

## Chapter II

### Literature Review

This chapter contains all the literature related to the thesis. The first section consists of the study about Silk weaving and textile industry. The second section is about the study in competitive advantage of nations.

Then, in the part of Supporting Theory, there are many theories related in this thesis, for example, Cluster Performance in Competitive Industries, National Competitive Advantage: Porter's Diamond which is the main theory, SWOT Analysis, Generic competitive strategies which provide the differentiation strategy to use in supporting OTOP products. The last topic to be mentioned in this chapter is National OTOP framework.

#### 2.1 Related Literature

To study about Export Potential of OTOP Products (Case Study of Thai Silk Products) the related literatures of the thesis are separated into 2 topics:

2.1.1 The study about Silk weaving industry/textile industry

2.1.2 The study about competitive advantage of nations

##### 2.1.1 The Study about Silk Weaving Industry/Textile Industry

After review some related literatures, there are some useful and interesting studies. One of them is **Export Performance of the Thai Textile Industry** by Mr. Thanop Panyapattanakul (1998). His study aims to assess export performance of Thai textile products in the U.S. and E.U. markets. The result of the study reveals that the textile exports exhibit a decreasing trend. The declining trend is the result of relatively higher competitiveness of the same products from other low-cost exporting countries. In addition, textile exports from Thailand have been confronting with protective measures, rules and regulations governing freer flows of the trade among member countries of the

NAFTA and the European Union, domestic bottlenecks such as government rules and regulations inadequate, infrastructure supports, and the outdated machines and manufacturing processes also contributed to the export decline.

His study points to the need to reassess the various aspects in order to improve the textile sector. These cover an important of basic infrastructure, a new marketing system, an improvement in design and product quality, reduction of import tariff, and the quest for new export market. The government should have also put higher emphasis to promote research and development in this area.

In the research made by **Supae Teravaninthorn (1978)** about the process of textile industry development connected with marketing and commercial situation, it analyzed which economic factors affect the textile industry growth.

One of the results of this research is the weakness of the export of Thailand's textile industry. The major weakness points are the quality and the variety of textile products. The export products in this industry have mediocre standard, not enough standards comparing to major competitors, and do not have much products varieties as they should be. The other factors that affect the export of textile industry products are the lack of knowledge about market and customer needs especially in developed countries. The last referred result is the lack of knowledge about rules and regulations of major exported markets.

### **2.1.2 The Study about Competitive Advantage of Nations**

Here below are some examples of thesis that used the theory of competitive advantage model or the Diamond's model by Michael E. Porter.

The first thesis is **Competitiveness in Handmade Ceramic Industry: Celadon** by **Miss Pornpan Chuenprasertsuk(2003)**. Her objective of the thesis is to analyze the industry competitiveness based on Diamond Model concept of Michael E. Porter and SWOT analysis, and to analyze the celadon handicraft industry in Chiangmai Province whether it is cluster or not and the possibility to use the cluster concept to increase export opportunity and competitiveness.

The results of the thesis are that there are both advantages and disadvantages components in every determinants. The producers in the celadon industry in Chiangmai province are not gathering together as the cluster. Those producers within this industry do not have close relation and cooperation among themselves. The celadon industry and supporting industry just locate in the same region but the cluster is underachieved. However, the celadon industry can develop to be effective and sustainable cluster.

The other good example of thesis about Diamond model is **An Analysis of Export Potential for Thailand's Dietary Supplement Products** by Mrs. Chanettee Khukhan(2002). Dietary supplement products industry is one of the most important industries for Thai economy. Thai dietary supplement products industry encounters highly competitive from strongly competitor such as the United States of America.

The objectives of this study are to analyze the exporting efficiency of these products. This study is based on the consideration of factors that are the sources of these industries' competitive advantages. Regarding to this study, there are a lot of disadvantages in Thai dietary supplement products industry when comparing to USA. As the result of this study, Thailand has efficiency in exporting dietary supplement products industry less than USA. Hence, the government and private sectors should be cooperative to improve the efficiency and increase the competitive capability of the determinants in Thai dietary supplement products industry in the future.

## **2.2 Supporting Theory**

### **2.2.1 Clustering of Competitive Industries**

The systematic nature of the "diamond" promotes the clustering of a nation's competitive industries. A nation's successful industries are usually linked through vertical or horizontal relationship.

The reasons for clustering grow directly out of the determinants of national advantage and are a manifestation of their systemic character.

Once a cluster forms, the whole group of industries becomes mutually supporting. Entry from other industries within the cluster spurs upgrading by stimulating

diversity in R&D approaches and providing a means for introducing new strategies and skills.

Interconnections within the cluster, often unanticipated, lead to the perception of new ways of competing and entirely new opportunities.

The presence of the cluster helps increase information flow, the likelihood of new approaches, and new entry from spin-offs, downstream, upstream, and related industries.

The presence of an entire cluster of industries magnifies and accelerates the process of factor creation that is present where there is a group of domestic rivals. The scale of the entire cluster encourages greater investment and specialization.

As clusters develop, resources in the economy flow toward them and away from isolated industries that cannot deploy the resources as productively. As more industries are exposed to international competition in the economy, the more pronounced the movement toward clustering will become.

#### **2.2.1.1 Interchange within Clusters**

Underlying the operation of the national "diamond," and the phenomenon of clustering, is the exchange and flow of information about needs, techniques, and technology among buyers, suppliers, and related industries. When such interchange occurs at the same time that active rivalry is maintained in each separate industry, the conditions for competitive advantage are the most fertile.

Nations gain an important national advantage where national attributes are supportive of intracluster interchange.

Mechanisms that facilitate interchange within clusters are conditions that help information to flow more easily and facilitate coordination.

#### **2.2.1.2 The Development of Clusters**

The process of industry evolution often breeds new competitive industries and hence builds or extends a cluster.

Nations differ in typical path y which clusters emerge, a function of the types of firms in the economy, among other considerations. Clusters of competitive industries

that achieve success are thus vertically deep, involving many stages of the vertical chain and industries providing machinery and other specialized inputs.

