

# **APPLYING VALUE GRID MODEL TO SWEDISH TEXTILE INDUSTRY**

## **THE CASE OF OSCAR JACOBSON**

Aneesha Mohan ([anemoh16@student.hh.se](mailto:anemoh16@student.hh.se))

Balajikarthik Kothuru Chinnadurai ([balchi16@student.hh.se](mailto:balchi16@student.hh.se))

School of Business and Engineering

Halmstad University, Sweden

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### **ABSTRACT:**

The textile industry in Sweden is highly competitive and today even the small textile industries have started analyzing their value chain to find opportunities to create value and to stay competitive. Therefore, the purpose of this study is to find out whether value grid model creates opportunities for the organization. This study explores the suitability of value grid model to Swedish textile industry - Oscar Jacobson. For this case study, the value grid concept proves to be a valuable tool to locate opportunities that are not evident when applying a traditional value chain approach. This is done by evaluating company's value chain to analyze process and activities within the industry and then moving towards multidimensional view by applying the value grid model. To show this transition from value chain to value grid, critical activities within the industry are identified and these activities are used as an evidence to show how the company evolved from traditional value chain to value grid model.

**Keywords:** Value Chain, Value Grid, Value Network, Textile industry

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### **INTRODUCTION**

The value chain is popular model proposed by Michael Porter in 1985 to analyze and capture value that is generated along a chain of activities within a firm. In the traditional value chain the raw materials are transformed into components and are assembled into the final products and then distributed, sold and serviced. This type of linear activities in the value chain help the managers to formulate strategies and co-ordinate work activities (Pil & Holweg, 2006). The textile industry is characterized as ever changing and by short lead-times. It is highly competitive, which indicates the need for companies to identify and improve activities in the value chain. Companies have to continuously look in for new opportunities that creates value in order to succeed in their business activities in the long run. This study focuses on two different value chain models. One is the traditional value chain model and the other one is the value grid model (Porter, 1985 & Pil and Holweg, 2006).

Large Swedish companies such as H&M, Lindex and KappAhl are continuously investing money and focusing on improving their value chains. Small textile companies with limited resources have

also realized the need of identifying and analyzing their value chains. Oscar Jacobson is a small traditional family owned textile company that has been producing garments for men since the 20th century. The company is in the process of change, which creates a possibility to investigate the company further. Not much research has been done about the value chain in the Swedish textile industry, which makes this research area even more interesting.

## **PROBLEM DISCUSSION:**

Today organizations are under pressure to create value for their customers in today's competitive market place. Hence the companies must reduce costs and improve quality, therefore logistics and supply chain management are necessary for company's overall success. Supply chain management is the management of process from getting raw materials to selling the final product to the end customer. Authors Harrison and Hoek (2002, p.6) define supply chain management as "the alignment of upstream and downstream capabilities of supply chain partners to deliver superior value to the end customer at less cost to the supply chain as a whole". Thus, by analyzing their supply chain, the companies can improve and strengthen their competitive advantage.

