

Chapter I

Introduction



1.1 Background of Study

There is general assumption in contemporary market that customer need is the voice for supplier. Then, this thesis try to conceptualize the idea that *“Demand Side” force from customers is the compliment to “Supply Side” from producers to make a good product for selling in global markets, by using OTOP product as a mediating factor.*

To explore such idea, the background and Structure of Silk Weaving in Thailand and North Eastern Region (Isan) with further emphasis in Noanjig village in Surin province are first laid out. Hence, there will be the sections about the background and problems of domestic and international markets. Then, with increasing trend of globalization and dual track economy favored by the government, the introduction of OTOP scheme should be the answer for local product to penetrate the home and abroad markets.

1.2 Objective

1. Using cluster performance analysis to evaluate the factors of production in order to make determinant factors for SWOT Analysis.
2. Showing that the supply side of potential resources in the silk weaving villages can be illustrated by using the determinants from Diamond Model.
3. Showing that the demand side for the export of Thai's silk product is able to analyze by the factors in SWOT Analysis.
4. Proving that the criteria in OTOP scheme in the model village is the guideline for other village to anticipate in order making it own product exportable.

1.3 Scope

1. To analyze the growth of the export value of Thai silk products especially in silk shawls and scarves sector from 2001-2005.

2. To concentrate on Noanjig village in Surin province that located in North Eastern or Isan region, where, in the past few years, it has been educated and developed by government organizations as a model for OTOP.

1.4 Definition of Terms

Supply (n.) is the amount of something that is available to use or buy. Supply (v.) to provide a person or an organization with a product or a service (Tuck, 1993). Supply is the amount of a commodity offered at a given price or available for meeting a demand (Friedman, 1994). Supply side is the quantity of the good that would be supplied at various prices (Mansfield, 1991). The other definition of supply is that the quantity supplied is some function of price and the cost of production, input prices (McCormick, 1993). From Macroeconomics perspective, the short-run aggregate supply curve shows the amount of output that business firms are willing to produce at different price levels (Gordon, 1993).

The above definitions are general meaning of Supply or Supply Side. The specific meaning of Supply Side, normally used in thesis, is the internal competitiveness assessment in organizations by using Diamond's Model.

Demand is the economic expression of desire, and ability to pay, for goods and services. The essence of demand is the willingness to exchange value for varying amounts of goods or services, depending up on the price asked (Friedman, 1994). Demand side is the quantity of the good that would be purchased at each price (Mansfield, 1991). McCormick (1993) defined Demand as a relation between the quantity purchased of some good and a variety of variables that affect this quantity. These variables include the price of the good, the prices of related goods, the income of the purchaser, consumer expectations about the future, and the taste and preferences of the buyer.

The above definitions are general meaning of Demand or Demand Side. The specific meaning of Demand Side, normally used in thesis, is the external factors that affect the organization's performance by using SWOT analysis. The external force from

customers is significantly influenced by government policy and strategy, for example OTOP Product Fair.

Cluster or clustering is the situation that exist when similar, but not identical, products are marketed in a mutual selling area, but tend to attract buyers to all, rather than being competitive (Cross, 1995). The important definition of cluster is from Michael E. Porter. He explained that clusters are geographic concentrations of interconnected companies, specialized suppliers, service providers, firms in related industries, and associated institutions (for example, universities, standards agencies, and trade associations) in particular fields that compete but also cooperate (Porter, 1998).

Diamond model is the model created by Michael E. Porter to explain the competitive advantage of nations and firms. This model consists of 4 attributes of a nation that shape the environment in which local firms compete. These attributes are Factor conditions, Demand conditions, Related and supporting industries, and Firm strategy, structure, and rivalry (Porter, 1990).

Factor in the meaning by Michael E. Porter is an input or resource. Therefore, Factor Conditions or Factors of production mean the inputs or resources necessary to compete in any industry (Porter, 1990).

Demand conditions or Home demand condition, According to Porter, is the tool for shaping the rate and character of improvement and innovation of a nation's firm. He also remarked that companies achieve competitive advantage through acts of innovation. In international markets, innovations that yield competitive advantage anticipate both domestic and foreign needs.