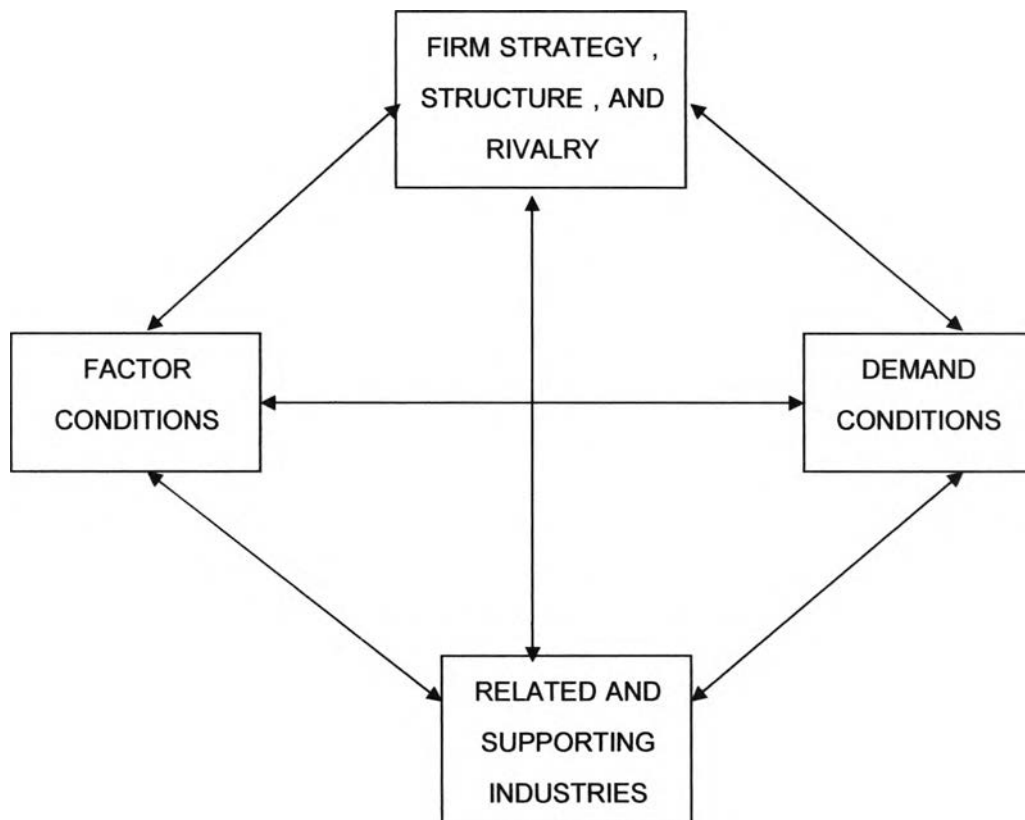
The mutual reinforcement within clusters also leads to surges in innovation in whole sectors of a national economy.

### 2.2.2 National Competitive Advantage: Porter's Diamond

In 1990 Michael Porter of Harvard Business School published the results of an intensive research effort that attempted to determine why some nations succeed and others fail in international competition (Porter, 1990).

Porter's thesis is that four broad attributes of a nation shape the environment in which local firms compete, and that these attributes promote or impede the creation of competitive advantage. These attributes are:

1. Factor conditions. The nation's position in factors of production, such as skilled labor or infrastructure, necessary to compete in a given industry.
2. Demand conditions. The nature of home demand for the industry's product or service .
3. Related and supporting industries. The presence or absence in the nation of supplier industries and related industries that is internationally competitive.
4. Firm strategy , structure , and rivalry . The conditions in the nation governing on how companies are created, organized, and managed, and the nature of domestic rivalry.



**FIGURE 3: The Determinants of National Advantage**

Nations are most likely to succeed in industries or industry segments where the national "diamond," the term which will use to refer to the determinants as a system, is the most favorable.

The "diamond" is a mutually reinforcing system. The effect of one determinant is contingent on the state of others. Favorable demand conditions, for example, will not lead to competitive advantage unless the state of rivalry is sufficient to cause firms to respond to them. Advantages in one determinant can also create or upgrade advantages in others.

Competitive advantage based on only one or two determinants is possible in natural resource-dependent industries or industries involving little sophisticated technology or skills. Such advantage usually proves unsustainable, however, because it

shifts rapidly and global competitors can easily circumvent it . Advantages throughout the "diamond" are necessary for achieving and sustaining competitive success in the knowledge-intensive industries that form the backbone of advanced economies. Advantage in every determinant is not a prerequisite for competitive advantage in an industry. The interplay of advantage in many determinants yields self-reinforcing benefits that are extremely hard for foreign rivals to nullify or replicate.

Two additional variables can influence the national system in important ways, and are necessary to complete the theory. These are chance and government. Chance events are developments outside the control of firms (and usually the nation's government), such as pure inventions, breakthroughs in basic technologies, wars, external political developments, and major shifts in foreign market demand. They create discontinuities that can unfreeze or reshape industry structure and provide the opportunity for one nation's firms to supplant another's. They have played an important role in shifting competitive advantage in many industries.

The final element necessary to complete the picture is government. Government, at all levels, can improve or detract from the national advantage. This role is seen most clearly by examining how policies influence each of the determinants. Anti-trust policy affects domestic rivalry. Regulation can alter home demand conditions. Investments in education can change factor conditions. Government purchases can stimulate related and supporting industries. Policies implemented without consideration of how they influence the entire system of determinants are as likely to undermine national advantage as enhance it.

#### **2.2.2.1 Factor Conditions**

Factors of production are nothing more than the inputs necessary to compete in any industry, such as labor, arable land, natural resources, knowledge, capital, and infrastructure.

##### **Hierarchies Among Factors**

- Generalized factors : include the highway system , a supply of debt capital , or a pool of well-motivated employees with college educations. They can be deployed in a wide range of industries .
- Specialized factors : involve narrowly skilled personnel , infrastructure with specific properties , knowledge bases in particular fields , and other factors with relevance to a limited range or even to just a single industry.

