in our European sales companies – they reached the critical mass needed to make money. Maybe we went too far on some functions, like retailing support and education – it hasn't delivered all the benefits that we had hoped for. But at the retail level, we prefer to have exclusive Pfaff or exclusive Husqvarna Viking retailers. At first, we were a bit unclear on this: should we combine Pfaff and Husqvarna Viking in the same store? Well, we did in our stores in Germany because we didn't have much to lose there... But on the other hand, I don't know if we gained anything either. It's just too much – too many new things for the retailers to keep track of. Frankly, we can hardly keep track of everything ourselves with the speed of development that we are experiencing in the company.

**APPENDIX 2****Brief description of Industri Kapital**

The owner of Industri Kapital Fund 1994 was a mutual capital fund, managed by Industri Kapital AB. This company was originally created in 1989 and specialises in unglamorous but well-kept companies with moderate annual growth. The funds for investments come mainly from large institutional investors such as banks and insurance companies.

The strategy of Industri Kapital is to buy companies where they think they can contribute to increase the value of the company, either by providing management know-how or by merging companies or parts of companies in their portfolio. Industri Kapital does not run companies indefinitely; they typically seek an exit either by an IPO<sup>9</sup> or by selling to another company. When Industri Kapital buys a company, the top management group of the target company is offered to engage financially in the buy-out. In the case of VSM Group AB, top management and other employees hold about 8 per cent of the shares.

**APPENDIX 3****Mission Statement VSM**

- To develop, produce market and sell consumer sewing machines and related products which enhance the joy of creative sewing.
- To grow our business by creating demand for more creative uses of sewing and being active in selected areas within the total sewing industry.
- To be a consumer-driven company, securing growth, profitability and success by providing superior satisfaction to the Consumer and our Dealer-Partner, and by continuously adding value to our brands.
- To provide valued employees growth opportunities in an environment of which they can be proud.
- To be recognised as the leading premium company in the world of sewing.

**APPENDIX 4****Financial Overview\*****Basic stats (fiscal year 2003, actual figures)**

Average number of employees: 1,689

Net sales: 2.393 billion SEK

Operating profit (EBITA): 270 million SEK

Operating cash flow: 235 million SEK

Total numbers of sewing machines and overlockers sold: 549,000 units.

**Historical data 1997–2003**

Year	Sales (MSEK)	Gross margin	Cashflow	Profitability (ROC)
1997	954	51.3%	N/A	34.1%
1998	974	52.5%	99	25.2%
1999	1,185	55.1%	162	33.8%
2000	1,931	50.4%	152	30.5%
2001	2,543	50.0%	84	27.0%
2002	2,760	55.3%	239	36.5%
2003	2,393	59.4%	235	33.4%

\* 1 SEK = approx. €0.11.

<sup>9</sup> Initial Public Offering: when a company sells stock to the public for the first time.