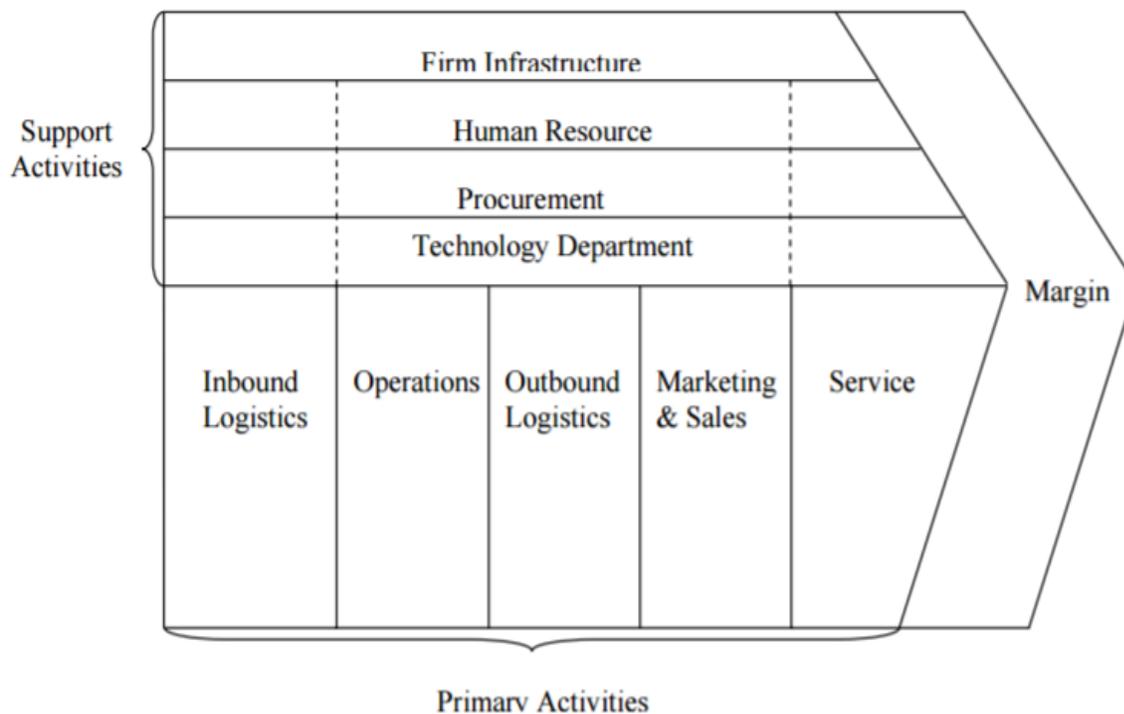
Supply chain management is very critical for textile industry (Segersten 2003). Companies like H&M have the shortest lead-time from design to selling. H&M has been a role model for many other textile industries since it has realized the importance of analyzing the supply chain (Elenius et al, 2003). In this study, we will discuss about value chain and value grid model and how Oscar Jacobson improves its value chain from a traditional one to identify opportunities and create value in order to gain competitive advantage.

## **THEORETICAL BACKGROUND**

### **PORTER AND THE VALUE CHAIN**

In his book, competitive advantage, Porter (1985) introduces the concept of value chain, which is "...a general framework for thinking strategically about the activities involved in any business and assessing their relative cost and role in differentiation." Competitive advantage is gained by the value which the company can provide their buyers, which exceeds the cost of producing the value. Porter (1985) divides competitive advantage into 2 types: cost leadership and differentiation. Furthermore, the analysis of the value chain allows the company to recognize new opportunities for developing the company.

The organization can also use value chain as a tool for designing the organization structure since it provides guidelines how to divide a firm into activities and units. The total activities in an organization is divided into two major groups according to Porter's value chain model. They are the 1. Primary activities and 2. Support activities. The primary activities include procurement of raw materials, creation of product, marketing activities, delivering the product to end users and the service and support offered after selling the product. The primary activities create value for the customers and increases profit margin. The support activities include procurement, technology development, human resource management and firm infrastructure. The different activities within the organization are connected through linkages as they have effects on the costs and effectiveness of other activities when performed.