Specialized factors provide more decisive and sustainable bases for competitive advantage than generalized factors. Specialized factors require more focused, and often riskier, private and social investment. The most significant and sustainable competitive advantage results when a nation possesses factors needed for competing in a particular industry that are both advanced and specialized. To sustain international competitive advantage, a nation's firms often must deliberately nullify or supplant today's basic factor advantages even though they still persist.

#### **2.2.2.1.1 Factor Creation**

Factor-creating mechanisms include public and private educational institutions, apprenticeship programs, government and private research institutes, and bodies providing infrastructure such as government-owned port authority or community hospitals. Nations succeed in industries where they are particular good at creating and, most importantly, upgrading the needed factors.

#### **2.2.2.1.2 Selective Factor Disadvantages**

Competitive advantage can grow out of disadvantage in some factors. Disadvantages in basic factors create pressure to innovate around them. What is a disadvantage in a narrow conception of competition can become an advantage in a more dynamic one.

#### **2.2.2.2 Demand Conditions**

The second broad determinant of national competitive advantage in an industry is home demand conditions for the industry's product or service. Three broad attributes of home demand are significant:



- Home Demand Composition
- Demand size and pattern of growth
- Internationalization of domestic demand

#### 2.2.2.2.1 Home Demand Composition

The most important influence of home demand on competitive advantage is through the mix and character of home buyer needs. The composition of home demand shape how firms perceive, interpret, and respond to buyer needs. Nations gain competitive advantage in industries or industry segments where the home demand gives local firms a clearer or earlier picture of buyer needs that foreign rivals can have. Nations also gain advantage if home buyer pressure local firms to innovate faster and achieve more sophisticated competitive advantage compared to foreign rivals.

There are three characteristics of the composition of home demand particularly significant to achieving national competitive advantage:

- Segment structure of demand: A nation's firms are likely to gain competitive advantage in global segments that represent a large or highly visible share of home demand but account for a less significant share in the other nations.
- Sophisticated and demanding buyers: A nation's firms gain competitive advantage if domestic buyers are, or are among, the world's most sophisticated and demanding buyers for the product or service. Sophisticated and demanding buyers pressure local firms to meet high standards in terms of product quality, features, and service.
- Anticipatory buyer needs: A nation's firms gain advantages if the needs of home buyers anticipate those of other nations. Stringent home needs benefit national competitive advantage only if they anticipate needs elsewhere.

#### 2.2.2.2.2 Demand size and pattern of growth

Size of home demand: Large home market size can lead to competitive advantage in industries where there are economies of scale or learning.

#### 2.2.2.2.3 Internationalization of domestic demand

There is the way in which home demand conditions contribute, through mechanisms by which a nation's domestic demand internationalizes and pulls a nation's products and services abroad.

**Mobile or multinational local buyers:** If the nation's buyers for a product or service are mobile or are multinational companies, an advantage is created for the nation's firms because the domestic buyers are also foreign buyers.

**Influences on foreign needs:** Another way in which domestic demand conditions can pull through foreign sales is when domestic needs and desires get transmitted to or inculcated in foreign buyers.

The most important attributes of home demand are those that provide initial and ongoing stimulus for investment and innovation as well as for competing over time in more and more sophisticated segments.

In small nations, like in Thailand, missing Home demand may sometimes be offset by foreign customers.

### 2.2.2.3 Related and Supporting Industries

The third broad determinant of national advantage in an industry is the presence in the nation of supplier industries or related industries that are internationally competitive.

**Competitive advantage in related industries:** Related industries are those in which firms can coordinate or share activities in the value chain when competing, or those which involve products that are complementary. Sharing of activities can occur in technology development, manufacturing, distribution, marketing, or service.

The presence of an internationally successful related industry in a nation provides opportunities for information flow and technical interchange.

National success in an industry is particularly likely if the nation has competitive advantage in a number of related industries. The most significant are those important to innovation in the industry or those that provide the opportunity to share critical activities.

#### 2.2.2.4 Firm Strategy, Structure and Rivalry

The fourth broad determinant of national competitive advantage in an industry is the context in which firms are created, organized and managed as well as the nature of domestic rivalry. The goals, strategies, and ways of organizing firms in industries vary widely among nations.

##### 2.2.2.4.1 Strategy and structure of domestic firms

Nations will tend to succeed in industries where the management practices and modes of organizations favored by the national environment are well suited to the industries' sources of competitive advantage.

Government policy frequently plays a role in influencing the ease or difficulty of internationalization of domestic firms and, hence, the type of industries in which they succeed.

##### 2.2.2.4.2 Goals

Nations will succeed in industries where company, individual goals and motivation are aligned with the sources of competitive advantage.

If prestige and national priority favor an industry, the ripple effect on competitive advantage can be enormous. Nations tend to be competitive in activities that are admired.

##### 2.2.2.4.3 Domestic Rivalry

Nations with leading world positions often have a number of strong local rivals.

Domestic rivalry becomes superior to rivalry with foreign competitors when improvement and innovation, rather than static efficiency, are recognized as the essential ingredients for competitive advantage in an industry.

Domestic rivalry, like any rivalry, creates pressures on firms to improve and innovate.

*A completely open home market along with extremely global strategies can partially substitute for the lack of domestic rivals in a smaller nation.*

##### 2.2.2.5 The Role of Chance

Chance events are occurrences that have little to do with circumstances in a nation and are often largely outside the power of firms (and often the national government) to influence. Some examples which are particularly important in influencing competitive advantage are the following:

- Acts of pure invention
- Major technological discontinuities
- Discontinuities in input costs
- Significant shifts in world financial markets or exchange rates
- Surges of world or regional demand
- Political decisions by foreign governments
- Wars

Chance events are important because they create discontinuities that allow shifts in competitive position. They can nullify the advantages of previously established competitors and create the potential that a new nation's firms can supplant them to achieve competitive advantage in response to new and different conditions.