Related and supporting industries are the presence or absence of supplier industries and related industries that are internationally competitive. They can create innovation and upgrading via close working relationship.

Firm strategy, structure, and rivalry are the condition explaining how companies are created, organized, and managed, and the nature of domestic rivalry. Competitiveness in a specific industry results from convergence of the management prowess and strong organization and competitive resources.

SWOT analysis is a method that helps managers identify their organizational strengths (S), organizational weakness (W), environmental opportunities (O), and environmental threats (T) (Bovee, Thill, Wood & Dovel, 1993). The Internal Environment or Factors are Strengths & Weaknesses. The External Environment or Factors are Opportunity and Threat (Kotler, 2000).

Goal is the target or future state an organization wishes to achieve (Bovee, Thill, Wood & Dovel, 1993). Goals or organizational goals usually consist of some combination of output and intervening variables. Output variables are those short-run goals that can easily be measured, such as net profits and annual earnings (Hersey & Blanchard, 1993). Goals state what is to be achieved and when results are to be accomplished, but they do not state how the results are to be achieved (Minzberg & Quinn, 1996). Goals are derived from an analysis of the business unit's opportunities and strengths (Kotler, 2000).

Strategy is quite new word used in business or management terms. Since 1954, Peter Drucker, well known for his interest in general management, established the basic conceptual framework for the business policy/strategy. He said that the important decision, the decisions that really matter, are strategic. They involve either finding out what the situation is, or changing it, either finding out what the resources are or what they should be. Drucker's ideas would inspire others, as will be seen (Wren, 1994). Strategy is a broad integrated plan of action to accomplish organizational goals (Hersey & Blanchard, 1993). Strategy is a deliberate search for a plan of action that will develop a business's competitive advantage and compound it (Montgomery & Porter, 1991). Minzberg and Quinn (1996) note that a strategy is the pattern or plan that integrates an organization's major goals, policies, and action sequences into a cohesive whole. Finally, Rumelt, Schendel, and Teece (1994) clarify the important of strategy. Organizations are in competition, competition for factor inputs, competition for customers, and ultimately, competition for revenues that cover the costs of their chosen manner of surviving. Because of competition, firms have choices to make if they are to survive. Strategy is how firms make their selections, for example, the selection of goals, the choice of products and services to offer, the design and configuration of policies

determining how the firm positions itself to compete in product markets (competitive strategy).

National OTOP framework was created by The Board of National Committee of OTOP Project. The president of this Board is Deputy Prime Minister Dr. Somkid Jatusripitak. This framework is aimed to be the guideline for local/OTOP products to be followed and selected to be OTOP Product Champion (OPC), or to be improved to become exportable local producer. This framework contains 4 factors.

1. Exportable product with Brand Equity
2. Continuous production process & Consistent Quality
3. Product Standardization with Quality and Customer Satisfaction
4. Story of Product

1.5 Hypothesis Model

The Hypothesis Model shows linkage, which describe how National OTOP product framework/criteria are the answers for local product to become exportable.

This model is adopted from the main concept of Diamond Model by Michael E. Porter combined with the concept of SWOT Analysis from, the famous book of Philip Kotler, Marketing management.

Cluster performance analysis evaluates the factors of production in the model village in order to provide Strengths factors for SWOT Analysis.

Diamond Model analysis provide 4 determinants in silk weaving in the model village, these analysis's results can be re-grouped and concluded into 2 categories, Strengths (S) & Weaknesses (W). Then, strengths factors determinants(S) provide the Supply Side for SWOT analysis.

After Supply Side has been answered by the analysis results of Diamond Model and Cluster Performance, the remaining problem, Demand Side, will be tackled by SWOT analysis. The Demand Side has 2 categories, Opportunity (O) & Threat (T). Lastly, Opportunity will be the representative of the Demand Side.

Then, goals are formulated. Goals are formed by the merge of Supply Side (Strengths) and Demand Side (Opportunity). The existing Strengths are matched to the required Opportunity.

