International Management

Master Thesis No 2003:15

FROM VALUE CHAIN TO VALUE NETWORK

Case study: Oscar Jacobson

Karin Andersson & Matilda Ivansson

Graduate Business School
School of Economics and Commercial Law
Göteborg University ISSN 1403-851X
Printed by Elanders Novum

Abstract

The textile industry is characterised as ever changing and by short lead times. It is highly competitive, both large and small actors are involved competing in national and international markets. Today, even small textile companies with limited resources have recognised the need to analyse their value chains as well as building networks and relationships to stay competitive.

The purpose of this thesis is to use the value chain model as a tool in analysing processes and activities within a textile company. To describe and identify critical indicators and changes within the value chain at a textile company. As well as analyse and discuss critical activities, which can be developed and improved in the value chain. Finally we intend to provide suggestions for improvements to the value chain in order to strengthen the competitive strategy.

This thesis is based on a case study at Oscar Jacobson. By using the value chain model as a tool for analysing the company, critical indicators were identified. These indicators were used as evidence showing that the company is moving from a value chain perspective to a value creation network.

Keywords: value chain, value constellation and the textile industry

Preface

This master thesis has been written at the International Management Program, Graduate Business School at the School of Economics and Commercial Law, Gothenburg University during the fall of 2003.

We would like to thank our tutor, Björn Alarik, PhD, at the School of Economics and Commercial Law, for providing us with valuable support and feedback. We would also like to thank Torbjörn Stjernberg, Professor at the School of Economics and Commercial Law, for giving us valuable tutoring sections during the year.

Furthermore, we would like to thank our tutor Mikael Broman at Oscar Jacobson for giving us the opportunity to write this thesis and for his help and support.

We would also like to acknowledge all the individuals interviewed at Oscar Jacobson. You have provided us with useful information, which helped us complete this master thesis.

Gothenburg 2003-12-10
Karin Andersson and Matilda Ivansson

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Chapter 1: Background and Purpose

This chapter includes the basic foundation of the research area used in the thesis. The background discusses the different issues that will lead to the purpose of this report.

1.1 Background

> "A chain reach extends only as far as its links stay connected. Its strength depends on the strength of each link: no chain is stronger than its weakest link. Similarly, suppliers, manufacturers, retailers and consumers rely on one another as they supply and consume goods and services. My supplier might be your customer, so that what one of us does affects all of us. If my supplier makes a mistake, it might affect my customer, and if my customer makes a mistake, it might affect my supplier. If I make a mistake, it may affect both my customer and my supplier. As the core analogy in supply chain management implies, we are linked to one another in a chain" (Bloomberg et al., 2002, p. 1).

Supply chain management has developed as a tool for making companies more cost and time efficient. It has become a popular trend and today many companies are using the concept.

Supply chain management is practised in the textile industry worldwide because many actors have realised the potential benefits of using the concept. The textile industry is characterised 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. Hennes and Mauritz (H&M) and Benetton are two companies that have succeeded in developing their value chains. Part of their success is built on close relationships with their suppliers and well functioning networks with all actors involved.

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 realised the need of identifying and analysing 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.

1.2 Purpose

The purpose of this thesis is to use the value chain model as a tool in analysing processes and activities within a textile company. To describe and identify critical indicators and changes within the value chain at Oscar Jacobson. As well as analyse and discuss critical activities, which can be developed and improved in the value chain. Finally we intend to provide suggestions for improvements of the value chain in order to strengthen the competitive strategy.

Chapter 2: Problem Discussion

This chapter provides the ideas behind the concepts analysed. Important models are identified and compared. The chapter ends with the research questions, which is the foundation of the research.

Pressure for organisations to create and deliver value to customers is evident in today's competitive global marketplace. The growing recognition recently is for companies to reduce costs and enhance quality, therefore logistics and supply chain management are essential for the companies' success.

Supply chain management is managing the process from raw material to selling finished products to the end consumer. 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." Furthermore Christopher (1992, p.15) defines supply chain management as "network of organizations that are involved through upstream and downstream linkages, in the different processes and activities that produce value in the form of products and service the hands of the ultimate consumer." By analysing the supply chain, companies can identify areas to develop and improve, which can strengthen a competitive advantage.

Supply chain management is crucial for the textile industry. H&M is a world leading company when it comes to efficiency and low costs (Segersten 2003). The company has the industry's shortest lead-time from design to selling. H&M has become a best practice company and a role model meaning that many other textile companies have realised the importance of analysing the supply chain. (Elenius et al, 2003) The Italian fashion company, Benetton has developed a quick response time in product development. As soon as they identify a new trend they adjust their production to reinforce the trend at the specific location. Benetton has worked with their supply chain and tried to identify obstacles, which later have been eliminated and improved. This can be correlated to part of their success. (Normann and Ramirez, 1998)

There are two concepts provided by three authors in the subject area, Michael Porter and Richard Normann and Rafael Ramirez. The first concept is based on a traditional value chain, which is characterised as general and sequential. The second one is based on a value network and relationship perspective. These are two different ways of illustrating the value creation process.

2.1 Porter and the value chain

In his book Competitive Advantage, Porter (1985, p.xv) introduces the 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 how a firm uses its generic strategies in practice. It is developed through the value a company can provide their buyers, which should exceed the costs of producing the value. There are two types of competitive advantage: cost leadership and differentiation. (Porter, 1985)

According to Porter (1985, p.xvi) 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) defines the value chain as "the basic tool for diagnosing competitive advantage and finding ways to enhance it..." Every company has their own unique value chain. A company's value chain is based on its history, strategy and activity processes. The differences between firm's value chains are the underlying reason for gaining a competitive advantage. The value chain can also be used as a tool for designing an organisational structure because it provides a firm with guidelines how to divide a company into activities and units. The value chain model divides the firm's activities into primary and support activities. (Porter, 1985)

2.2 Normann and Ramirez and the value constellation

Normann and Ramirez (1998) want people to go beyond the concept of the value chain popularised by Porter (1985). Therefore, they constructed a framework in which companies should focus more on the activities, which enable customers to create value. This is different from the value chain concept which focuses on the activities performed by the firm.

Modern firms build their organisations to a larger extent on networks and well functioning relationships. 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 organisation must be able to create and deliver; customer value, co-worker value, social value and shareholder value.

> " A company delivers true customer value when it enables customers to do something with their lives that is better, easier or more valuable than any other company can offer. A company or an organisation delivers co-worker value when it enables its co-workers to grow as individuals; making the time spent working rewarding beyond the paycheck. A company delivers social value when people beyond its customers, co-workers, suppliers, and shareholders recognize that the company is instrumental to build a better world to live in" (Normann and Ramirez 1998, p.xiiv).

The most essential part of the value constellation is when actors come together to co-produce value. Instead of being concerned with identifying customers needs, it is of more value, and strategically more relevant for a supplier to focus on identifying activities which complement its customer's activity processes. (Normann and Ramirez, 1998).

2.3 Comparing the value concepts

Porter's model is used as a tool for analysing the activities within value chain. The research is general and sequential and is therefore suitable for traditional firms within the Swedish textile industry. It has become a trend to analyse the value chain and the textile industry is getting more complex, which has resulted in new evolving structures. The value constellation concept provided by Normann and Ramirez is built on networks and relationships, which makes the concept useful in developing the value creation processes further.

2.4 Research questions

RQ 1: How is the value chain used to support the competitive strategy within a textile company?

RQ 2: Which activities of the value chain are critical in a textile company?

RQ 3: In what ways can the value chain be modified and developed to support the competitive strategy in a textile company?

Chapter 3: Methodology

To give the reader the possibility to understand this research and to make his or her own judgment concerning the quality of the results, the methodology used is described below. This chapter starts by explaining the research approach, the research perspective and the research method. Then the method presents the case study and describes the data collection method used as well as a discussion about the credibility in this study. The research design ends this chapter.

3.1 Research approach

Much research has been done about the value chain. It has been a popular concept for a long time but not much has happened in academic research. However, a few years ago researchers started to explore the value concept further. Well-known critics of the value chain challenged the concept by creating a value constellation, incorporating all actors on the market to create value. We found this interesting and decided to research the subject area. We approached the textile industry due to our genuine fashion and clothing interest. Moreover, not much research has been done in this industry even though it is one of the largest industries on the market. In this thesis, various texts about the value chain and the textile industry both in general and specifically in the industry have been read and interpreted. This has built the base for our interviews. By using our pre-knowledge, ideas and thoughts we have interpreted and analysed the answers.

3.2 Research perspective

A scientific approach explains how a researcher connects theory and empirical findings in the research process (Patel and Davidsson, 1994). We have made a deductive study, meaning that it was based on already published theory and research. We have compared existing theories in the subject area with new accounts. This material was used as a frame in deciding what information was collected, how the information was analysed and how the information was related to the already existing theory (Patel and Davidson, 1994). After analysing the material we tried to understand the consequences and potential development areas of the theories. It was not our intention to build a new

theory or test an existing theory but to a certain extent adapt or modify a theory if needed. Instead we have chosen to use two of the theories in making an analysis and in comparing the theory to the textile industry.

3.3 Research method

In investigating the value chain concept we have chosen to use a qualitative method in form of expert in-depth interviews and a case study. The expert interviews were completed in order to get a deep knowledge regarding the different processes at our research company. The main drawback with using a qualitative research method is to be objective since the researchers are in the process at all times. It is therefore easy to become subjective. (White, 2000) We have tried to keep this in mind at all times.

3.4 Case study

We have conducted a case study at a textile company called Oscar Jacobson (the company is presented in chapter 5). A case study is according to White (2000) defined as an extensive study of a single situation such an organisation. Case studies are in the meaning of White (2000) very good in complex situations that involve many various issues. Since our research situation was complex, different processes in the value chain were studied, a case study was appropriate to use. We chose to use a case study because we had accessibility to Oscar Jacobson and its information, which provided us with the understanding of the organisation needed in order to make a useful analysis for both parties.

3.5 Data Collection

In our research we have collected both primary and secondary data.