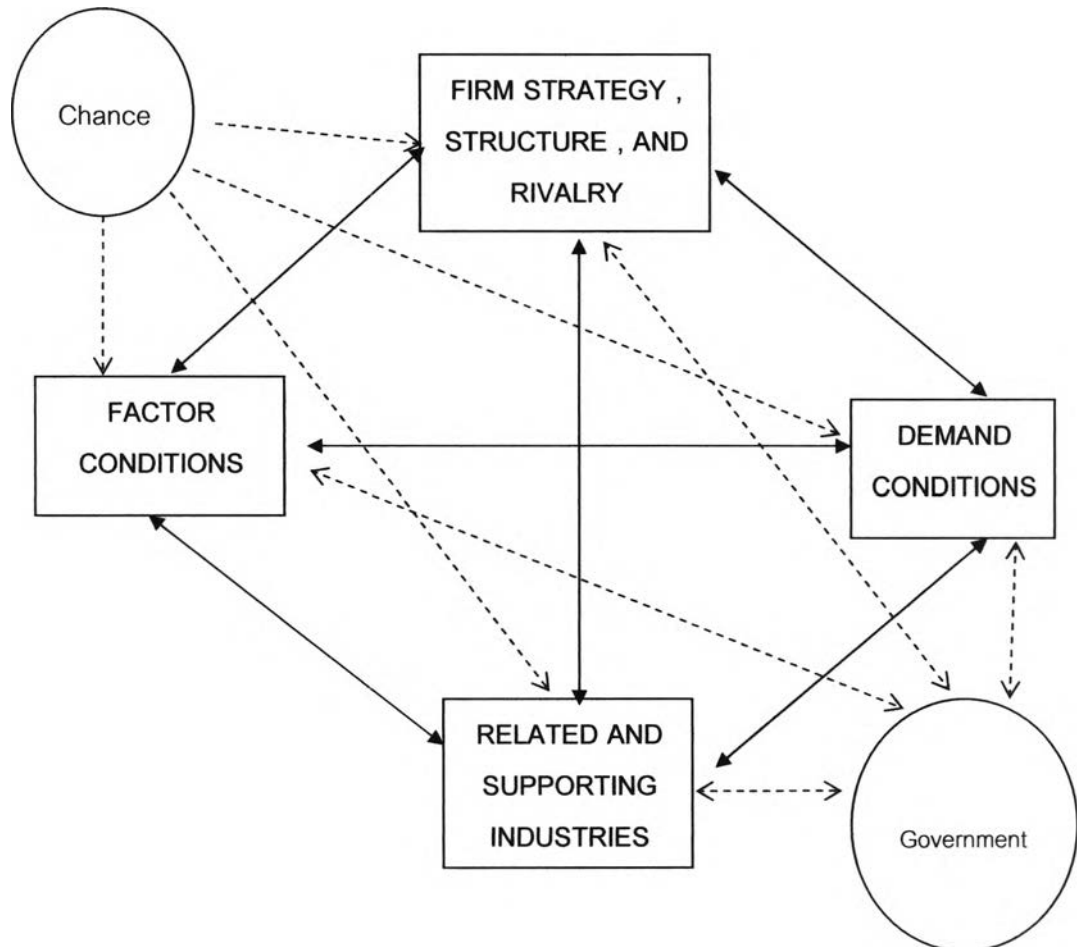
#### **2.2.2.6 The Role of Government**

Government's real role in national competitive advantage is in influencing the four determinants.

Government can influence (and be influenced by) each of the four determinants either positively or negatively.

Government has an important influence on national competitive advantage, though its role is inevitably partial.

Successful policies work in those industries where underlying determinants of national advantage are present and where government reinforces them.



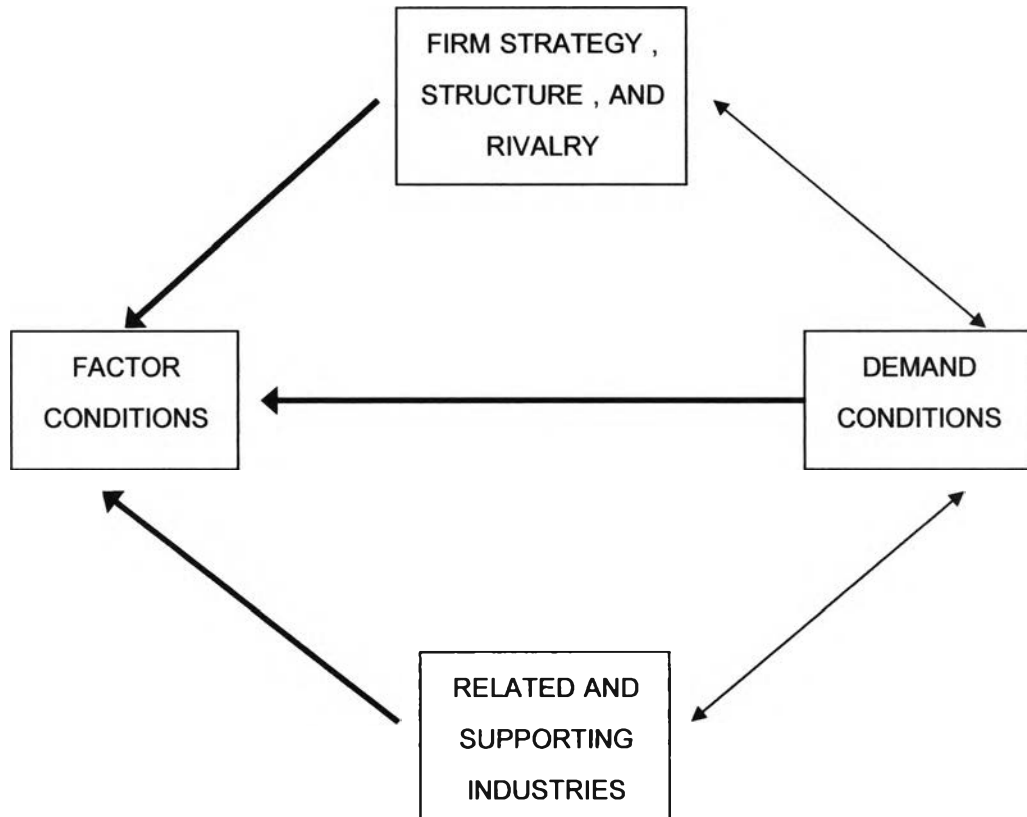
**FIGURE 4:** The Complete System of Diamond's Model

#### 2.2.2.7 Relationships among the determinants

The determinants of national advantage reinforce each other and proliferate over time in fostering competitive advantage in an industry.