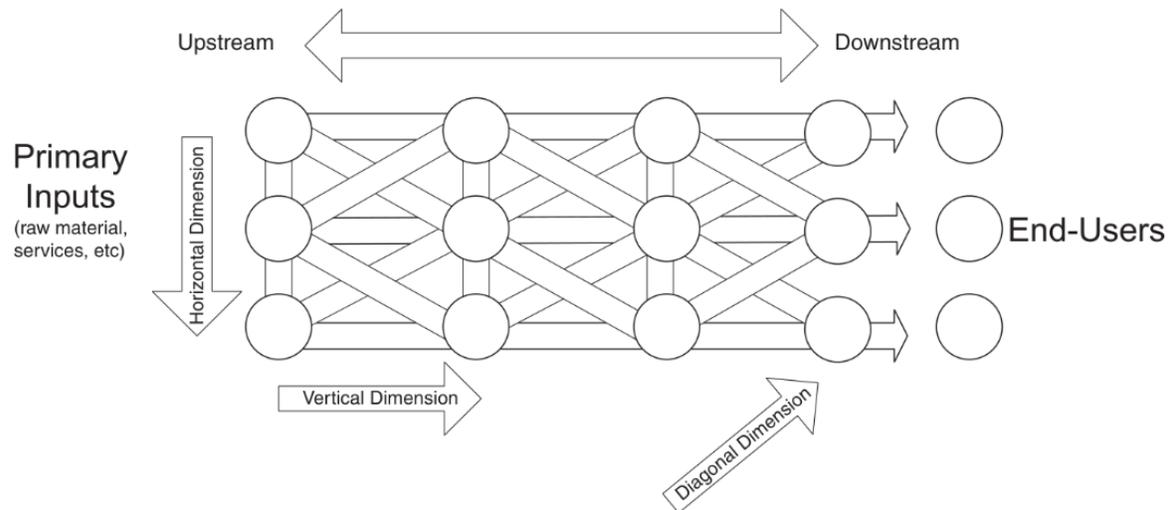


**Figure 1. The Generic Value chain (Porter, 1985 p.37)**

According to Porter (1985, p.16) value is "...what buyers are willing to pay for a product or service, and the cost of performing the activities involved in creating it, determines profits". Porter (1985, p.26) also defines value chain as a basic tool for determining competitive advantage and finding ways to enhance it.

### **VALUE GRID MODEL**

Pil and Holweg (2006) state the use of value chain model may restrict the innovation of the company by not providing the opportunities for creating value to its customers, that occurs outside the traditional linear value chain. The value grid model has a variety of new paths to enhance the performance of the organization, in a 3-dimensional way. It allows the industries and firms to identify opportunities and threats in an explicit way. In the vertical dimension the firms seek competitive advantage by reducing cost, improving coordination between supplier and customer, reducing lead time. The distribution of benefits is always proportional to the balance between the suppliers and manufacturer (Recklies, 2001). This shows that the strategy focus should shift from lead time reduction to power dynamics between companies and other players in the firm" (Pil & Holweg, 2006: 73). Hence the company has to focus on 3 areas mainly. They are 1. Opportunities to influence customer demand in the upstream and downstream. 2. Opportunities to modify the access to information. 3. Opportunities to identify multiple entry points in multiple tiers that are not adjacent (Pil & Holweg, 2006).



**Figure 2. The Value Grid (Pil & Holweg, 2006)**

The horizontal dimensions provide opportunities for companies to move across value chains to take advantage of the economies of scale from multiple sources of demand (Pil & Holweg, 2006). This in fact allows the firms to identify threats and seize existing value and to integrate them, create new value and discover new opportunities. By obtaining this horizontal mind-set the companies are able to create value which is impossible with the traditional linear value chain model.

Lastly, the integrative diagonal dimension allows companies to explore grid in an integrative way by increasing control over inputs and customers. The firms have to look for the upstream and downstream activities of other firms to find new ways to boost customer demand (Pil & Holweg, 2006). The two different methods through which the company can gain strategic advantage by using this dimension are: 1. Pinch-Point mapping, where the company monitors key supply components and negotiates with alternative components. 2. To define demand enablers, in which the company compares its own expertise in its value chain with another value chain to find opportunities to leverage their competitive advantage (Pil & Holweg, 2006). But this model has some limitations in the value chain.

### **NORMANN RAMIREZ AND THE VALUE NETWORK**

Normann and Ramirez (1998) wants to go beyond the concept of value chain proposed by porter. Hence, he created a framework in which the companies should focus more on the activities that enables customers to create value. Normann and Ramirez's (1998) theory about the value constellation is based on the concept of networks and close relationships among all individuals in the value creating process. Normann and Ramirez's (1998) research is based on the purpose that an organization must be able to create and deliver; customer value, co-worker value, social value and shareholder value.

Instead of identifying customer needs, it is of more value when supplier focuses on activities which complements its customer activity process (Normann and Ramirez, 1998).