3.5.1 Primary data

Primary data is according to Booth et al. (1995) the raw material of the research. It is collected by the researcher, for example interviews (Patel and Davidsson, 1994). We did qualitative interviews, which aimed at finding and identifying known currencies and references in the different processes at Oscar Jacobson. Every interview was a unique interaction with the company, which gave us new information and the possibility to understand the processes at the

company. The qualitative interviews were thus used as a tool in reaching our goal of understanding the value chain. (Svensson and Starrin, 1996)

Before we conducted the interviews we had pre-knowledge about the industry which helped us discuss the subject in the interviews. We had studied both theory about the value chain and the company in advance to be well prepared. We also made an interview guide specifically for each interviewee in order to keep a good flow at the interview and make the interviewee feel comfortable. The interview guide had a logical flow where step-by-step questions were asked in the different value creating processes. We tried to keep the questions as open as possible to capture spontaneous information and currencies from the interviewee. (Svensson and Starrin, 1996) All interviews were taped and printed after every interview to be analysed. The interviews were 1-2 hours long.

3.5.1.2. Selected data sources

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.

In this thesis, the source of the quotes from the interviews is not written out due to two reasons. First, the interviews were held in Swedish and therefore the quotes cannot be exact. We have translated and captured what we thought was the core message in the quotes. Second, we want to protect the individuals that have been kind enough to take part in our study by not revealing their name together with the quotes. Some of the interviewees were interviewed more than once.

3.5.2 Secondary data

Secondary data is material that has been published before. It is less specialised and not so up to date (White, 2000). We have used secondary data in forms of published 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

source is sometimes worth more than the source itself." In our research, we have tried to keep these words in mind.

3.6 Discussion of credibility

In this thesis we have aimed at producing and providing results with high validity and reliability. This means that the results must be credible and trustworthy in order for us to give potential recommendations. (Patel and Davidsson, 1994)

3.6.1 Validity

Validity is according to White (2000, p.25) "concerned with the idea that the research design fully addresses the research questions and objectives you are trying to answer and achieve." We believe that our research perspective and design matched our research questions and gave us the possibility to create a valuable analysis. In creating this match we believe that the planning we did in advance was crucial. Also, by studying Benetton, H&M, JC and Intersport beforehand we were able to compare our research at Oscar Jacobson with other companies within the textile industry and make sure that we were on the right track, thus increasing our validity.

3.6.2 Reliability

Reliability means that the result of a study should be reliable. It is concerned with the consistency, accuracy and predictability of the research findings. (Patel and Davidsson, 1994)

One problem that we had during our research was that some interviewees spoke about their situation in the company, meaning that some answers were biased and lacked objectivity. We found this evident in some interviews because the interviewees knew that some information would be written in our thesis and therefore also viewed by all personnel at Oscar Jacobson.

However, we believe that the overall reliability regarding the interviews and the case study is high, since the interviewees were well integrated in the process. They received information from us and our contact person at the company, the director of production, well in advance of the interviews. The information sent

out included information about who we were, about our task and why we were interested in interviewing them. The interviews were recorded after a confirmation from the interviewees in order not to miss any answers. At the interviews we informed the interviewees that the recording was only for our use and that we would protect their names in the report. The interviewees were also told that they would get a chance to read the report before it was printed. This made the interviewees feel more comfortable and we believe that the interviews were relaxed with good flow. We were two interviewers at all times in order to control and help each other to keep track of the interviews.

Some of the interviewees were contacted after the interviews in order to confirm what had been said to avoid misunderstandings. This made it possible to ask further questions and receive more detailed information.

3.6.3 Restrictions by Oscar Jacobson

Oscar Jacobson decided the restrictions regarding information disclosed in this thesis. Therefore, so called 'inside information' is not published. These restrictions affected the management team to a certain extent in answering questions in the interviews. The disclosure of information affects the credibility of the thesis.

3.7 Research design

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

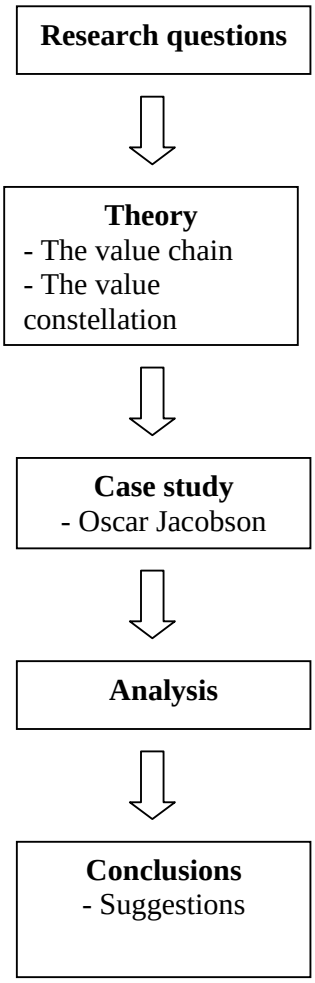

Figure 1. Research design

Chapter 4: Frame of Reference

This chapter provides the reader with a framework of the value chain and the value constellation concepts. It presents the research required to get an understanding of the subject area in order to make an analysis.

The frame of reference is based on research in forms of books and articles in the subject area; however three main authors have been selected. Many authors refer to Porter's (1985) study, which is based on well-performed research. In this frame of reference more modern ideas are also represented by Normann and Ramirez (1998). Their research is built on the idea of the value network.

4.1 Differentiation strategy

A firm can differentiate if they identify activities that are unique and valuable to buyers more than offering a low price. A differentiation strategy is superior if the premium price charged is higher than the cost of being unique. Differentiation is built from a firm's value chain and might be costly. For a firm to use a differentiation strategy, it has to identify drivers that are unique. (Porter, 1985)

According to Porter (1985, p.121) any activity within the value chain can affect differentiation and "value activities representing only a small percentage of total cost can nevertheless have a major impact on differentiation." Performing an activity in a unique way does not lead to differentiation if it is not valuable to the buyer. Understanding the buyer's value chain is important in determining the effectiveness of a unique value activity. By using a differentiation strategy it is significant to analyse the buyer's value chain and identify how the buyer is actually using the product or service. Moreover, a buyer's incomplete knowledge about what they believe is valuable can create a possibility for a firm to influence the consumer in a way that they learn how to value a specific product or service.

4.1.1 Drivers of uniqueness

Basic drivers in the value chain affect the ability to create uniqueness. Without identifying the unique drivers a firm will not be able to enhance

differentiation. In a differentiation strategy it is important to identify drivers of uniqueness such as: (Porter, 1985)

- Policy choice
- Linkages
- Location
- Learning
- Integration

Policy choice

A firm makes policy choices about what activities to perform and how to perform them. Policy choice is one of the most significant drivers of uniqueness. According to Porter (1985, p.124) some of the most typical policy choices include:

- Product features and performance offered
- Service provided (e.g., credit, delivery or repair)
- Intensity of an activity adopted (e.g., rate of advertising spending)
- Content of an activity (e.g., the information provided in order processing)
- Technology employed in performing an activity (e.g., precision of machine tools, computerisation of order processing)
- Quality of inputs procured for an activity
- Procedures governing the actions of personnel in an activity (e.g., service procedures, nature of sell calls, frequency of inspections or sampling)
- Skill and experience level of personnel employed in an activity and training provided
- Information employed to control activity (e.g., number of temperature, pressure, and variables used to control chemical reactions)

Linkages

Uniqueness can develop through linkages between activities performed in the value chain. There are three types of linkages. Linkages within a firm, supplier linkages and channel linkages. In order to meet customer demands co-ordinating activities with linkage is essential. The uniqueness of an activity can be affected by how other activities within the value chain are performed. According to Porter (1985) linkages give ability for a firm to lower the total cost of the linked activities or enhance uniqueness. Identifying linkages within the value chain can according to Porter (1985, p.76) be identified by asking the question: “What are all the other activities elsewhere in a firm that have or

might have an impact on the cost of performing this activity?" Vertical linkages exist when for example a textile firm's value chain is linked with its supplier's value chain. This indicates that if a supplier performs value activities within its chain, it could increase or decrease a firm's ability to differentiate.

Location

Uniqueness can follow from the location. A retail store might for example be located at the best location.

Learning

A firm can learn over time how to perform an activity, which can decrease the cost of performing that specific activity or increase the uniqueness of the activity. Many activities that can be improved by learning such as layout changes, improved scheduling, labour efficiency improvement, product design improvements that affect manufacturing etc. A firm can learn how to perform a value activity more uniquely through analysing their competitors, Porter (1985) refers to this as spillovers. (Porter, 1985)

Integration

The level of integration can make a firm unique. Integrating new value activities can create uniqueness since a firm can control the activity or co-ordinate it with other activities better. However, in some industries reducing the level of integration can be a tool for enhancing differentiation. The unique drivers might vary form activity to activity and from different industries. Identifying drivers of uniqueness is the underlying basis for analysing if the differentiation strategy is sustainable. Also, drivers of uniqueness might identify new activities that can enhance differentiation. (Porter 1985)

4.1.2 Competitive scope

The competitive scope can influence a firm's value chain and be classified as a potential source of a firm's competitive advantage. According to Porter (1985, p.53) competitive scope "...shapes the configuration and economics of the value chain." Porter (1985) refers to four dimensions of scope, which influence the value chain.

- Segment scope

- Vertical scope
- Geographic scope
- Industry scope

Segment scope

The segment scope is characterised by product varieties and buyers served. By focusing on a value chain for specific product or buyer segment a company can develop a competitive advantage. Porter (1985) mentions for example that General Motors changes their value chain depending on the size of the car being manufactured. (Porter, 1985)

Vertical scope

Vertical is the extent to which activities are performed in-house instead of by independent firms. Vertical scope might indicate that a firm chooses to purchase some parts of the product rather than manufacturing themselves. For example, channels might perform distribution and marketing activities. (Porter, 1985)

Geographic scope

The geographic scope is the range of regions, countries, or groups of countries in which a firm competes. Through geographic scope a firm can decide to share and co-ordinate value activities within the value chain in order to serve several geographic regions. For example, a textile firm might choose to manufacture their products in one country but distribute and sell them in several countries. This enables the firm to save costs.