##### 2.2.2.7.1 Patterns of Factor Creation

The types of factors that are created in a nation are influenced by the other determinants. What is important for competitive advantage is unusually effective mechanisms for creating and upgrading factors that are advanced and specialized.



**Figure 5:** Influences on Factor Creation

Factor creation is perhaps most strongly influenced by domestic rivalry. Factor creation will be unusually rapid in industries view as prestigious or as national priorities, because the attention of individuals, institutions, and government entities is most attracted.

These effects will be most pronounced if the rivals are all located in one city or region. A group of rivals usually provides far more stimulation. The competition among local rivals will boost the rate of factor creation and also reduce the risk of investing in creating specialized facilities and skills.

The pool of factors and the rate at which they are created are also shaped by the presence of related and supporting industries. Such industries possess or stimulate

their own mechanisms for creating and upgrading specialized factors. Some of the factors are usually transferable.

Another influence on the particular types of factors that are created is demand condition. Advanced and specialized factors of production grow up to help meet pressing local needs.

Factor-creating investments in a nation cumulate over time. Differences in the rate and direction of such investments among nations can lead to wide national differences in the stock of specialized factors relevant to an industry.

#### 2.2.2.7.2 Influences on Demand Composition and Size

Perhaps the most important influence is again domestic rivalry. Pricing is aggressive to gain or hold local market share. Pride and proximity are the reasons for intense competition in local market.

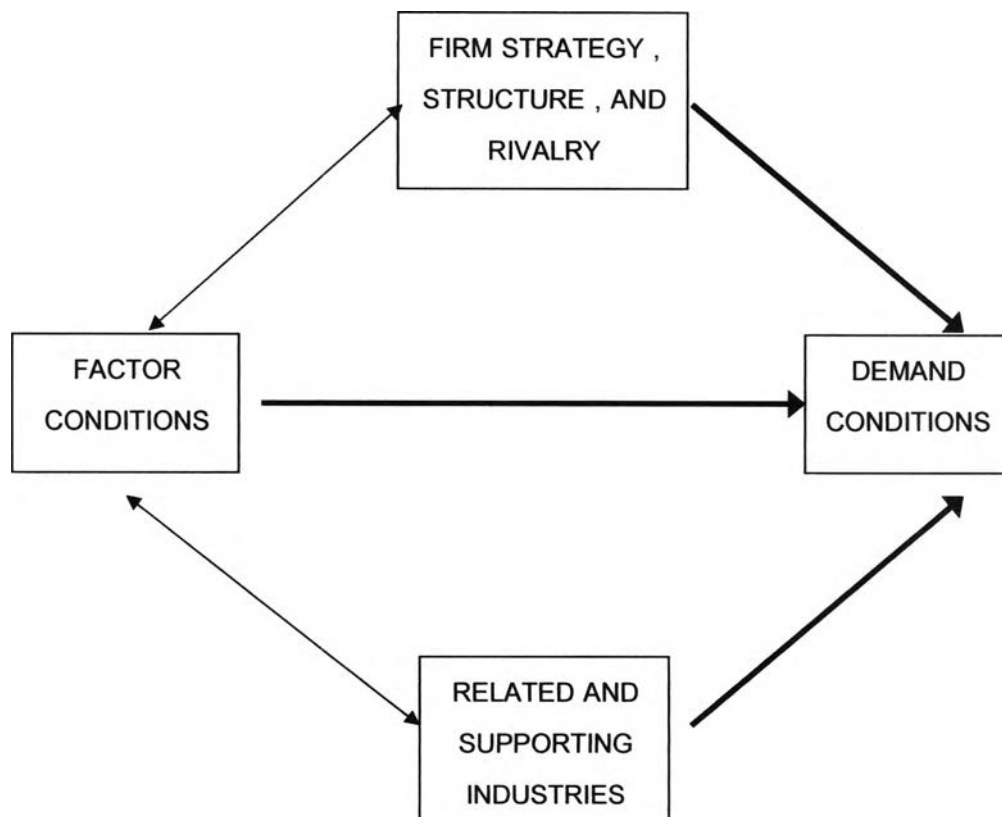


Figure 6: Influences on Home Demand Conditions

Intense domestic rivalry not only stimulates but, in effect, creates home demand through products and marketing innovation. Domestic rivalry also upgrades home demand.

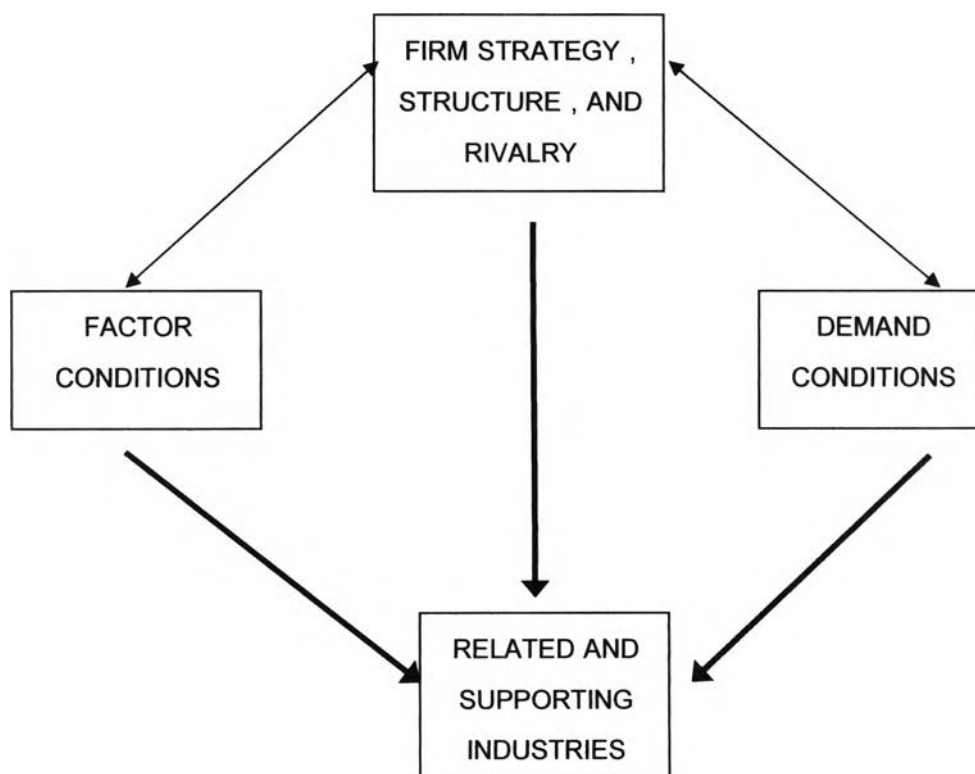
Vigorous domestic rivalry can also enhance foreign demand. A group of domestic rivals builds a national image in the industry. Foreign buyers take notice and include the nation in their review of potential sources. Their perceived risk in sourcing from the nation is reduced by the availability of alternative suppliers.