## **COMPANY BACKGROUND**

Oscar Jacobson is a traditional Swedish textile company located in Borås, known for its strong textile industry. The company has a tradition of expertise and high quality production of garments. It has existed since 1903 and is one of Sweden's most recognized design and textile companies. Tradition is a crucial part of Oscar Jacobson's identity. In 1908 the company started to manufacture factory-made suits. Oscar Jacobson opened a new factory in 1913. This enabled the company to better serve its customers through combining high quality with design, which is still one of the core philosophies in the company. The fashion designed by Oscar Jacobson is distributed in northern Europe; however, the Golf and leisure selection is distributed all over Europe. The company is also represented in the United States and in Asia. Throughout the years, Oscar Jacobson has developed a 'shop-in-shop' concept which combines the true values of Oscar Jacobson with the best retailers. Oscar Jacobson is part of the Oscar Jacobson and Stenströms Holding AB Group.

## **RESEARCH QUESTION**

1. How the value chain supports a competitive strategy within a textile company?
2. Which activities are critical in the value chain of a textile industry?
3. How the value chain can be modified and developed to support competitive strategy within a textile company?

## **METHODOLOGY**

*To provide the reader the possibility to understand this research and to make his/ her judgements accordingly concerning the quality of results, the methodology used is described below. This part explains the research approach, the research perspective and the research method. Then the method presents the case study of Oscar Jacobson and describes the data collection method used as well as the credibility in the study.*

Many research has been done in the value chain. few years ago, many researchers started exploring the value concept further. The critics of value chain challenged the concept by creating value grid model. We found this interesting and decided to research the subject area. Hence, we approached one of the largest textile industry in Sweden, Oscar Jacobson. In this study, various texts about value chain and value grid in the textile industry both in general and specific in the industry are studied and discussed.

A scientific approach explains how a researcher connects the theory with the empirical data findings in the research process (Patel and Davidsson, 1994). We have made a deductive study on already published theory and research and compared existing theories with new ones. This was used as a frame in deciding what information has to be collected and how they have to be analyzed and how it has to related to the existing theory (Patel and Davidson, 1994). Our intention was not to build a new theory but to modify a theory if needed. We have used the two theories to make an analysis and relate it with the textile industry.

To investigate the concept of value chain and value grid, we have chosen a qualitative research method in the form of case study and interview. The interview was conducted in order to get a deep understanding of the different activities with the research company. The case study details were

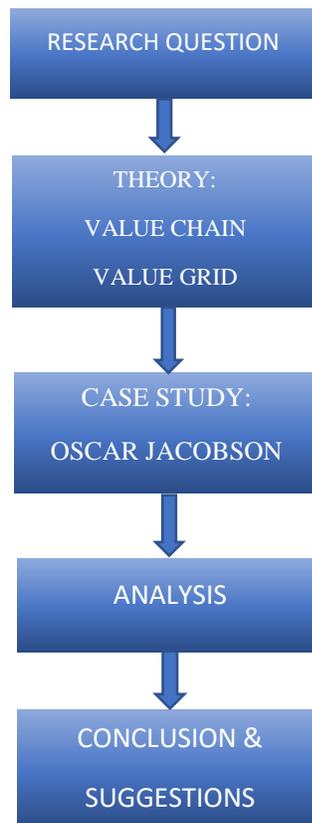
borrowed from a Master`s thesis: *From Value Chain to Value Network* by Karin Andersson & Matilda Ivansson (2003). Case study of Oscar Jacobson.

## DATA COLLECTION

We collected both primary and secondary data needed to perform the research on the chosen company. The primary data according to Booth et al. (1995) is the raw material of the research. It was collected through interviews which gave us new information and possibility to understand the activities and processes within the company. The qualitative interviews were used as a tool to understand the concept of value chain (Svensson and Starrin, 1996). The Following persons were interviewed: director of product development, manager production planning, director of production, production assistant, manager production and personnel, manager warehouse, manager customer service, CEO of Oscar Jacobson and director of marketing and sales as well as owner. We don't want to provide the names of the persons who were interviewed since they wanted to maintain anonymity.

We have used secondary data in the form of annual reports and company website information. Booth et al. (1995, p.73) discuss the meaning of using sources and say that "one good source is worth more than a score of mediocre one, and one accurate summary of a good 10 source is sometimes worth more than the source itself."