After indicating goals to achieve, strategy is a plan for getting there. There are generic competitive strategies to be chosen.

Finally, the selected strategy will be compared to the National OTOP framework.

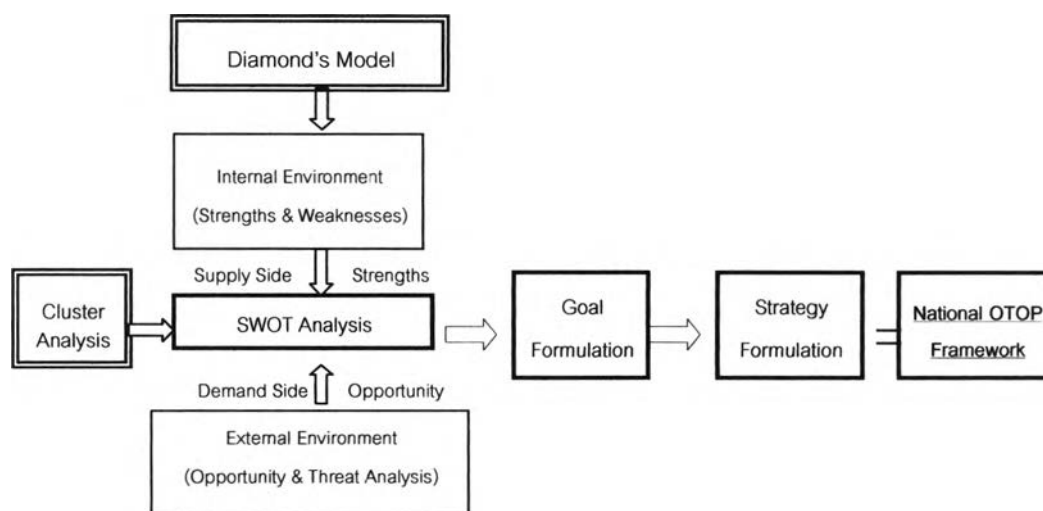


Figure 1: The Hypothesis Model

1.6 Methodology

- To compare the silk product price and cost, before and after being developed by OTOP project, in the model village.
- Using Cluster performance analysis to explain the chain of supply both horizontal and vertical for the village.
- To evaluate the essential determinants for supply side of silk product in the weaving village that can mutually react to create the Diamond system by using explanation from Porter's theory.
- To evaluate factors that affect demand side of silk product in the weaving village by employing SWOT analysis theory.

1.7 Benefit

This thesis offers guidelines that could be used in planning and offering the appropriate strategies and models to improve the quality of silk products and solve the existing problems such as uncompetitive, lack of marketing knowledge both at planning and operation level in domestic and international markets alike. Then, it should strengthen the notion that the introduction of OTOP scheme will make the local product becoming more competitive and attractive in the global market in the long run.

1.8 Limitations

With the thesis try to improvise the answer for local product in order to make an establishment in both domestic and international markets, but the accumulated results of this study are based on silk production in Noanjig village only. Therefore, it may not give the whole accurate picture of how OTOP products in general would improve local products to become competitive in the markets. Other type of products such as silver wear, wood craving may need for future research.

1.9 Background and Structure of Silk Weaving in Thailand and North Eastern Region

There are many sources which could tell us about background and structure of silk weaving in Thailand and North Eastern region (Isan). Some of articles are useful and interesting; here below are the referred ones.

From Thai Textiles : Threads of a Cultural Heritage (Naenna. 1994)

The textiles of the upper Isan area are mainly cotton with patterns in weftikat (Mudmee) and supplementary weft techniques. The lower area is populated by ethnic Khmer groups, specializing in silk weaving in twill weaves and three heddle weft ikats.