The presence of successful related and supporting industries can also enhance international demand for an industry's products. One way is through transferability of reputation.

Internationalization of home demand is also influenced by factor conditions, especially factor-creating mechanisms.

#### 2.2.2.7.3 Development of Related and Supporting Industries

The presence, breadth, and international success of related and supporting industries in a nation is influenced by other determinants.



**Figure 7:** Influences on the Development of Related and Supporting Industries



Factor conditions in an industry, especially factor-creating mechanisms, can also influence the development of related and supporting industries.

The breadth and specialization of supporting industries is enhanced by the size and growth of home demand for a product. The efficiency of domestic suppliers frequently rises with increasing industry scale.

Once again, the most potent influence on the development of related and supporting industries is aggressive domestic rivals. A group of internationally successful home-based rivals challenges and pushes the supplier industry to develop. The proximity of home bases facilitates interchange and collaboration on research. The supplier industry is also able to follow its customers abroad to serve their international operations, speeding its own globalization.

Internationally successful firms in one industry often enter supplier industries.

Active domestic rivalry also frequently leads to entry and ultimately international positions in related industries.

#### 2.2.2.7.4 Influences on Domestic Rivalry

Domestic industry structure is also influenced by other determinants.

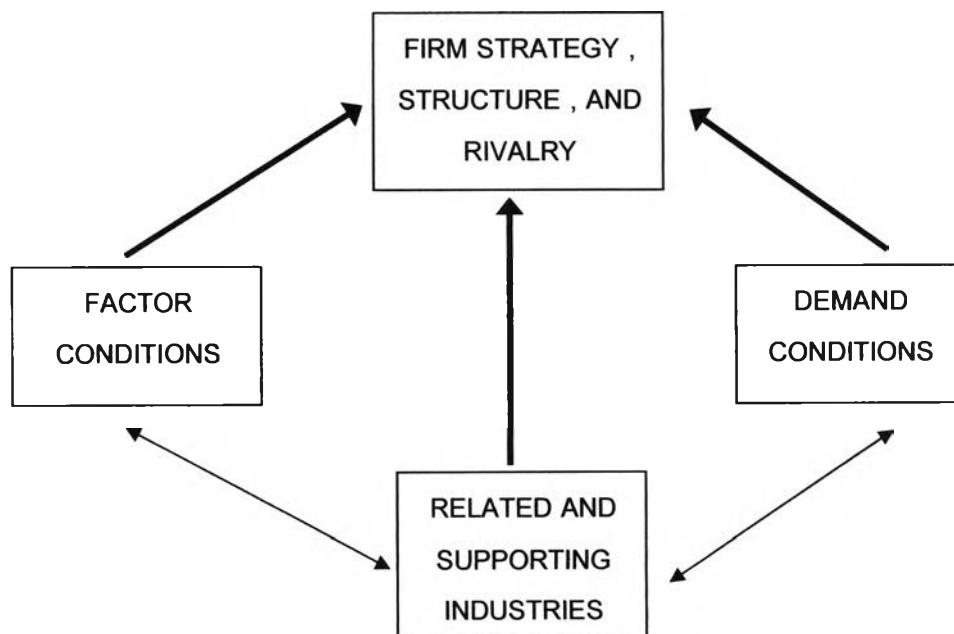


Figure 8: Influences on Domestic Rivalry

Demand conditions enhance domestic rivalry when demanding home buyers seek multiple sources and encourage entry. Highly sophisticated buyers based in a nation may also themselves enter the industry. This is particularly significant when they have relevant skills and view the upstream industry as strategic.

New entry into an industry is also encouraged directly or indirectly by strong national position in related and supporting industries. Suppliers, particular those that are internationally successful, often enter user industries. Entry by suppliers into downstream industries provides a ready means for transmitting information and skills and thus supports the sort of vertical interchange so important to competitive advantage.

Entrants from a related industry, like entrants from buyer and supplier industries, are particularly desirable types of entrants for purposes of upgrading competitive advantage in a nation.

The most vibrant competitive advantage often comes when entrants from a number of different supplier and related industries converge in a new industry.

A third influence on domestic structure is the role of specialized factor creation mechanisms in spawning new entrants, usually starts-up, into an industry.

#### 2.2.2.9 The Genesis and Evolution of a competitive industry

An advantage in a single determinant often provides the initial impetus for an industry's formation in a nation, not infrequently around a single firm. The formation of a local industry is normally triggered by one of three determinants.

An initial advantage in *factors of production* often provides the seeds for an internationally competitive industry or a predecessor industry in a cluster. The local availability of factors, particularly natural factors, is what often attracts initial attention to an industry. In more advanced industries, early competitors may emerge out of specialized factor-creating mechanisms.

The seeds of competitive industries are also found in *related and supporting industries*.