## RESEARCH DESIGN



**Figure 3. Research Design**

The research design summarizes the model, which was used to structure our study. At first, we identified research questions, which have been the foundation of this study. We used theories in the subject area, which were applicable to our case study. The theories were used as tools in analyzing empirical results. Finally, we summarized our findings in the conclusion and provided suggestions for further research.

## **EMPIRICAL DATA**

Empirical data is collected to identify the activities within the value chain of Oscar Jacobson.

**Forecasting and design:** The planning of new collection is done before 14 months of the product arrival. The process begins with analyzing the past season's collection and forecasting the new upcoming season. After analyzing different trends in the neighboring countries, the product development team develops materials needed for the collections. The samples are produced in Baltic which are purchased by the designing team if the results are satisfactory.

**Inbound logistics:** It starts with the raw material being ordered by the product development team and then the raw material arrives at the warehouse, which is operated by a logistics company. The raw materials from Baltic is sent to factories through ferries, trucks and by air. These raw materials are kept in factories until manufacturing. The finished garments after manufacturing are sent to warehouse at Boras. Here the products are unloaded and stored on three different floors.

**Production:** The Oscar Jacobson's garments are manufactured through outsourcing agreement with two factories, located in Riga and Tallinn. The product planning and the production team work together to plan the production. After the garments, have been sewed and ironed, Oscar Jacobson audits them.

**Outbound logistics:** When the company gets an order, the manager makes sure that warehouse employees box the right garments to the right customers. Invoices are written by Movex computer system. The garments are loaded in trucks and then delivered to the stores. At the stores the employees unpack and organize the garments.

**Marketing and sales:** To do marketing the company has close relationship with an advertisement bureau called Mother. Oscar Jacobson follows an informal marketing process, which means that it has no marketing plan. They save a part of their budget to make decisions about marketing campaign in a specific season. Regarding the sales at Oscar Jacobson, 50 percent of the total sales are sold from the finished-goods inventory located at the headquarters. 40 percent of their total sales are generated from bulk orders and 10 percent of total sales come from special customized orders.

**Stores:** The company carefully selects their retailers to deliver value to the customer. They use 'shop-in-shop' concept to sell the product. They have established seventeen 'shop-in-shop' concepts in Sweden and five concept stores outside Sweden, where England represents one of the strongest markets.

## **ANALYSIS OF VALUE CHAIN AT OSCAR JACOBSON**

The sewing department has changed into warehouse and the production moved to Baltic. This shows that the focus is not on the manufacturing anymore and to find ways to create value for customers. To accomplish this, the company will in the future focus more on product development and selling. This shows that the company is moving away from the traditional value chain to value network. To understand the process of moving into a new value grid networks, (Pil & Holweg`s, 2006) model of value grid framework is used.

Oscar Jacobson uses differentiation strategy to show its uniqueness in the product. They offer customized products for their customers within a short period of time i.e. 10 working days. To do so it is costly hence they have developed supply agreement with factories in the Baltic. They focus only on few target markets to provide their customers with superior service and value.