The types of textiles used in Isan, in the past, fall into the main categories of costume, household and ritual use. The costumes were specific to the ethnic groups and often indicated status as well as showing off the weavers' skills. Women's costumes were more elaborate than men's and the ceremonial garments were particularly beautiful. Everyday dress was practical and often quite plain. Textiles made for ceremonial wear, however, were woven without giving consideration to expense or time,

thus the resulting fabrics were of spectacular quality and complex in technique and design. Such ceremonies include weddings, temple ceremonies, funerals, formal occasions to meet high ranking officials, spirit appeasing ceremonies and the various Tai festivals that occur during the year. In the past, these were occasions on which the young women could display their weaving skills, particularly to possible suitors, as this was an important criteria of a good wife. Therefore, the silk weaving production systems are labor-intensive and most weavers are women in the villages who can weave when they have free time from cultivating their crops. The weaving skills are taught in the family. Most weaving patterns are traditional. Silk weaving patterns in Surin are influenced by Khmer styles. The patterns have not been developed for hundreds years. The used patterns are always the simple ones and the weaving skills are limited by a lack of opportunity to improve.

1.10 Background and Structure of Silk Weaving in the Model Village in Surin Province

Noanjig village in Surin province is one of the network village in the project of "The Product Development and Production Process Support of Co-operative Products under OTOP project in 2003" by Co-operative Supporting Department, Ministry of Agriculture in Co-operation with The Golden Jubilee Royal Goldsmith College, Office of Vocational Education Committee Board, Ministry of Education.

The model village, Noanjig, was picked because of many reasons. Firstly, they have traditional weaving styles, most weaving techniques deriving from the ancient Cambodia or the Khmer. Secondly, they are one of the poorest villages in Surin province. And lastly, one of the most important reasons is their willingness to develop their weaving skill.

As the background and structure were shown, the detection of inefficiency is found. This is because, before project started, most suppliers tend to produce for their own use either for everyday's use or special occasion but not at all for selling. Therefore, the quality of the product is more often ignored. Moreover, the suppliers also lack the creativity for product as there is no differentiation in market.

1.11 Background and Problems in Domestic and International Markets

There are many levels of products in these markets according to the level of product price and quality. Hence, the markets consist of 3 levels, according to the interview by Dr. Yannawit Wattanasin, Managing Director of Soierie Co., Ltd, based in Bangkok, the silk exporting company which sell most of their products but have many connections and understand domestic silk cloth markets and also Mr. Samud Koomsuwan, the general manager of Sumon Thaisilk, based in Nakorn Ratchasima province, which sell silk cloth with extra designs.

- Lower market: this is the market that uses the *overall cost leadership* competitive strategy. The producers in this market level always use imported silk yarns from China or Vietnam which are cheaper and lower quality. They want to sell in high quantities and offer the lowest price. Today, these groups are the largest share in the domestic markets and deteriorate the image of Thai Silk.
- Medium and High Market: This is the market level consisted of many producers that can set up their own customer base and create brand loyalty. The average price of silk cloth in this market is relatively high but can make the reasonable amounts of sales volume. The examples of producers in this market are foreign-owned *Jim Thompson* or royal-owned *Mae Fah Luang Project*.

To reach the international market or global market, producers need to understand their customers by using marketing and customers' needs research, according to the interview by Mr. Jatuporn Tewsatien and Mrs. Nuanla-or Tewsatien, the founder of Lucky Seide, based in Pak Thong Chai district, Nakorn Ratchasima province, the silk exporting company which have customers from many countries for example, Japan, France, Belgium and U.S.A.

Exported market: The silk producers which can export are normally produced and managed in the factory system. Because of the rules, regulations, global or major exported countries fashion trend, customer needs, product quality management, lead time accuracy and many other requirements, the factory-made silk cloth is the producers which can meet the foreign customers' needs.

The characteristics of major exported markets are as follow:

- E.U.: is a major market that concerned about quality and environment preservation. Natural dyeing silk cloth will be the important exported products for this region. The outstanding designs are also important in this market.

The example of favorite product in this market is Ikat or Mudmee natural-dyed silk shawls. This silk shawl has unique style because of the characteristic of Ikat or Mudmee. This technique will differentiate the patterns in each silk shawls, it create the uniqueness in every silk shawls. The natural-dyed colors are required in this market.