*Demand conditions* provide another common foundation for a competitive industry. Substantial or distinctive local demand is an early stimulus to the formation of local firms.

As advantages are developed in several parts of the "diamond" and especially as the *mutual reinforcement* within the "diamond" begins to take place and cumulate, a national industry can achieve *remarkable rates of improvement and innovation* for a period of years.

Chance is often involved in helping to accelerate the process by which in industry upgrades and penetrates international markets. A chance event creates a discontinuity that nullifies the advantages of traditional leaders and allows a nation's firms to leap ahead.

The diamond establishes the conditions for higher-order advantage and is slow and extremely hard to replicate. Once one nation has it, the cost of entry rises substantially.

#### 2.2.2.10 The Diamond in Perspective

The system of determinants of national competitive advantage is a theory of investment and innovation. Internationally competitive industries are those whose firms have the capacity and will to improve and innovate in order to create and sustain a competitive advantage. Gaining advantage in the first place requires a new approach to competing. Sustaining advantage requires still further improvement and innovation.

#### 2.2.3 SWOT Analysis

With only cluster and Diamond's theory, this may prove to be insufficient for illustrating the whole analysis of making local products to famous OTOP products. This is because Diamond's theory only explains internal factors such as strengths and weaknesses but it lacks the explanation for external factors. And that is when the SWOT analysis deployed.

### 2.2.3.1 The 1<sup>st</sup> Definition (The origin of SWOT analysis) ([www.european-quality.co.uk](http://www.european-quality.co.uk))

*Albert Humphrey*, one of the originators of SWOT model, said that SWOT analysis originated at Stanford Research Institute from 1960-1970. It was developed from research funded by Fortune 500 companies as a way to discover why corporate planning failed.

1100 companies and organizations were interviewed between 1966-69 and a 250-item questionnaire was designed and completed by over 5,000 executives.

The findings system was began by asking what is good and bad about the present and the future. What is good in the present is Satisfactory, good in the future is an Opportunity; bad in the present is a Fault and bad in the future is a Threat. This was called the SOFT analysis.

When this was presented to Urick and Orr in 1964 at the Seminar in Long Range at the Dolder Grand in Zurich Switzerland they changed the F to a W and called it SWOT Analysis.

He also advocates that the six categories:

- Product (what are we selling?)
- Process (how are we selling it?)
- Customer (to whom are we selling it?)
- Distribution (how does it reach them)
- Finance (what are the prices, costs and investments?)
- Administration (and how do we manage all this?)

Provide a framework by which SWOT issues can be developed into actions and managed using teams.

As far as identifying actions from SWOT issues is concerned, it all very much depends on the reasons and aims for using SWOT.

### 2.2.3.2 The 2<sup>nd</sup> Definition

There is also another good definition (Bovee, Thill, Wood & Dovel, 1993). They said that SWOT analysis is a method that helps managers identify their organizational

strengths (S), organizational weakness (W), environmental opportunities (O), and environmental threats (T). Each analysis helps them understand how these elements may influence organizational performance. An organizational *strength* is an internal capability that can be exploited to achieve goals, whereas an organizational *weakness* is an internal characteristic that may undermine performance. An environmental *opportunity* is a situation that offers potential for helping the organization to achieve its goals. In contrast, an environmental *threat* is an external element that can develop into a non-crisis or crisis problem and potentially prevent the organization from achieving its goals.

SWOT analysis encompasses a wide range of issues. By identifying the organization's strengths, weaknesses, opportunities, and threats, managers have the background to formulate strategies that build on their strengths and that take advantage of environmental opportunities. They are also better able to formulate strategies that aim to overcome or to minimize internal weaknesses and environmental threats. To conduct the SWOT analysis, managers make both an internal assessment and an external assessment.

Internal Assessment is the part of the SWOT analysis involves examining internal resources and capability of identify organizational strengths and weaknesses.

External Assessment by scanning the external environment, managers can detect opportunities and threats to organizational performance.

### 2.2.3.3 The 3<sup>rd</sup> Definition of SWOT Analysis by Philip Kotler

Lastly, Philip Kotler gave the most important definition of SWOT analysis (Kotler, 2000).

SWOT analysis is the overall evaluation of a company's strengths, weaknesses, opportunities and threats. There are 2 main components, External Environment Analysis and Internal Environment Analysis. Those analysis results will be used for further steps.

#### 2.2.3.3.1 External Environment Analysis (Opportunity and Threat Analysis)

For each trend or development, management needs to identify the associated opportunities and threats. A major purpose of environmental scanning is to discern new marketing opportunities.

- A marketing opportunity is an area of buyer need in which a company can perform profitably.

Opportunities can be classified according to their attractiveness and their success probability. The company's success probability depends on whether its business strengths not only match the key success requirements for operating in the target market but also exceed those of its competitors.

- An environmental threat is a challenge posed by an unfavorable trend or development that would lead, in the absence of defensive marketing action, to deterioration in sales or profit. Threats should be classified according to seriousness and probability of occurrence.

#### **2.2.3.3.2 Internal Environment Analysis (Strengths/ Weaknesses Analysis)**

It is one thing to discern attractive opportunities and another to have the competencies to succeed in these opportunities. Each business needs to evaluate its internal strengths and weaknesses periodically.

#### **2.2.3.3.3 Goal Formulation**

Once the company has performed a SWOT analysis, it can proceed to develop specific goals for the planning period. Goals should be realistic. They should arise from an analysis of the business unit's opportunities and strengths, not from wishful thinking.

#### **2.2.3.3.4 Strategic Formulation**

Goals indicate what a business unit wants to achieve; *strategy* is a game plan for getting there. The next topic will clearly describe about strategies.

### **2.2.4 Generic Competitive Strategies**

There are three potentially successful generic strategic approaches to outperforming other firms in an industry (Porter, 1980).

- overall cost leadership

- differentiation
- focus

Effectively implementing any of these generic strategies usually requires total commitment and supporting organizational arrangements.