Industry scope

The industry scope is the range of related industries in which the firm competes with a strategy. Interrelationships among business units can help a firm to enhance differentiation and competitive advantage. However, not all value activities will benefit by sharing. (Porter, 1985)

By performing more activities internally a firm can broaden the competitive scope. One example mentioned by Porter (1985) is that a sales force might sell products from different business units within a firm. Furthermore, narrow scope

might allow a company to focus on a particular scope in order to diminish cost or make an activity more unique. These dimensions influence both the company's strategy and effectiveness of the value chain. For example in the textile industry the vertical scope is important since almost every textile company produces in low cost countries. (Porter, 1985)

4.1.3 Coalition and scope

A firm can choose to broader scope by performing more value activities in-house. Another option is to enter into coalitions with other firms in order to enhance differentiation. According to Porter (1985, p.57) "coalitions are long-term agreements among firms that go beyond normal market transactions but fall short of out right mergers." Coalitions can be one way of broadening the scope without broadening the firm. Another firm might perform the value activities with help of supply agreements. Coalitions require long-term relationships and therefore it is possible for a firm to collaborate better with a coalition partner than with an independent firm. (Porter, 1985)

4.1.4 Reconfiguration and the value chain

A firm can choose to enhance differentiation in two ways. One option is to increase the uniqueness of performing a value activity. Another alternative is to reconfigure the value chain in order to enhance uniqueness. A firm that chooses to enhance the sources of uniqueness can take on many actions. For example, reducing the activities that are not valued by the buyer. Reconfiguring a firm's value chain is time consuming and a complicated process. Porter (1985) argues that the reconfiguration of a firm should go backwards from the buyer's value chain. Areas to reconfigure are in most cases according to Porter (1985, p. 158):

1. A new distribution channel or selling approach
2. Forward integration to take over buyer functions or eliminate the channels
3. Backward integration to control more determinants of product quality
4. Adoption of an entirely new process technology

Using new technology and increasing the control of the product quality are examples of reconfiguration in the textile industry.

4.2 The Value chain

The value chain divides the firm into different activities, which a company uses in designing, producing, marketing and distributing products. These activities can be identified in the generic value chain model.

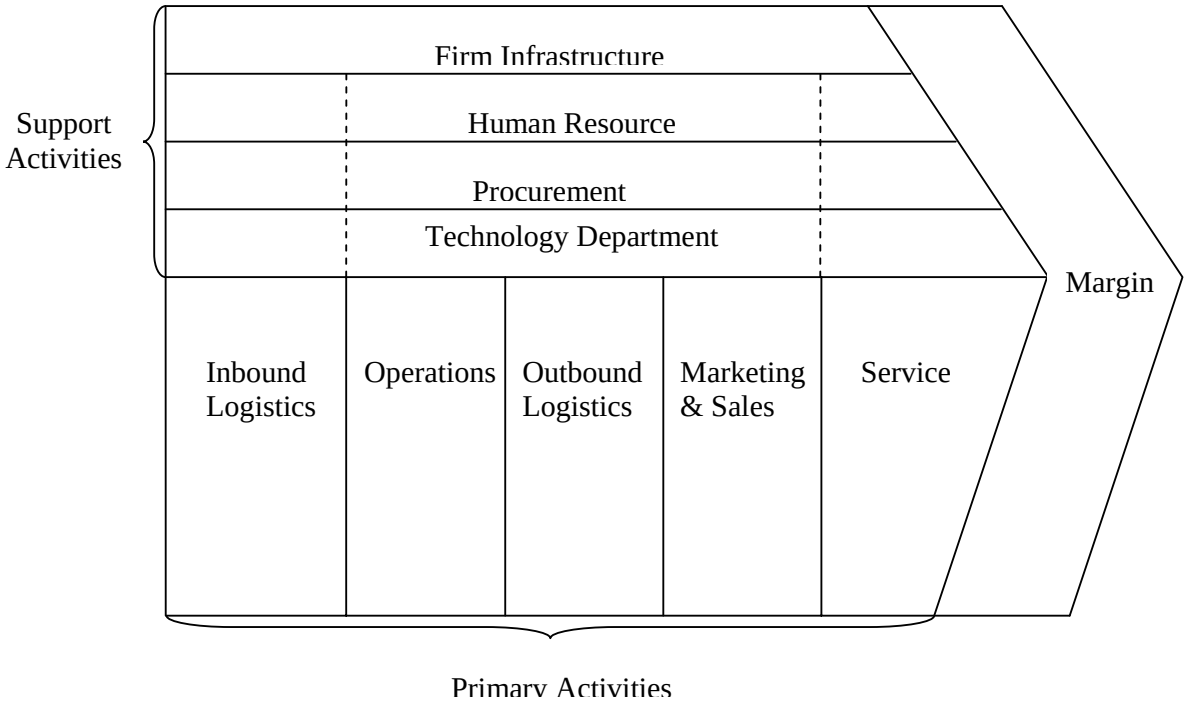

Figure 2. The generic value chain (Porter, 1985 p.37)

By performing the activities within the value chain efficiently, the company can generate a margin and a competitive advantage. Porter (1985, p.38) refers to the margin as "...the difference between total value and the collective cost of performing the value activities." A firm's value chain is part of what Porter (1985) calls a value system. In the value system different suppliers provide a firm with upstream value when they deliver inputs to products and services. Therefore, Porter (1985) argues that a firm's suppliers have a big impact on a firm's activities. Products or services produced by a firm later become part of a buyer's value chain. The buyer's value chain determines a buyer's needs. Porter (1985) states that the ultimate for differentiation is the role of a firm's product in the buyer's value chain.

Every company's value chain is according to Porter (1985) constructed of nine categories of activities, which are linked in different ways. These activities can

be viewed in figure 2. The value chain is used for every firm and demonstrates the specific activities for that firm. The different activities are also linked to suppliers, channels and buyers and affect the competitive advantage. Porter (1985) divides the activities into primary and support activities.

4.2.1 Primary activities

The primary activities are directly correlated to the production of a product or service. The primary activities can be divided into five categories, which are inbound logistics, operations, outbound logistics, marketing & sales and service. (Porter, 1985)

In order to identify value activities, a firm has to define the activities that are strategically and technologically distinct. Primary activities that fall under *inbound logistics* are according to Porter (1985) receiving products, storing and disseminating products for example, inventory control, warehousing, vehicle scheduling and returning to suppliers. Primary activities that are involved in producing the products such as machining, packaging, and facility operations are categorised under *operations*. *Outbound logistics* handles primary activities such as collecting, storing, and physically distributing the product to the buyers, which includes finished goods warehousing, material handling, delivery vehicle operations, order processing and scheduling. (Porter, 1985)

Marketing and sales are associated with activities such as advertising, promotion, sales force, quoting, channel selection, channel reflection and pricing. Primary activities that enhance or maintain value to the product for example installation, repair, training, parts supply and product adjustment are categorised under *service*. The importance of each category of primary activities depends on each firm and industry.

4.2.2 Support activities

The support activities support the primary activities through firm infrastructure, human resource management, procurement and technology development. Associated with the firm's *infrastructure* are activities such as general management, planning, finance, accounting, legal, government affairs and quality management. The firm's infrastructure supports the entire value chain and not specific primary activities.

Human resource management involves activities such as recruiting, hiring, training, development and compensations for types of employees. Human resource management also supports the entire value chain. It affects a firm's competitive advantage since it can identify employees' competence and motivation. Human resource management is important for the competitive advantage, since they are in charge of hiring and training. (Porter 1985)

Porter (1985) refers to *procurement*, as the function of buying inputs that are used in the company's value chain. Raw materials, supplies, and other consumable items are categorised within procurement. Machinery, laboratory equipment, office equipment and buildings are also included under procurement activities. Procurement is most often spread in many parts of the firm. However, the cost of purchasing often represents a small portion of the total cost but has a large impact on the overall cost of the company.

Technology development helps to improve the product and the process. It can support the activities functioning within the value chain. According to Porter (1985, p.42) "technology development takes many forms, from basic research and product design to media research, process equipment design and servicing procedures." Technology development is important for a firm to create competitive advantage.

The dotted lines that are found in Porter's (1985) value chain model (see figure 2) illustrate that procurement, technology development, and human resource management support the entire value chain as well as each specific primary activity.

4.2.3. How to define a firm's value chain

In order for a firm to identify its value chain it is according to Porter (1985, p.45) important to distinguish and isolate activities "...that have (1) different economics, (2) have a high potential impact of differentiation, or (3) represent a significant or growing proportion of cost." Moreover, Porter (1985) argues that value activities should be assigned to different categories, which generate most contribution to the competitive advantage. For example, the manufacturing

costs of producing a garment should be assigned to the operation activities in the value chain.

4.2.4 Linkages within the value chain

Even though the different value activities are essentials in creating a competitive advantage, the value chain is according to Porter (1985, p. 48) "...not a collection of independent activities but a system of interdependent activities." Linkages connect every activity within the value chain. By linking activities, competitive advantage can be gained in two ways: optimisation and co-ordination. A high quality fabric might for example reduce defected garments. Linkages are important in order to make a firm more efficient. (Porter, 1985)

The most easily identified linkages are those between the primary and support activities, which are represented by the dotted lines in the value chain (see figure 2). The linkages between the different activities can be characterised by the following reasons:

- The same function can be performed in different ways
- The cost or performance of direct activities is improved by greater efforts in indirect activities
- Activities performed inside a firm reduce the need to demonstrate, explain or service a product in field
- Quality assurance functions can be performed in different ways.

(Porter 1985, p.49)

A firm should analyse their activities in order to change or perform them in a different manner. Managing and identifying linkages can be a more difficult task than managing value activities themselves. Porter (1985, p.50) argues, "given the difficulty of recognizing and managing linkages, the ability to do so often yields a sustainable source of competitive advantage." Therefore, it is important for a firm to identify linkages.