- Japan: is a market that customer needs are the most required and concerned topics. These customers will also need the quality development, time accuracy and market research from their producers. These kinds of customers will have suppliers' loyalty not to change their suppliers often. The product quality and price are relatively high in this market.

The example of favorite product in this market is Brocaded silk shawls. This silk product is bleached and degummed to become natural color silk shawl, rather in white color. The Brocaded technique silk cloth or Pha Yok is used to make detailed patterns for example Gled Pim Sen or Luk Kaew Foong patterns. These silk products required strong intension for weaving delicate texture and stable patterns in silk shawls to meet customers' needs.

- U.S.A.: is a major exported market for Thai silk cloth and accessories. The characteristics of such market are the reasonable quality and price with applied usages of silk cloth.

The example of favorite product in this market is home furnishing silk cloth. The famous products are furniture cover for example, pillow cover, sofa/couch cover and also placemats. The regularly used patterns are simple and continuously repeat, for example, the Kaew Ching Duang or Bangkok Rose patterns made by Overshot techniques or even plain weave with cross colors warp thread. The price of products is negotiable between producer and customer. The dyed-color materials, natural or chemical, are not the important issue for customers.

Thai Silk Products for the World Markets

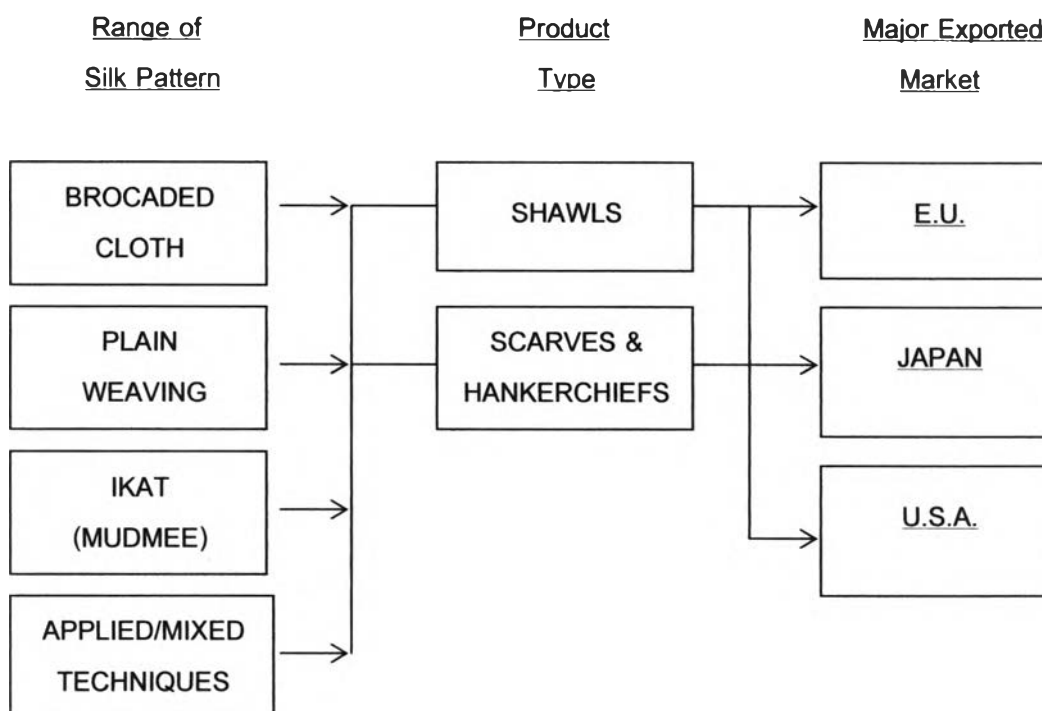


Figure 2: Thai Silk Products in Global Markets

1.12 Thailand Export Stat: Silk Shawls and Scarves (2001-2005)

Table 1: Total Amounts of Thailand Export Stat Silk Shawls and Scarves (2001-2005)