### **PRIMARY ACTIVITIES**

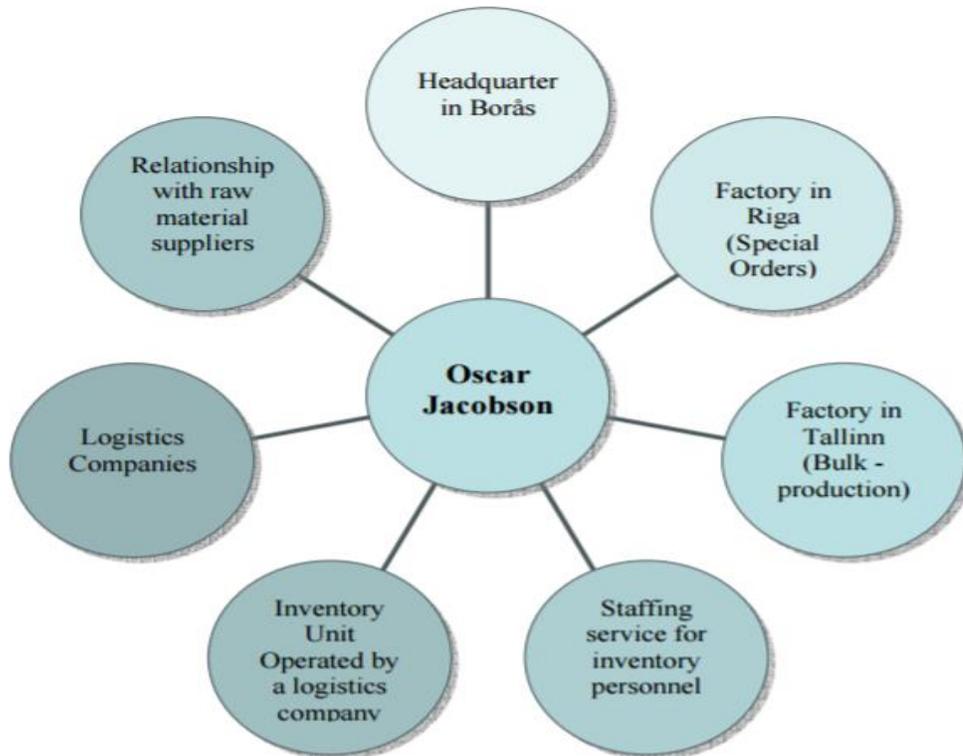
Inbound logistics: They outsourced inventory unit in Boras to cut costs and increase efficiency in their logistics activities. They always emphasis on suppliers to deliver the product in time. The personnel are trained on how to handle the material when they load and unload the material at factory and warehouse. Thus, they are able to manage delivery times and customers demand more efficiently. They have also restructured their warehouse to enable easy shifting of materials between different floors.

Production: to produce customized garments more planning is required in-house to make sure that the factories have the capacity to manufacture garments and deliver them in time. The production team works closely with the product development team and customer service team. The intensive production process at Oscar Jacobson requires a strong relationship between the company and its suppliers. As one of the managers at Oscar Jacobson stated: “we have to be able to trust them and they have to be able to trust us.” Meaning that they are very reliant on each other

Outbound logistics: Oscar Jacobson uses several logistics companies to deliver their garments from warehouse in Boras to different stores. To make their outbound logistics efficient the company is planning to establish a relationship with single logistic company. The top management is in the discussion to change and move the entire goods and store it in selected factories.

### **SUPPORT ACTIVITIES**

Oscar Jacobson`s infrastructure supports the entire value chain. the top management has a large control over the operations and different activities performed in the company. Thus, all the activities are operated at the corporate level. The procurement of raw material is handled by procurement manager and his duty is to negotiate the price with the supplier. It has larger impact on the total cost. Technology development can be found in the product design and development and also with the Movex system. This system helps the production team to follow the production process step by step and to identify obstacles.



There is always linkage between procurement and product development team, which is essential for an efficient value chain. Oscar Jacobson receives raw materials from suppliers, with whom they have collaborated many years. They also wish to keep the same type of vertical linkage with new and future suppliers.

### **ILLUSTRATION OF THE VALUE GRID**

As for the suitability of value grid model, it is necessary to find out whether the company benefits from the new paths offered by this model (Pil & Holweg, 2006).

### **VERTICAL DIMENSION**

Oscar Jacobson have a strong relationship with suppliers, with whom they have collaborated many years. By this way, they find opportunities by reducing costs and makes good relationship with suppliers who offer good quality products in correct time. In vertical dimension the company looks for new opportunities in the same value chain and influence demand, obtain critical information or penetrate at multiple points within value chain.