4.2.5 Vertical linkage

Vertical linkages are linkages between a firm's value chain and the value chain of suppliers and channels. To reach this linkage a firm should build close relationships with its suppliers.

Channel linkage can be characterised similarly to a firm's linkage to its suppliers. The firm has to build a relationship with the channels, build linkages, co-ordinating and jointly optimising with its channels to gain competitive advantage.

4.3 The value constellation

The value creation process is according to Normann and Ramirez (1998) linked to its capacity in where it enables customers, to help and build relationships with its co-workers and suppliers, which result in a greater community that can accomplish something valuable. Normann and Ramirez (1998) refer to products and services as offerings. The customer relationship is based on consumers who take an active role in the value creation process. The authors argue that without the customer's active role in the process, value cannot be created. The customer relationship is viewed as a two-way transaction where value is created by helping each other. According to Göran Carstedt who has written the foreword to the paperback edition of Normann and Ramirez (1998) book, Deciding Interactive Strategy – from Value Chain to Value Constellation, "a company delivers true customer value when it enables customers to do something with their lives that is better, easier, or more valuable than any other company can offer." This stresses the importance of identifying the buyer's value chains and behavior.

Normann and Ramirez (1998) state that technological innovation and many other factors are more important in the value creation process than the value created through the traditional assembly line. The authors argue that "basing one's overall view of the value creation on the assembly line, which is now but a small part of the overall value-creation system in which it is embedded, is thus misguiding: a more relevant framework, better fitting the overall value-creation process, is called for" (Normann and Ramirez 1998, p.5). This indicates the importance for a firm to acknowledge all value creation activities within a firm.

4.3.1 How to create value

Normann and Ramirez (1998, p.xiv) argue "that value is not in the objects or in the actors' buying, but in the actions of both, that is in the interaction." This gives a different perspective compared to what normally is practised. A perspective where one from the outside can easily see which business a company is in, what capabilities are needed and forms an understanding in how to get organised to deliver value. In different processes, value is created and co-invented. A close relationship with suppliers, a good relationship with customers and an empowerment through inviting co-workers to an ongoing experience through innovation process built on trust will create value.

4.3.2 Relationships within the value creation process

In the value creation process, there exist three different relationships between parts of the organisation. The first relationship is referred to as *pooled* relationship. This is the part where different parts each contribute to form a whole. The second type of relationship is called *sequential*. This is the part where sections of the organisation produce parts, which are then put into another part. The third relationship is described as *reciprocal* relationship. This is the most complex relationship. In this case the output of each section of the organisation are turned into inputs to sections from which they get their own inputs. According to Norman and Ramirez (1998) who refer to Thompson (1967) all organisations have pooled relationships among different actors in the organisation because everyone in a given organisation is working towards the same goals and objectives. Complex organisations have got pooled and sequential relationships while the most complex organisations have all three types of relationships. The value chain by Porter (1985) covers the first two sorts of relationships. It does not provide a framework to describe the more complex interaction and relationship between different actors in the organisation. (Normann and Ramirez 1998)

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. For example, "a car manufactures

co-produce value with insurance and financing companies to provide customer with a complete, competitive package" (Normann and Ramirez 1998, p. 42). This type of relationship is evolving through many different types of industries.

4.3.3 The value chain vs. the value constellation

In Porters (1985) value chain, actor A sells the output of his work to actor B, who adds value to it and sells it to actor C, who adds value to it and sells or passes it on to actor D until it is sold to the end customer. In value constellation however, actors do not relate to each other in the simple way as in the value chain. The relationships between the actors tend to be more complex than the make/buy relationship in the value chain. Adding value one after the other the partners in the production of a product create value together through different types of relationships. Norman and Ramirez (1998) believe that the value chain is a limited model and that the value constellation theory goes beyond the value chain theory. They refer to the value chain as flat, and that it only views the world from one perspective while the value constellation involves many aspects. For example, in the textile industry it is impossible for a firm to create value without creating relationships and networks with suppliers world-wide.

4.3.4 The value creation logic

Business is not about identifying and fulfilling customers' needs, it is about suppliers trying to identify and find ways of helping customers in their activity processes. (Normann and Ramirez 1998) The value-creation logic mean that companies must move their focus from the products and concentrate on their customers. Companies should begin to see themselves as support systems. The value-creation logic varies from customer to customer and it is therefore important for companies to identify each type of customer to fit in with the customer. To manage this Normann and Ramirez (1998, p.65) state that "...offerings must be delivered in the 'right' place, at the right time, in the right form by the right party for each particular customer." According to Normann and Ramirez (1998) customers are the firm's most important assets. Firms must take this asset into consideration when making business decisions and ask questions such as: how are these assets taken care of, how well is their potential utilised and who is responsible for both.

4.3.5 Customers and reconfiguration

Value has become more dense meaning that one can put more and more possibilities for value creation into one single offering. This requires new and exciting business relationships to develop further; Normann and Ramirez (1998, p.73) refer to this as ’business reconfiguration’, which can occur at three levels:

- Offerings. New offerings imply business development; or business development made up of offering innovation.
- Organisations. Reconfiguration comprises both intra-institutional boundary changes and inter-institutional arrangements.
- Mental images or organising concepts in our minds. This concerns the development of an alternative frame of reference.

As mentioned there are many ways to reconfigure a business strategy. Porter (1985) also discusses ways of reconfiguring by modifying activities within the value chain. However, Norman and Ramirez (1998) emphasise business relationships and networks. They (ibid. p.75) argue that a company has the ability to “integrate the new business logics by (1) linking and (3) through effective (2) structures and processes are those that achieve the winning reconfigurations.” Reconfiguration should not take place when the relationship between economic actors is stable but it is important when the conditions in the value-creation system change or when competitors change the rules of the game.

In a knowledge-creation system, the effectiveness of a person is very much dependent on the networks, teams and management structure as well as other systems that support the individual. However, Normann and Ramirez (1998, p.101) argue that “it is only when individuals act that they have an impact on value-creation...” Furthermore, Normann and Ramirez (1998, p.77) see that the best way for a firm to stay competitive in the market is from “viewing customer /supplier interface as co-productive relationships, manifested as offerings, in a wider and theoretically unlimited value constellation is a useful way to enable firms dynamically and continually to question, redefine and reconfigure interfaces.” By creating relationships and networks with suppliers and most important customers, a firm can create value and compete better in the industry.

Chapter 5: Company Overview

This chapter provides a presentation of the case study, Oscar Jacobson. The process from design to selling at Oscar Jacobson is explained in order for the reader to get a thorough understanding of the analysis.

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 sine 1903 and is one of Sweden's most recognised 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 a 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 (See Appendix II). Other companies in the group are Stenströms Skjortfabrik, a shirt manufacturer, Sten Oscar Design, a specialist in company clothes and accessories, and the retail company Oscar Jacobson Retail. This thesis will only analyse the value chain at Oscar Jacobson.

5.1 An overview of the activities performed at Oscar Jacobson

By collecting empirical data at Oscar Jacobson, activities within the value chain have been identified.

Figure 3. Overview of activities performed at Oscar Jacobson

This picture illustrates the process from design to selling at Oscar Jacobson. Each activity in the process is briefly presented in this chapter for further details see Appendix I.

5.1.1 Forecasting and Design

The planning of a new collection starts about 14 months before the products are in the store. The process begins with an analysis of the past season's collections

and forecasting of the upcoming season. By keeping the company's philosophy in mind the product development team completes a synopsis which matches Oscar Jacobson's brand image. The team travels to conventions in France and Italy to find the trends for the next season as well as raw material. After analysing the trends the product development team develops silhouettes, colours and the material needed for the collection. Samples are produced in the Baltic. If the samples are satisfactory the product development team purchases the raw material and the production team begins with the planning of the production.

5.1.2 Inbound logistics

This process begins when the product development team has ordered raw material for the sample/ordinary collections. The material later arrives at a warehouse in Borås, owned and operated by a logistics company. Raw material is sent from this warehouse to the factories in the Baltic by trucks, ferries and by air. The personnel at the factories store the raw material on specially labelled shelves in the warehouse where it is kept until manufacturing. Finished garments are after manufacturing sent back to the finished goods warehouse at the headquarters in Borås. Here, the products are unloaded and stored on three different floors by the personnel.

5.1.3 Production

All Oscar Jacobson's garments are manufactured via an outsourcing agreement with two factories, which are located in Riga and Tallinn. The product planning team and the production team work together to plan the production about eight weeks before actual manufacturing. The company manufactures different sorts of orders at the factories. After the garments have been sewn and ironed at the factories, Oscar Jacobson audits the garments in order to get the right image of the designed products.

5.1.4 Outbound logistics

When a customer places an order at Oscar Jacobson, the manager at the warehouse prints an order specification and make sure that the warehouse employees box the right garments to the right customer. Invoices are also written by using the Movex computer system. The garments are later loaded on

to the trucks and delivered to the stores. At the stores, the employees unpack and organise the garments.

5.1.5 Marketing and Sales

There are two people working with marketing at Oscar Jacobson. The company has a close relationship with an advertisement bureau called Mother. The advertisement bureau helps Oscar Jacobson with their marketing strategy. In the future the company will focus more on images in their marketing campaigns. The marketing process at Oscar Jacobson is informal which means that the company does not follow a marketing plan. The advertisement plan for the fall 2004 will be made in May of 2004. They believe that it is important to save part of their budget in order to make decisions about the advertising campaigns when they are in the specific season. Oscar Jacobson advertises in many car magazines in order to reach target markets.

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.

5.1.6 Stores

Oscar Jacobson has developed a ‘shop-in-shop’ concept. The company carefully select their retailers since they are an important factor when it comes to delivering value to the end customer. The company has established seventeen ‘shop-in-shop’ concepts in Sweden and five concepts stores outside Sweden, where England represents one of the strongest markets.