HS-CODE	6214.100.001				
Description	Shawls, scarves, mufflers, mantillas, veils and the like of silk or silk waste				
Year	2001	2002	2003	2004	2005
FOB Value (Baht)	60,074,561	75,247,854	113,003,732	121,292,952	80,000,000
% Growth in FOB Value	-	25%	50%	7%	-34%

*Data from the Customs Department

In 2005, the first year without quotas in textile trade, Thailand faces tougher competitiveness from the countries that produced cheaper textile products, especially China. The FOB value (export value) has decreased clearly from 2004 (34%)

Top 5 major customers (based on FOB value), which Thailand export silk shawls and scarves to, are analyzed as followed.

1. Italy
2. Spain
3. Japan
4. USA
5. France

They have been analyzed in 3 categories (quantity, FOB value and price per unit) in according tables.

Table 2: Export Statistics and Analysis: ITALY

HS-CODE	6214.100.001				
Description	Shawls, scarves, mufflers, mantillas, veils and the like of silk or silk waste				
Year	2001	2002	2003	2004	2005
Quantity (Unit)	201,333	581,079	1,922,970	1,597,981	372,478
FOB Value (Baht)	14,885,778	32,491,099	75,267,034	73,742,081	25,290,500
Price per unit	74	56	39	46	68
% Growth in Quantity	-	189%	231%	-17%	-77%
% Growth in FOB Value	-	118%	132%	-2%	-66%
% Growth in Price per unit	-	-24%	-30%	18%	47%

*Data from the Customs Department

Referred to data from the Customs Department, Italy is Thailand's No.1 customer for exporting silk shawls and scarves. The export quantity and FOB value (export value) have rose from 2001 to 2003 in rapidly % growth. But the price per unit has decreased in that period. In contrary, the export quantity and FOB value from 2003 to 2005 has declined. But the price per unit has increased steadily.

Table 3: Export Statistics and Analysis: SPAIN

HS-CODE	6214.100.001				
Description	Shawls, scarves, mufflers, mantillas, veils and the like of silk or silk waste				
Year	2001	2002	2003	2004	2005
Quantity (Unit)	171,266	160,189	239,191	232,748	106,006
FOB Value (Baht)	10,862,910	5,740,943	7,333,459	11,251,420	8,808,695
Price per unit	63	36	31	48	83
% Growth in Quantity	-	-6%	49%	-3%	-54%
% Growth in FOB Value	-	-47%	28%	53%	-22%
% Growth in Price per unit	-	-43%	-14%	58%	72%

*Data from the Customs Department

Referred to data from the Customs Department, Spain is Thailand's No.2 customer for exporting silk shawls and scarves. The export quantity and FOB value (export value) have decreased in 2001/02, increased in 2002/03 and then decreased from 2003 to 2005. The price per unit has decreased from 2001 to 2003 but increased rapidly from 2003 to 2005.

Table 4: Export Statistics and Analysis: JAPAN

HS-CODE	6214.100.001				
Description	Shawls, scarves, mufflers, mantillas, veils and the like of silk or silk waste				
Year	2001	2002	2003	2004	2005
Quantity (Unit)	79,549	132,247	187,695	55,328	46,001
FOB Value (Baht)	11,003,273	12,315,006	8,249,249	5,854,844	8,301,539
Price per unit	138	93	44	106	180
	2001	2002	2003	2004	2005
% Growth in Quantity	-	66%	42%	-71%	-17%
% Growth in FOB Value	-	12%	-33%	-29%	42%
% Growth in Price per unit	-	-33%	-53%	141%	71%

*Data from the Customs Department

Referred to data from the Customs Department, Japan is Thailand's No.3 customer for exporting silk shawls and scarves. The export quantity has increased from 2001 to 2003 but decreased from 2003 to 2005. The FOB value (export value) has increased in 2001/02, decreased from 2002 to 2004 and increased in 2004/05. The price per unit has decreased from 2001 to 2003 but increased rapidly from 2003 to 2005.

Japan has the highest silk shawls and scarves price per unit among Thailand's top customers.