#### 2.2.4.1 Overall Cost Leadership

The first strategy is to achieve overall cost leadership in an industry through a set of functional policies aimed at this basic objective. Cost leadership requires aggressive construction of efficient-scale facilities, vigorous pursuit of cost reductions from experience, tight cost and overhead control.

Having a low-cost position yields the firm above-average returns in its industry despite the presence of strong competitive forces. Its cost position gives the firm a defense against rivalry from competitors, because its lower costs mean that it can still earn returns after its competitors have competed away their profits through rivalry.

Achieving a low overall cost position often requires a high relative market share or other advantages, such as favorable access to raw materials.

#### 2.2.4.2 Differentiation

The second generic strategy is one of differentiating the product or service offering of the firm, creating something that is perceived industry-wide as being unique. Approaches to differentiating can take many forms: design or brand image, technology, features, customer service, dealer network, or other dimensions. It should be stressed that the differentiation strategy does not allow the firm to ignore costs, but rather they are not the primary strategic target.

Differentiation, if achieved, is a viable strategy for earning above-average returns in an industry because it creates a defensible position for coping with the five competitive forces, albeit in a different way than cost leadership. Differentiation provides insulation against competitive rivalry because of brand loyalty by customers and resulting lower sensitivity to price. It also increases margins, which avoids the need for a

low-cost position. The resulting customer loyalty and the need for a competitor to overcome uniqueness provide entry barriers. Finally, the firm that has differentiated itself to achieve customer loyalty should be better positioned vis-à-vis substitutes than its competitors.

Achieving differentiation may sometimes preclude gaining a high market share. It often requires a perception of exclusivity, which is incompatible with high market share. More commonly, however, achieving differentiation will imply a trade-off with cost position if the activities required in creating it are inherently costly, such as extensive research, product design high quality materials, or intensive customer support. In some businesses, differentiation may not be incompatible with relatively low costs and comparable prices to those of competitors.

#### 2.2.4.3 Focus

The final generic strategy is focusing on a particular buyer group, segment of the product line, or geographic market; as with differentiation, focus may take many forms. Although the low cost and differentiation strategies are aimed at achieving their objectives industrywide, the entire focus strategy is built around serving a particular target very well, and each functional policy is developed with this in mind. The strategy rests on the premise that the firm is thus able to serve its narrow strategic target more effectively or efficiently than competitors who are competing more broadly.

#### 2.2.4.4 Implementation of Different strategy

Because of the unique products in the research, the only strategy which will be focused on particularly is *Differentiation*.

To implement the "*Differentiation*" strategy successfully, there are common requirements in resources and skills:

##### 2.2.4.4.1 Commonly Required Skills and Resources

- Strong marketing abilities
- Product engineering



- Creative flair
- Strong capability in basic research
- Corporate reputation for quality or technological leadership
- Long tradition in the industry or unique combination of skills drawn from other businesses
- Strong cooperation from channels

#### 2.2.4.4.2 Commonly Organizational Requirements

- Strong coordination among functions in R&D, product development, and marketing
- Subjective measurement and incentives instead of quantitative measures
- Amenities to attract highly skilled labor, scientists, or creative people

#### 2.2.4.5 Risk of the Generic Strategies

Fundamentally, the two risks in pursuing the generic strategies (*Differentiation*, in this case) are: first, failing to attain or sustain the strategy; second, for the value of the strategic advantage provided by the strategy to erode with industry evolution.

##### 2.2.4.5.1 Risk of Differentiation

Differentiation also involves a series of risks:

- The cost differential between low-cost competitors and the differentiated firm become too great for differentiation to hold brand loyalty. Buyers thus sacrifice some of the features, services, or image possessed by the differentiated firm for large cost savings;
- Buyers' need for the differentiating factor falls. This can occur as buyers become more sophisticated;
- Imitation narrows perceived differentiation, a common occurrence as industries mature.

The first risk is so important as to be worthy of further comment. A firm may achieve differentiation, yet this differentiation will usually sustain only so much of a price differential. Thus if a differentiated firm gets too far behind in cost due to technological

change or simply inattention, the low cost firm may be in a position to make major inroads.

### 2.2.5 The Necessity of Using 2 Main Models

The hypothesis model consists of 2 major model, Diamond Model and SWOT analysis. The reasons for using both of them are as followed.

- Diamond Model can analyze internal factor inside organization extremely well, its 4 determinants provide details of organizational competitive factors, but it lacks the ability to analyze the external factor and the absence of linkages to Goal and Strategy formulation. SWOT analysis can fulfill those requirements and SWOT analysis also regularly concludes the combination of 2 factors with smooth process.
- Diamond Model is an economical model but SWOT analysis is a managerial model. Diamond Model has to be the main model while SWOT analysis is the compliment one.

### 2.2.6 The National OTOP Product Champion Selection Framework

Since the National SMEs promotion Scheme is to strengthen local enterprises and to enhance the selected local wisdom products to reach the global market, the Board of National Committee of OTOP Projects enhances the OTOP Product Champion Selection Framework. This framework contains 4 factors.

#### 2.2.6.1 Exportable Product with Brand Equity

This factor contains the characteristic of products that can readily exportable. Products should have their own strong marketing point to attract customers. For brand equity, products should have the outstanding and easy-to-remember name. OTOP project will also provide the strong brand equity of "OTOP" and "OPC" product brands.

#### 2.2.6.2 Continuous Production Process & Consistent Quality

This factor points out the important of production process. The production process capacity is the major key for determining total sale amounts and re-ordering amount. The production period in a year also provide other crucial information for customers' decision to re-order. The production process consistency also creates the credibility of producers.

#### **2.2.6.3 Product Standardization with Quality and Customer Satisfaction**

This factor continues from the previous one. The stable production process will be monitored to get approval by certified body. Then, producers have to develop production process continuously to improve products quality. Next, high quality product will meet customers' needs. Finally, product varieties and production process flexibility will satisfy customers' requirement.

#### **2.2.6.4 Story of Product**

The last factor is not much mentioned or recognized before the beginning of OTOP project. Story adds much value into product. Customers will be proud to involve with traditional or local history through product. Product story will explain some information for example the origin of product or the inspiration of product design.