The activities performed in the process from design to selling are supported by Oscar Jacobson’s infrastructure, procurement and technology development.

Chapter 6: From value chain to value network

In this chapter we use theory and empirical research to analyse the value chain at Oscar Jacobson. The objective of the analysis is to get an understanding of the value chain at the company.

Oscar Jacobson has gone through five large changes the last couple of years. It is a traditional clothing manufacturer that in the past employed over 500 employees. The sewing department has been turned into a warehouse and the production moved to the Baltic. The focus is not manufacturing anymore it is finding ways of serving customer's value creating processes better. In other words, fitting in with the customers. To accomplish this, the company will in the future focus more on product development and selling. *The company is moving away from the traditional sequential value chain concept and the linear value added perspective, to a co-productive value constellation based on network.*

Porter's (1985) value chain model has been used as a tool in identifying critical indicators and changes mentioned above. These indicators can to certain extent be seen as evidence of change and development in the company's infrastructure and ways of performing activities. To understand the processes of moving into a new organisation based on networks, Normann and Ramirez's (1998) concept about the value constellation has been used.

6.1 Critical indicators found in the strategy

To understand Oscar Jacobson's value chain, an analysis of their differentiation strategy is essential.

6.1.1 Differentiation strategy at Oscar Jacobson

Oscar Jacobson uses a differentiation strategy, which means that they produce clothes that are unique and valuable for their customers. They have developed a strategy, which has made it possible to deliver customized garments in a short period of time. For example, the company offers these garments within ten working days, which is unique in the textile industry. This is however costly, therefore they have developed a supply agreement with the factories in the

Baltic. Oscar Jacobson is able to produce unique products at a cost, which is lower than the premium price charged. They are focusing on a few target markets in order to provide their customers with superior service and value.

6.1.2 Drivers of uniqueness at Oscar Jacobson

Oscar Jacobson's differentiation is determined by a few basic drivers. Two identified *policy choices* at Oscar Jacobson are product feature and quality of procured material. The company made a policy choice to move their entire production to the Baltic. This has enabled them to create a relationship with the factories as well as invest more in product development. Part of their policy choices is producing garments in the finest quality material. Since Oscar Jacobson has been in the industry for many years they have become experts in finding luxury raw material. The company has also made a policy choice to have a wide collection of offerings, which means that a customer should be able to combine a jacket with a pair of trousers from the different collections. This indicates that Oscar Jacobson has the possibility to deliver true customer value. They also offer their customers customized garments in any material. This enables the customers to take an active role in the value creation process.

Service provided is another policy choice where Oscar Jacobson develops uniqueness. With help of express orders, the company serves their customers fast. This activity of offering customized garments in less then ten days is one of the core values of Oscar Jacobson. The company is competing in a tough industry, which makes delivery times very significant. Service is emphasised by offering the customers eight hours service five days a week.

Linkage is also a driver of uniqueness identified at Oscar Jacobson. Vertical linkages are emphasised by the company in order to create relationships and networks. For example, the company believes it is important to link activities such as order processing with outbound logistics in order to meet customers' demand.

The company is also focusing on helping customers in their activity processes by offering good *locations*. With the development of the shop-in-shop concept

located in well-recognised stores, the company is able to meet their target groups.

Oscar Jacobson has developed an *interrelationship* with the sister unit Stenströms, who are experts in manufacturing shirts. Through this interrelationship they are able to offer their customers high quality shirts even if this is not one of their core competencies. By having a relationship, the company is able to offer a wide collection including both high quality suits and shirts.

Learning is another identified driver of uniqueness. Oscar Jacobson has learned how to perform their value activities more efficiently. They have learned how to make small and large improvements in their value chain. Furthermore, they are in the process of learning how to transfer knowledge and communicate better with their suppliers. The company is also aware of the need to learn how to organise their finished good inventory to be more efficient in their inbound logistics activities.

By integrating the Movex computer system to the process of manufacturing, Oscar Jacobson is able to control the whole process even if it is outsourced to a third party. The computer system allows Oscar Jacobson to have a good relationship with their suppliers, which is an essential driver of uniqueness.

6.1.3 Competitive scope at Oscar Jacobson

Oscar Jacobson's *segment scope* is focused on offering a narrow target market with a wide collection, which enables the company to deliver the products at the right place, at the right time for each particular customer. During the last year, the company changed their *vertical scope* by performing manufacturing activities with independent firms instead of manufacturing in-house. Oscar Jacobson's' *geographic scope* is concentrated in Scandinavia. However, the company is also presented in England, Switzerland and Spain. In the past, the company has been presented in several other European countries but has in the last year made a policy choice to focus on countries that contribute most to their income. Oscar Jacobson is a small company, and it does not have the

financial capacity to focus on many markets. Making this policy choice has enabled them to have a more focused presentation of their brand.

6.1.4 Coalitions and scope at Oscar Jacobson

Oscar Jacobson has decided to broaden their scope through *coalitions* with independent firms. This has enabled them to broadening the scope without broadening the company. They have chosen to focus on two factories located in Riga and Tallinn, which manufacture the entire collection. This change requires close relationships with the factories in order to collaborate. Oscar Jacobson's production team has the responsibility to maintain and control the relationship with the factories. The factory in Riga requires frequently control since it is in charge of express orders and the manufacturing of the samples, which demand fast lead times. According to one of the interviewees, Oscar Jacobson is satisfied with the relationship with their suppliers. However, the factories must learn how to respect the fast delivery times demanded by Oscar Jacobson.

6.1.5 Reconfiguration of Oscar Jacobson's value chain

Oscar Jacobson has *reconfigured* their value chain for example by moving the production to the Baltic. This has been a time consuming and complicated process. According to one of the interviewees, Oscar Jacobson has made five large changes within the company, which indicates that they have moved part of the production from Sweden to the Baltic. The result of the reconfiguration is that the company has outsourced the entire production.

Oscar Jacobson has no intended plans to buy or own any production utilities. The company believes that they should focus on those activities in the value chain that produce most value for the customers and create better margins for Oscar Jacobson.

6.2 Critical indicators found in the value chain

This research indicates that inbound logistics, production and outbound logistics are the most essential primary activities and the most difficult activities to control in order to deliver customer value. The firm's infrastructure, procurement and technology development have been recognised as important support activities.

6.2.1 Primary activities at Oscar Jacobson

6.2.1.1 Inbound logistics

Inbound logistics are one of the most critical activities performed in Oscar Jacobson's value chain.

Outsourced inventory unit

In 2003 Oscar Jacobson developed a supply agreement with a logistics' company in Borås. Outsourcing this activity is part of a strategy where Oscar Jacobson has the vision to cut costs and increase efficiency in their logistics activities. The objective for the future is to send the raw material from suppliers directly to the factories in the Baltic. However, in making this change, the company realised that they were not effectively linked between procurement and production. This indicates that as of today the company does not know when the material is delivered from the suppliers which factory that needs the material. The special inventory unit will be used until the company has adapted to the new way of performing inbound logistics activities.

Oscar Jacobson's value chain is very dependent on raw material being delivered on time. If the raw material is delayed it affects the manufacturing process. Therefore, Oscar Jacobson emphasises the importance of suppliers keeping delivery times. One critical activity is that the personnel is trained to handle the material carefully when they load and unload the material both at the factory and in the warehouse. By using a system for handling the finished products the company has been able to manage delivery times and customers demand more efficiently.

Restructuring the warehouse

Oscar Jacobson is in the process of improving the structure of the warehouse in order to make it more efficient by moving the finished goods between the different floors. This enables the personnel to get a thorough understanding of the warehouse and it increases the collaboration within the team. Structuring the warehouse can also enable the company to maintain a balanced inventory, which indicates that the company should not have too much in stock. Oscar

Jacobson will in the future have less warehouse personnel. The company will instead employ people from a staffing service during the peak season.

Problems identified at the warehouse

One critical problem identified at the warehouse is that products are not in stock when they should be delivered to customers. The products in the computer system do not match what physically are in stock. The main reason for this dilemma is that the warehouse personnel pick the wrong products or that the garments are misplaced. Another reason for this problem is that products are sold at the warehouse but not registered in the computer.

To eliminate these problems the company is using a bar code system, however this only includes part of the manufactured products. The warehouse personnel are also trying to be more careful when they are picking out items from the inventory as well as being aware and informed of the problem. Oscar Jacobson has the objective to use the bar code system for all products within a year. The strategy includes that each person working with the inventory should have one individual scanner. They believe this should help them to be more accurate since it will prevent human errors. The bar code system will also enable them to be more efficient since it is a quick method to scan the products and update stocks.

6.2.1.2 Production

The new way of producing customized garments has required more planning in-house to make sure that the factories have the capacity to manufacture Oscar Jacobson’s garments and deliver on time. The entire production planning is dependent on updated information, hence a well functioning relationship within Oscar Jacobson. The production team works closely to the product development team and the customer service team. However, the collaboration between the teams can be improved according to the interviewees. For example, the product development team must inform when they have made changes in the collection in order for the production team to update the manufacturing process.

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. To make sure that the factories perform satisfactory, the product development team visits the factories frequently. This helps to prevent errors in the manufacturing process. They visit the factory in Riga more frequently since this factory has taken over the production of the express orders and the manufacturing of the samples.

Another important factor in making the production of Oscar Jacobson more unique is the marketing person who makes the final approval of the finished garments at the factory. This person has expertise in how the collection should look when it is distributed to the stores. Having this inspection is part of Oscar Jacobson’s differentiation strategy.

6.2.1.3 Outbound logistics

Oscar Jacobson has realised the importance of having a well functioning warehouse. Keeping the warehouse organised and delivering on time is a tedious process. Oscar Jacobson uses several logistics’ companies, which deliver their garments from the warehouse in Borås to the different stores. In order to make their outbound logistic more efficient the company’s objective is to establish a relationship with one logistics company. However, this company is not yet selected. The top management has discussed the possibility of, in the future, changing and moving the entire finished goods inventory and storing it in each of the selected factories.