Table 5: Export Statistics and Analysis: USA

HS-CODE	6214.100.001				
Description	Shawls, scarves, mufflers, mantillas, veils and the like of silk or silk waste				
Year	2001	2002	2003	2004	2005
Quantity (Unit)	12,074	4,994	7,720	32,479	53,317
FOB Value (Baht)	3,487,857	565,299	671,162	5,540,836	7,639,520
Price per unit	289	113	87	171	143
% Growth in Quantity	-	-59%	55%	321%	64%
% Growth in FOB Value	-	-84%	19%	726%	38%
% Growth in Price per unit	-	-61%	-23%	96%	-16%

*Data from the Customs Department

Referred to data from the Customs Department, USA is Thailand's No.4 customer for exporting silk shawls and scarves. The export quantity and the FOB value (export value) have decreased in 2001/02 but it has increased from 2002 to 2005. The price per unit has decreased from 2001 to 2003 but increased 2003/04 and decreased slightly in 2004/05.

In 2004, it was a major boost in both quantity and FOB value growth (321%, 726% respectively). The momentum has been continued to 2005 but it was not quite as strong as previous year.

Table 6: Export Statistics and Analysis: FRANCE

HS-CODE	6214.100.001				
Description	Shawls, scarves, mufflers, mantillas, veils and the like of silk or silk waste				
Year	2001	2002	2003	2004	2005
Quantity (Unit)	37,963	37,121	23,557	26,895	41,076
FOB Value (Baht)	5,424,859	4,573,936	2,060,115	2,491,300	4,838,334
Price per unit	143	123	87	93	118
% Growth in Quantity	-	-2%	-37%	14%	53%
% Growth in FOB Value	-	-16%	-55%	21%	94%
% Growth in Price per unit	-	-14%	-29%	6%	27%

*Data from the Customs Department

Referred to data from the Customs Department, France is Thailand's No.5 customer for exporting silk shawls and scarves. The export quantity, the FOB value (export value) and the price per unit have decreased from 2001 to 2003 but they have increased steadily from 2003 to 2005.

In 2005, France showed the better progress in all categories and has proved to be one of the most potential markets in the future.

Those figures clarified that although the export quantity, the FOB value and the price per unit of top customers are not stable between 2001-2005, most of them showed the bright progress in the price per unit (except USA in 2005). This information means that although Thailand has been pressured by a surge of cheaper silk product in global market, the proper guideline for exporting silk product is to sell the good quality products in higher price towards the potential markets.

1.13 From Village Market to Global Market: the Road to OTOP Products.

After some illustrations on the background of silk weaving producers and process of silk weaving to become silk textile, as well as the problems in domestic and international market, the attention will be turned to the process of how OTOP scheme changes the characteristic of supplier from producing self-wanted product to customer-

wanted product. Beforehand, the production of silk in most villages is derived from the demand of the member in the village that has certain characters, which are firstly, self-wanted. The villagers, as suppliers, only produce for their own need and ignore the demand from outside market. Secondly, insufficient quality, most products are for self-use. Therefore the quality is not an issue as long as the product is usable. Thirdly, non-competitive, the villagers do not interest in producing for profit. So, the cost of producing is irrelevant even though it is exceedingly high. These characters are regarded as problems rather than strengths. These are because it is a mismatch for contemporary market, where cost and customer-oriented are key-roles.

Hence, the government realized these problems. The introduction of OTOP Project would be able to solve and promote local products to sell to both domestic and international customers.

The important support from government in this project is the marketing. The main strategy is to manage the "Supply side" from supplier and create "Demand Pull" from customers. Many OTOP fairs have been set up, for example, OTOP Product Champion Fair in Impact Arena, which encourage the supplier to improve product quality and customers to be interested in OTOP products. The customers have been attracted by product varieties and the following processes are occurred.

1. Development in production process
2. OTOP with higher standard and price
3. Customers' need perception by producers
4. Re-ordering of products

These processes should initiate a sphere for domestic and international market. Therefore, it becomes a guideline for others to follow if they want to succeed in bringing local product to the market.