



## CHAPTER II

### LITERATURE REVIEW

This chapter contains a review of the applications of AHP, theoretical review of competitive strategy and marketing research which provide basic concept to do this thesis.

#### Review of Analytic Hierarchy Process (AHP)

The major distinction of this approach is that it structures any complex, multiperson, and multicriterion problem hierarchically. Using a method for scaling the weights of the elements in each level of the hierarchy with respect to an element, e.g. criterion, of the next higher level, a pairwise comparison matrix of the activities can be constructed where the entities indicate the strength with which one element dominates another with respect to a given criterion. This scaling formulation is translated into a largest eigenvalue problem, which results in a normalized and unique vector of weights for each level of the hierarchy. This in turn results in a single composite vector of weights for the entire hierarchy. This vector measures the relative priority of all entities at the lowest level that enables the accomplishment of the highest objective of the hierarchy.

The followings are two examples of applications of AHP ;

Kasemsak (1993) applied the Analytic Hierarchy Process (AHP) in plant location selection. He determined and weighed the criteria for locating a sorbitol factory. The criteria include capital investment, variable cost, certainty of raw materials, public utility, labor, public attitude, marketing, and land usage. He

studied by interview five executive managers of a company. The alternatives of locations are in three provinces, Nakorn Rachasima, Rayong, and Kalasin. The ranking of locations are Nakorn Rachasima, Rayong, and Kalasin.

Wind (1987) urged that the dramatic changes in the business environment suggested that the old and proven ways of doing business may not suffice to assure survival and growth in the 1990s and beyond. Corporations must pay increased attention to creativity in generating strategic directions, rigor in the evaluation of strategic options on multiple and interdependent objectives, and vision and focus to assure effective utilization of resources. He presented the conceptual structure of the AHP approach and reviewed a number of recent applications. The AHP offered a unique and valuable method for the generation and evaluation of making driven business and corporate strategy.

### Competitive Strategy

According to Aaker (1988),

"A business strategy, sometimes termed a competitive strategy or simply strategy, is defined by six elements or dimensions. The first four apply to any business, even if it exists by itself. The remaining two are introduced when the business exists in an organization with other business units. A business strategy specification includes a determination of :

**1. The product market in which the business is to compete.** The scope of a business is defined by the products it offers and chooses not to offer, by the markets it seek to serve and not serve, by the competitors with whom it chooses to compete and to avoid, and by its level of vertical integration.

**2. Level of investment.** Although there are obvious variations and refinement, it is useful to conceptualize the alternatives in terms of :

- investing to grow (or enter the product market)

- invest only to maintain the existing position
- milk the business by minimizing investment
- recover as much of the assets as possible by liquidating or divesting the business

**3. The functional area strategies needed to compete in the selected product market.** The specific way to compete will usually be characterized by one or more functional area strategies such as a :

- product line strategy
- positioning strategy
- pricing strategy
- distribution strategy
- manufacturing strategy
- logistical strategy

**4. The strategic assets or skills which underly the strategy providing the sustainable competitive advantage (SCA).** A strategic skill or, simply, skill, is something a business unit does exceptionally well, such as manufacturing or promotion, which has strategic importance to that business. A strategic asset or, simply, asset, is a resource, such as a brand name or installed customer base, that is strong relative to competitors. Strategic formulation must consider the cost and feasibility of generating or maintaining assets or skills that will provide the basis for a sustainable competitive advantage.

**Multiple Businesses.** Except for the rare focused enterprise, most modern business units share an organization framework with other business units. At the highest level, it may mean a group of diverse divisions—each involving many businesses. At the lowest level, it could mean a single product being delivered to a sharply segmented set of markets, or a set of product variations being delivered to a common market. In either case, the concept of a business strategy for a

group of business units is introduced and two additional components of strategy are needed :

**5. The allocation of resources over the business units.** Financial resources, generated either internally or externally, plus nonfinancial resources such as plant, equipment, and people all need to be allocated. Even for a small organization, the allocation decision can become a key strategic decision.

**6. The development of synergistic effects across the businesses--the creation of value by having business units that support and complement each other.** It is only logical that multiple business organizations that can achieve synergistic effects will have an advantage over those that ignore or fail to achieve synergy.”

Boonwa (1985) described the steps of planning as consisting of analyzing the environment in terms of threats and opportunities, analyzing the organizational resources in terms of weaknesses and strengths, setting up the objectives, and formulating the strategies. He pointed out one technique of strategic planning namely Boston Consulting Group business portfolio ( BCG business portfolio ) which employed by the concept of experience curve and product life cycle. The steps of strategic planning are as shown in the Figure 2.1 then steps will be followed in establishing the competitive strategies for the company in the study in chapter V.

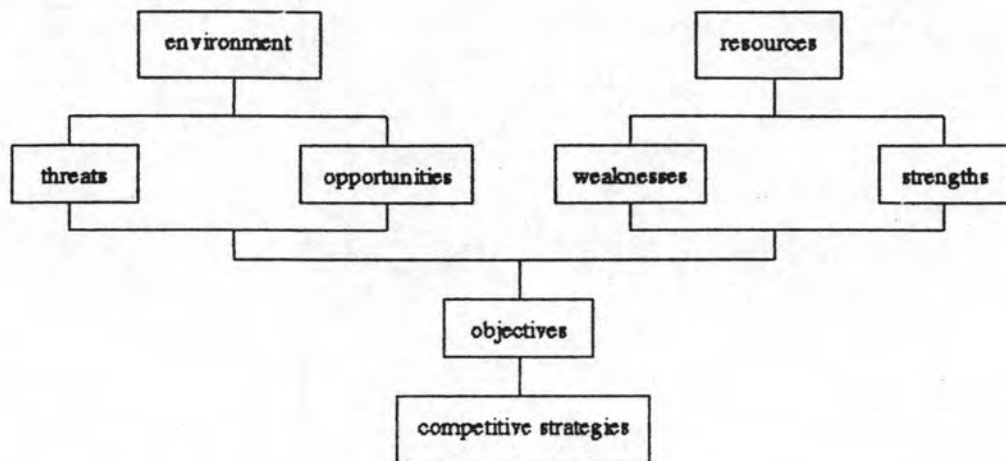


Figure 2.1 Steps of Strategic Planning



### Marketing Research

O'Shaughnessy (1988, p.37) proposed the steps in macro-level marketing planning. They are as follows:

1. Setting tentative objectives for the market;
2. Historical review/situation analysis (this stage deals with the collection of 'fact' relevant to reviewing the current situation given the objectives);
3. Interpretation of the data collected to determine the situation faced by the planner;
4. Calculation of the planning gap, defined as the difference between what is sought and what is likely to be unless action is taken;
5. Problem recognition to determine the type of action needed to close the planning gap;
6. Search for strategies in line with the type of action needed;
7. Evaluation of strategies to choose the one that is most appropriate to the situation;



8. Contingency planning to allow for alternative futures to the one assumed in the selected strategy.