6.2.2 Support activities

6.2.2.1 Infrastructure

Oscar Jacobson’s *infrastructure* supports the entire value chain. All activities involved in Oscar Jacobson’s infrastructure are operated at the corporate level. This indicates that the top management has a large control over the operation and the different activities performed at Oscar Jacobson (see Appendix II).

6.2.2.2 Procurement

Procurement is involved in many activities within their value chain. The purchasing of raw material is closely linked both to inbound logistics and production and influence the flow of these activities. The procurement manager has the responsibility to negotiate the prices with Oscar Jacobson's suppliers. This is an important activity performed since procurement has a large impact on the total cost. Furthermore, the procurement manager has to communicate to the product development team about the procurement process since this affects inbound logistics and production. If problems occur in the procurement process it can influence the outcome of the whole manufacturing, which might affect the value offered to the end customer.

6.2.2.3 Technology development

Technology development supports many of Oscar Jacobson's activities. The most important activities identified are design and product development as well as the computer system.

Design and product development

Design and product development are central to creating unique products at Oscar Jacobson. One of the most important activities performed at the company is the forecast, which is an analysis of predicting upcoming trends. According to one of the interviewees, a forecaster has to have a good network in order to catch the right trends. Furthermore, experience and knowledge of the industry are valuable in analysing trends. Oscar Jacobson stresses the importance of designing collections, which match the overall objectives of the company.

The Movex system

Oscar Jacobson emphasises their computer system as one of the most important support activities. Their new computer system should help the company to control and process activities more efficiently. One positive aspect of this system is that the production team has the possibility to follow the production process step by step and to identify obstacles.

Problems with the Movex system

The main problem with the Movex system is that it is difficult to get an overall understanding of the company and its processes. One interviewee mentioned that “it is impossible to get a helicopter view” over the processes. Each employee has learned how to process and deal with basic functions only in their own areas. This is a problem since in order to be more efficient employees need to see the steps before and after their contribution within the value chain. The Movex system requires a lot of information handling, for example every needle and thread need to be processed in the system. This often leads to errors since the personnel might miss processing one small detail and this can impact the entire production process.

During the Movex implementation, the company focused on a few employees who where supposed to teach the rest of the employees about the system. However, many of these so-called “super users” have been laid off due the reconfiguration and this has affected the system implementation. The company is aware of the problem but it does not have first priority.

6.2.3 Linkages

6.2.3.1 Linkages within Oscar Jacobson

Co-ordination and optimisation of activities have helped Oscar Jacobson to better serve customers.

Product development and procurement

One identified linkage within Oscar Jacobson is the linkage between the product development team and procurement. These two activities are combined which indicates that the people working with procurement also have information about the process of product development. Therefore, the procurement is updated continuously.

Product development and production

There is also a linkage between the product development team and the production team, which is essential for having an efficient value chain. This linkage is crucial in the process of making samples. If problems occur in the

process of manufacturing samples, it can impact the entire collection. Furthermore, this linkage is important since procurement is part of the product development team. Linking these activities can prevent delays in the process of purchasing.

Customer service and finished good inventory

Another identified linkage is between the company's customer service and their finished goods warehouse. The customer service is dependent on an updated and organised warehouse, which is managed by linking these two departments.

The Movex computer system is important in processing linkages within Oscar Jacobson since it provides information regarding the different processes in-house. For example, the Movex system gives the production team an opportunity to analyse and plan for the production since they receive information about the product development team's processes.

6.2.3.2 Vertical linkages at Oscar Jacobson

Oscar Jacobson and its suppliers

The change of moving the production to the Baltic has required an effective vertical linkage between Oscar Jacobson and its suppliers since the cost of one activity can be linked to the performance of another activity. Oscar Jacobson has been in the industry for many years and this has given them an opportunity to create vertical linkages with their suppliers. For example, the company purchase their raw material from suppliers, with whom they have collaborated for many years. Oscar Jacobson aims at keeping this type of vertical linkage with new and future suppliers.

As mentioned in inbound logistics, the company has recently developed a vertical linkage with the special storing unit, which handles the company's raw material. Since this relationship is new Oscar Jacobson does not know how it will affect their value chain.

Oscar Jacobson and the factories

There are many activities that are vertically linked between the company and the two factories. Oscar Jacobson's production team frequently communicates

their demands of the production and potential developments and improvements within the manufacturing process to the factories. Moreover, this linkage is valuable for the delivery processes, which requires good co-ordination between Oscar Jacobson and the factories to ensure that all garments are shipped. An effective linkage between the factory in Tallinn has been identified. The factory is in charge of ordering all the raw material except for the cloth needed for the production of the collection. This is part of the supply agreement and Oscar Jacobson is charged for the entire finished product being manufactured. However, they have to control frequently that the factory in Tallinn uses the material that has been selected by the product development team. In the future Oscar Jacobson would like to create this type of vertical linkage with the factory in Riga as well.

6.3 Final discussion about critical indicators identified at Oscar Jacobson

These selected activities are key critical indicators proving that Oscar Jacobson is moving from a traditional company structure to a company based on networks, in other words from value chain to value network.

- Manufacturing in-house of express orders and samples were too expensive to process.
- Timing. Material handling of raw material is a critical indicator within the firm because the production team does not know when the material is sent from the suppliers or which factory needs the material. Material from suppliers is in many cases also delayed, which affects the entire manufacturing process.
- Inefficient inventory such as regular faults in serving customers.
- Inefficient management of warehouse employees.

6.3.1 Identified changes at Oscar Jacobson

The figure below illustrates how Oscar Jacobson is in a process of changing their structure from a traditional value chain (where all activities are processed in-house) to a modern organisation based on a value and relationship network.

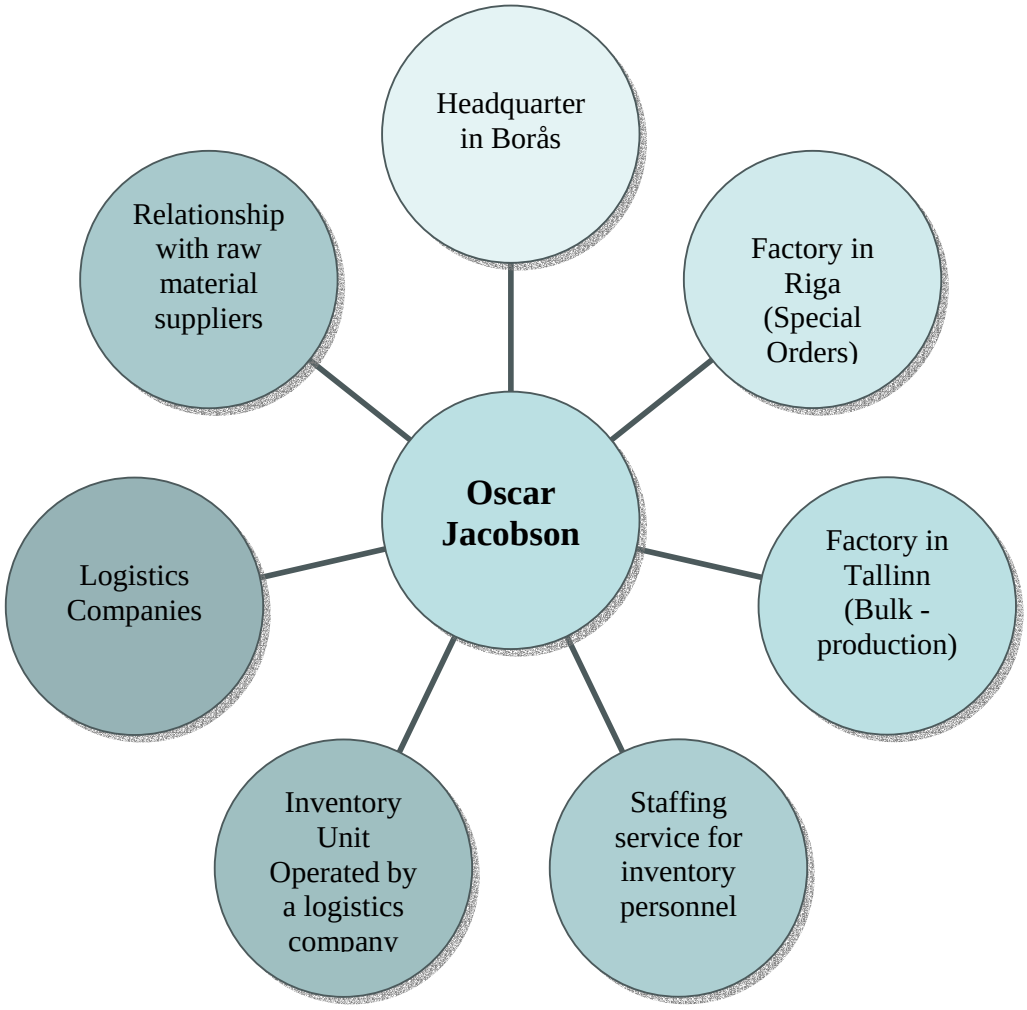

Figure 4: Oscar Jacobson's value network

The policy choice to outsource the entire production to the two factories in Riga and Tallinn was a change in the strategy. The underlying reason for this change was to make the company more cost efficient and to focus on product development and selling. Outsourcing the production has resulted in less control over the process. Therefore, Oscar Jacobson has taken an active role in communicating their demands and policies to the outsourcing factories in the value network.

For Oscar Jacobson to be more efficient they have decided to outsource their inventory of raw material to a logistic company, however the vision is to move the inventory to the two factories in the Baltic. The problem is that Oscar Jacobson has to structure their purchasing department with the production

department in order to at an early stage know where to send the raw material direct from the suppliers to the factories. To avoid delays from suppliers, Oscar Jacobson tries to develop a better network with suppliers and customers by letting them be part of an ongoing experience. This is a step towards creating value and co-inventing value.