### **HORIZONTAL DIMENSION**

The potential of the value grid's horizontal dimension is that it enables companies to manage risk, seize existing value, integrate sources of existing value and explore novel ways to create value. The value-creation systems or networks invite many actors. As Normann and Ramirez (1998, p.39) state, "actors help each other, and help each other to help each other, to perform their respective activities." According to the authors, business today is built on suppliers that create value for the

customers which enables the customer to do something better, they are in the process of learning how to transfer knowledge and communicate better with their suppliers. Oscar Jacobson has also discussed outsourcing the entire finished inventory to the factories in the Baltic to minimize cost and have faster deliveries. This indicates that the company is trying to focus more on the suppliers within the value network. Thus, maintaining strong relationship with suppliers allowed them to manage risk effectively. They outsourced the entire production from Sweden to Baltic to concentrate more on the production process that creates most value for the customers. Thus, the value is integrated since both the parties are benefited. Thus, Within the horizontal dimension the company explores opportunities in parallel value chains.

## **DIAGONAL DIMENSION**

The diagonal dimension is defined to explore the value grid in an integrative way to increase company's control over suppliers and to recognize new methods to increase customer demand. This can be done by two methods pinch-point mapping and demand enablers (Pil & Holweg, 2006). The company can use pinch- point mapping by limiting the suppliers to include only the largest and most important suppliers for more profitable agreements and regular and timely delivery of raw materials. Examining value chains in other industries can reveal new opportunities to leverage key competitive advantages. Companies that have a particular expertise in a given value chain may find that that source of advantage is also relevant in other value chains (Pil & Holweg, 2009). Differentiation is built from a firm's value chain and might be costly. For a firm to use a differentiation strategy, it must identify drivers that are unique. (Porter, 1985). They purchase finest luxury raw materials to design and produce finest quality fabric. And they also offer customized garments in any material which enables customers to take active role in value creation process. They focus only on specific markets that yield high income and also target a particular segment of people to offer them with wide variety of material choices. This sets them apart their competitors.

Oscar Jacobson is trying to create a network with its supplier and customers to co-produce value. The company is aiming to create a network that enables all parties involved in the process to perform the right activities, which will create value for everyone. Oscar Jacobson has understood the importance of carefully choosing their partners and making sure that they have the right knowledge and resources.

## **CONCLUSION**

From the basis of analysis, it can be observed that evaluating different aspects of value chain and value grid provide a solid base for the company to create more value for the customer. When applying value grid model to Oscar Jacobson we found that the company had lot of opportunities to improve its performance. On the vertical dimension the company had good relationship with its suppliers and moved production to Baltic, to focus more on the suppliers. they also outsourced their warehouse of raw material to a logistic company and formed vertical linkages with factories. Being a part of value grid system Oscar Jacobson can build strong relationships with suppliers and customers. The company should expand their supplier network or try to make existing supplier stronger, the company have to carefully decide which option is more beneficial to them. Oscar Jacobson can be seen as a representative of a small traditional company moving into a modern organization based on networks where relationships are at the core. Even though the traditional

value chain view helps to find ways of integrating value, the value grid concept defines a more explicit way of looking for new opportunities. Thus, for this case study, the value grid concept proved to be a valuable heuristic tool for finding opportunities for improvement that were not evident from a traditional value chain perspective.

## **IMPLICATIONS AND RECOMMENDATIONS FOR FUTURE RESEARCH**

This is an intrinsic study including one case analysis, therefore the results of the study cannot be generalized to fit other firms except the textile industry. One problem that we had during our research was that some of the interviewees spoke about their situation in the company, meaning that some answers were biased and lacked objectivity. The value grid framework can be applied to an industry through a deep analysis of its value chain and value network. This case study was helpful in extracting such information. The value grid model helps to restructure the value chain to create greater opportunities and value creation for the customers. Oscar Jacobson has made changes to its linear value chain and moved to a network based model and is in the process of development. This research can also be seen as evidence that the textile industry is changing by moving away from a traditional value chain to a value network. A more extensive study of company's competitors in the textile industry would verify the usefulness of the value grid model.

Only few research has been made on the value grid model which received less attention so far. Therefore, it is suggested that the value grid model as a research area should be studied further. The future studies also should explore value grid model from different perspective to provide deep understanding of the concept. For instance, research can be formed on different textile industries at various geographical locations which would contribute to the current research. Since the case study of textile company Oscar Jacobson is fairly new, it might be interesting to conduct a case study on the same company, after few years to see if the company has exploited and explored opportunities within and outside its value chain.

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