Oscar Jacobson has made a change by reorganising the finished good inventory at the headquarters to be more structured and efficient in serving customers. During 2003 the company has chosen to make the warehouse more cost efficient by laying off full time warehouse employees. They plan to outsource this activity to a staffing service for peak season. Moreover, the company plans to invest in a bar code system to avoid errors in managing of the inventory. Oscar Jacobson has also discussed outsourcing the entire finished inventory to the factories in the Baltic to minimise cost and have faster deliveries. This indicates that the company is trying to focus more on the suppliers within the value network.

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. In a value network as Oscar Jacobson is moving towards, there are many actors involved that "…help each other and help each other to help each other, to perform their respective activities" (Normann and Ramirez 1993, p.39). This indicates that in the value constellation concept all actors help each other no matter where they are in the network, compared to the value chain where actor A creates value by delivering value to actor B who later delivers value to actor C etc.

The changes identified above enable Oscar Jacobson to manufacture clothes in a network where suppliers and customers are involved in creating and co-inventing value

Chapter 7: Conclusion

This chapter aims to draw conclusions based on our results and analysis. The conclusions will answer our research questions. Furthermore, this chapter provides suggestions for potential development at Oscar Jacobson as well as further research in the subject area.

Summarising, Oscar Jacobson is using a differentiation strategy. They have restructured the company the last couple of years and left part of its traditional structure and developed a value network (see figure 4). The company has moved the production to the Baltic and developed a vertical linkage with the factories. They have outsourced their warehouse of raw material to a logistic company. Oscar Jacobson has also reorganised their finished good warehouse as well as implemented a new computer system, which enables the company to better process the operations.

The value chain is used to support a competitive strategy within the textile industry by identifying primary and support activities, linkages as well as drivers of uniqueness. By analysing the value chain the company is able to find critical indicators, which influence their success. These indicators can help improve the processes. Oscar Jacobson found a critical indicator in the cost of the production and saw the opportunity to reconfigure their value chain by moving the entire production to the factories in the Baltic. This made it possible for the company to lower costs and focus more on product development and selling. Another identified critical indicator identified is linkages. By linking activities in-house and creating vertical linkages with the suppliers, the company has made the production process more efficient and are able to create more value by their value network.

The most important activities of the value chain are primary activities such as inbound logistics, production and outbound logistics. In these activities the most critical indicators for Oscar Jacobson’s success are found. The selected primary activities have the most impact on cost and the operation and therefore need careful planning and development. Infrastructure, procurement and technology development are the most critical support activities in creating

customer value. These activities support the entire value creation process within the textile company.

The value chain can be modified by identifying critical indicators such as primary and support activities, as well as linkages. This can enable the company to make modifications, which in turn can support their strategy. Even if the above-mentioned activities are at core for creating uniqueness at Oscar Jacobson, these activities can be changed and developed. This indicates that Oscar Jacobson has the possibility to continuously improve their value activities in order to enhance their strategy.

Today's textile industry it is not about managing a linear process it is about identifying activities that can interact within a value creating system. Oscar Jacobson has in a short period of time completed a difficult task by moving the entire manufacturing to the Baltic. This has enabled them to modify their value chain into a value network. By being part of a value network, Oscar Jacobson can build stronger relationships with their suppliers and customers. They will also be able to better co-invent value by involving customers in the processes. Relationships and networks are the key issues for Oscar Jacobson to create unique products and customer value.

Suggestions for Oscar Jacobson

In order for Oscar Jacobson to develop their network further, suggestions have been provided. All suggestions provided are built on a network perspective.

Raw material direct to the factories

We suggest that Oscar Jacobson in the future send the raw material needed for the production direct from the suppliers to the factories in the Baltic. This change can help shorten lead-times, which can enable the company to better serve its customers. This adjustment requires a better relationship network with the company's suppliers. This change demands that the product development team and the production team in-house collaborate better in deciding and informing about which material should be sent to the different factories. This can be improved by shared planning and scheduling, meaning that the product

development manager, the production manager and the product-planning manager communicate more frequently about the entire manufacturing process.

Moving the finished good inventory

We suggest that Oscar Jacobson follow their vision in moving the entire finished good inventory to the factories in the Baltic, to be more time efficient. However, this requires that the factories have the ability and capacity to store the entire finished good inventory. It also requires a strong and well-established relationship and network. If Oscar Jacobson make a policy choice to keep the finished good inventory at the headquarters in Borås, we suggest that they use a bar code system for all products in order to avoid the number of errors made today.

Outsourcing the ordering of the raw material

We suggest that Oscar Jacobson should try to develop an outsource agreement regarding the ordering process of raw material such as threads and buttons with the factory in Riga. This creates more time for focusing on critical activities within the product development. Spending more time on the product development will enable the company to produce better products and value for their customers. We suggest that the company evaluate their outsourcing agreement with the factory in Tallinn since this relationship has been successful. Oscar Jacobson can develop the relationship with the factories further. This creates a possibility to increase the number of activities that the factories take on. The factories are experts at producing garments and Oscar Jacobson should use their ability and potential for increased capacity.

Better linkage between procurement and production

The procurement process can be approved by better linkages. The linkage between procurement and production can be enhanced in order to improve inbound logistics. By structuring and planning procurement with the production team, Oscar Jacobson has the possibility to know which factory that will need the raw material and therefore be able to send it directly from suppliers.

Better vertical linkage

Having a better linkage within Oscar Jacobson and with the suppliers minimises the risk of errors in handling the raw material. Learning how to better link the activities with the factories can help save inbound logistics costs.

Learning and replenishment

By increasing the knowledge about the Movex system employees have the possibility to be more time efficient and get a better understanding of the entire process.

We suggest that the company in the future should consider working with replenishment. With replenishment Oscar Jacobson is able to develop a close relationship and network with their selected stores. The company will have the possibility to control the selling process through a well-developed computer system. In other words, when the stores have sold an item this should be registered in the system and then Oscar Jacobson could send the store a new item. Replenishment is used in many larger textile companies.

Changes in the textile industry

Continuous development and improvements are key words in today's textile industry. In the past companies have had the entire firm positioned along the value chain and have processed most of the actives in-house. However today, actors do not relate to each other in a sequential and general way described by the value chain model. In the textile industry, relationships between economic actors are more complex and the companies are creating value by co-productive networks.

Oscar Jacobson has made changes and is in a process of development. Moving from a traditional value chain to a value network, which has been identified at Oscar Jacobson, has earlier been recognised at larger textile companies. Textile companies in general use similar organisational structure and production processes and can therefore be compared with one another. Oscar Jacobson can be seen as a representative of a small traditional company moving into a modern organisation based on networks where relationships are at the core.

Therefore, this research can be applicable to the textile industry in general. The study made can also be used by other small traditional manufacturing companies. 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.

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Appendix I

The process from design to selling at Oscar Jacobson

The process from design to selling for the fall of 2004 includes six different activities. These activities will be presented in detail.

Forecasting and Design

Forecasting and design are the first activities in Oscar Jacobson's production process. The planning of the fall collection 2004 started in the mid summer of 2003. The product development manager is in charge of forecasting and design. There are five people working as a team with product development. Analysing the past season and collection are the first things that are completed in order to begin a new season. This enables the product development team to get information about what products that have been successful and failures. When the analysis was completed the product development manager made a synopsis about the fall 2004 as well as analysing the company's philosophy, which includes vision, mission and goals in order to keep the right image in mind. After the synopsis was finished, the product development team began to look at silhouettes and raw materials.

The next step in process of developing the collection was to make a forecast about the upcoming trends. The product development team must listen carefully and observe the atmosphere in the world. Sometimes the product development team buys trend books from the different conventions in Europe. By visiting different fashion shows in Europe, mostly France and Italy, the product development team got a chance to view the new trends. The conventions were held in mid September of 2003 and provided the product development team at Oscar Jacobson with many new silhouettes, colours and materials. This year the conventions were visited by a few people from Oscar Jacobson who looked at the upcoming trends and ordered materials and colour samples.

When the upcoming trend was analysed, the product development team looked at the ordered material and colour samples in order to select the right materials. This was completed at the beginning and middle of October 2003 when all the

samples had been received. When the silhouettes and materials were decided for the fall collection of 2004, the production of the samples started. The production of the samples, which are sewn in the factory in Riga, should be completed and analysed before January of 2004. The samples are later used for the sales convention around the 15th January 2004 when the product development team presents the collection of autumn 2004 for the sales team. Each salesman receives a collection. The sales team has to complete their orders by late March 2004. When the orders are received the purchasing department start to purchase the material needed for the collection of autumn 2004.

Inbound logistics

The inbound logistics at Oscar Jacobson begins when the product development team has ordered the material for the sample collection of fall 2004. Seventy-five percent of the material that is used for production of the samples was ordered in August and September of 2003. This material arrived at the warehouse in Borås in October and November. The warehouse is owned and operated by a logistic company who is charge of storing Oscar Jacobson's fabric. In the past Oscar Jacobson stored all the material at the headquarters in Borås but the company has outsourced this activity since the 1st of November of 2003.

Continuing with production of the samples, the material is later sent to the factory in Riga that has been selected to produce all samples for the selected company. The material is sent by trucks and ferries to the factory. In case of emergencies the material is delivered by air. At the factory in Riga the personnel takes care of the material and place it in the warehouse, which is located in the factory. The material is later used for production of the samples and finished products are sent back by trucks and ferries to Oscar Jacobson's headquarters in Borås.

When the samples arrive in Borås, the product development team screens the samples and if the samples are not satisfying they will be sent back to Riga for specific changes. Oscar Jacobson produces six sample collections in November and December, which are distributed to the sales team in January.

The process of producing the collection of fall 2004 is continued by purchasing all the material needed for the production. All the raw material is delivered from suppliers to the special store unit in Borås. The inbound logistics is continued by sending the fabrics to the warehouse located at a special unit in Borås. When it is time for production the fabrics are sent out from the special storing unit to the factories in Riga and Tallinn. The fabrics are usually sent by trucks and ferry, which takes two days. As soon as the fabric arrives at the factories; it is unloaded and stored in specially labelled shelves, which belong to Oscar Jacobson.

After the manufactured finished goods are sent back to the warehouse located at Oscar Jacobson's headquarters. A private Swedish distribution company called KGS Falköping delivers all orders to Oscar Jacobson. Most products are hanging on rails when they are shipped to Sweden. This is important since the products are very easily wrinkled if packed in boxes, which means that the time spent on ironing activities at the factory would have been a waste of time.

The truck arrives every Monday and Thursday in Borås. The products are unloaded into the three different floors at the warehouse in the same order as they were loaded on to the truck from the factories. This indicates that the products that were first loaded on to the truck will be last unloaded in Borås. The products are later registered by the personnel in the computer system and later stored on shelves that are labelled for each customer. This process helps the warehouse personnel to physically see what products are ready to be shipped to the customers or what products that are missing.

The warehouse is based on three floors. Jackets, trousers, and shirts are stored on the second floor. The leisurewear, which includes knitted wear, is placed on the third floor but these garments will be moved to the second floor before Christmas. On the fourth floor, coats and outdoor jackets are stored. Oscar Jacobson has an objective to move these products to the third floor in the near future, however they cannot be stored on the second floor due to lack of space.

Production

Oscar Jacobson has since 1903 manufactured customized garments in their factory in Borås. Due to high manufacturing costs, Oscar Jacobson made a decision to move the entire production to the Baltic during 2003. The company selected two factories, one located in Riga and another located in Tallinn.

This outsourcing agreement means that Oscar Jacobson is charged for the production of each unit and pays a negotiable price for the product being manufactured. This process demands a very close relationship between the factories and Oscar Jacobson. The selected company has to continuously check with the factories that the production of the products are on time and that the production is running according to plan.

The factory in Tallinn produces bulk orders. Oscar Jacobson produces about 40 000 jackets and 80 000 pairs of trousers in the factory in Tallinn each year. The factory in Riga has the capacity to produce about 40 jackets and 125 pairs of pants for Oscar Jacobson every day. If Oscar Jacobson does not have enough customer orders they produce some of the models that are kept in the basic stock inventory all year around. The sample collection is produced in Riga and is part of the normal manufacturing process however it has first priority if necessary. The production manager and the production-planning manager decide which factories to use based on the different type of orders and the capacity of the factories.

Oscar Jacobson's customized products are manufactured in Riga. About twenty percent of Oscar Jacobson's production is made in Riga. Oscar Jacobson offers their customers customized products and the time for delivering the garments vary from product to product however, the type of orders can be categorised in these cycle times:

- Bulk orders, which are planned to cover the main sales throughout the season.
- Express orders, which should be in the store after ten days (For example, one-person needs a jacket but the store is out of it).

- A product that is customized for a specific customer should be distributed to the consumer after twelve days (For example, a very tall person needs customized trousers).
- Reordering takes about four weeks (For example, if a store is out of one specific product)

The production plan of one of Oscar Jacobson's products starts when the production-planning manager receives the order from the customer service department and the product development team. The planning begins at least six to eight weeks before the actual manufacturing. The production of bulk orders takes about four to six weeks. The manufacturing of an express order requires about ten working days.

The production-planning manager looks into the inventory manual in order to see that the material needed to produce the selected items is in stock. All activities are processed in the computer system called Movex but the production-planning manager also uses Excel sheets in order to make sure nothing is excluded or missed. Continuously checking is done in order to identify problems or delays in the production at an early stage. If a problem occurs for example the material is delayed, the production- planning manager contacts the production manager and this person informs the customer service department who contact the customers to make sure they still are interested in keeping their order.

The planning of the production is continued by producing a bar code ticket. This ticket is made by the production-planning manager and includes information about the model, colour, quality, patterns, cloth, buttons hangtags etc. that are needed for that specific production. This ticket also includes the number of items that need to be manufactured and the specific sizes for each item. The bar code ticket is later send by e-mail to the factory in Riga or Tallinn and at the same time an invoice is sent to the warehouse in Borås, which distributes the cloth to the factory in Riga and Tallinn. The rest of the materials such as buttons, tags etc. that are needed for the production of the products are ordered and purchased by the factory in Tallinn but sent from Oscar Jacobson's headquarters to the factory in Riga.

As soon as the material has arrived at the factories in Riga and Tallinn it is stocked in their warehouse located in the factory. The order is processed one or two days at the headquarters in Borås then the bar code ticket is sent to the factory. The factory analyses the material and plans the production for about one-day. On the third day the material should be cut, and sent to the sewing team who has about two or three days to finish. The factory has one more day to pack and prepare documents such as invoices before the products need to be delivered to Sweden.

When it is time for the products to be manufactured the personnel take out the raw material needed for production from the warehouse. The cloth is analysed in order to discover defects. When the products are cut, the parts are distributed to the factory to the sewing team. After the sewing process is completed, the garments are sent to the ironing team who uses many different ironing activities in order to create the look of the products that is demanded by Oscar Jacobson. The ironing process is finished when a marketing person has approved the final look of the products.

After the ironing process is completed, tags are attached and the products are send to be packaged. Each product is covered with one plastic bag and then several products are bundled together with more plastic. Tags are also attached to the plastic bags in order to be easily identified by the warehouse personnel both at the factories and at the headquarters' warehouse. When the manufacturing of the products is completed they are sent to the finished good inventory located in the factory. The warehouse personnel at the factory handles and divides each of Oscar Jacobson's customers' order separately. The products are later shipped to warehouse in Borås.

Outbound logistics

Oscar Jacobson outsourcers all shipping to different logistics companies. When Oscar Jacobson receives an order from a customer, the manager of the warehouse prints an order specification, which includes which products and how many that should be sent to the customer. Then the manager gives the order to a warehouse employee who identifies the specific customer's shelf and

picks out the amount of products ordered. The warehouse personnel is in charge of writing invoices to the customers and all the personnel are trained in order to complete this task in the Movex computer system. The manager of the warehouse is trained in the computer system to follow or search for a specific product even if it is placed in the factory in Tallinn or Riga. The manager is also in charge of making custom declarations, which is time demanding.

When the products are sent to the customers, they are either boxed or delivered hanging in plastic. The products are transferred by an elevator down from the second floor of the warehouse to the ground floor. The products are loaded on to a truck and distributed to the stores. The main logistic companies used are SGS distribution, UPS and Posten.

The logistic company unloads the products at the specific stores and then the personnel at the stores unpack and organise the products in the store. The logistics company delivers Oscar Jacobson’s clothes one to two times per week with an exception for express orders. Usually the process of unloading and organising the finished inventory takes about half a day.

Appendix II

Organisation Structure

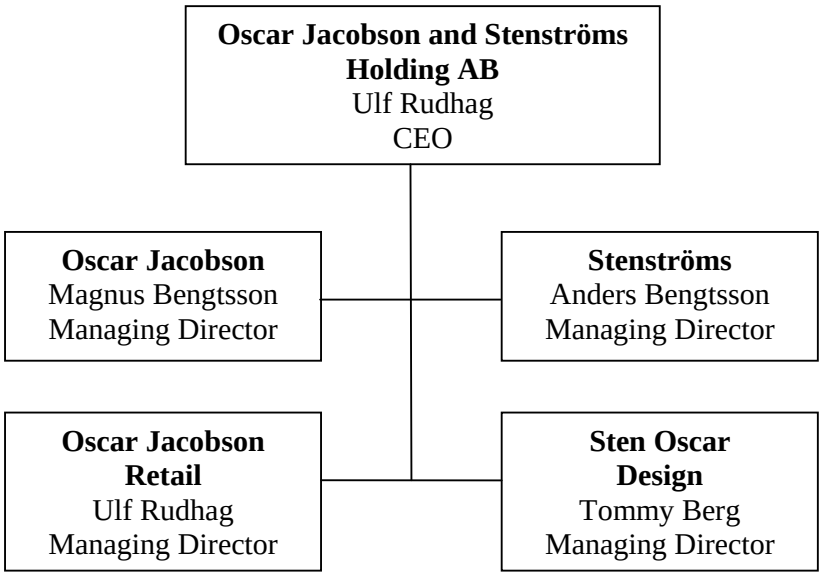

Figure 5. Organisation structure of Oscar Jacobson and Stenström Holding AB

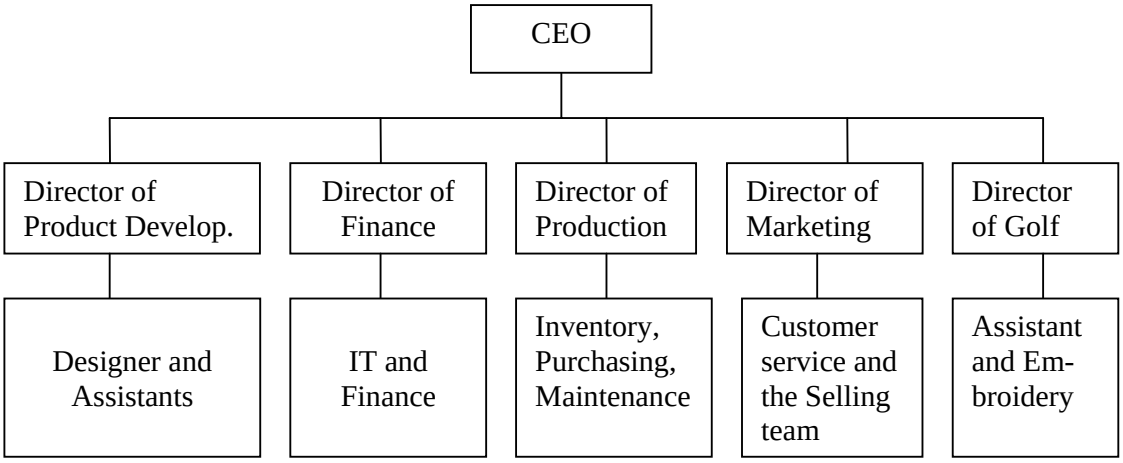

Figure 6. Company structure of Oscar Jacobson