

# CHAPTER 4

## INDUSTRY ANALYSIS

This chapter presents the information about industry analysis. Firstly, brainstorming section is set by garment experts. This team consists of managing director, production managers, general managers, purchasing managers, quality control managers, marketing manager, designer and a researcher who sets and plans for a meeting to analyze clothing industry by using Porter's five forces model.

Next, questionnaire is also used to analyze in details of manufacturers' opinion on Thai clothing industry including internal, external situation and the potential critical success factors. The analytical detail can be illustrated as follows;

### **4.1 Porter's Five Forces Model**

Michael Porter identified a framework that forms an industry as being influenced by five forces. It is generally known as Porter's Five Forces Analysis that is a useful model indicating the forces driving industry rivalry. The intensity of industry rivalry can be depicted by five forces, which consist of the threat of new entrants, bargaining power of buyers, bargaining power of suppliers, threat of substitute products and intensity of rivalry among industry competitors.

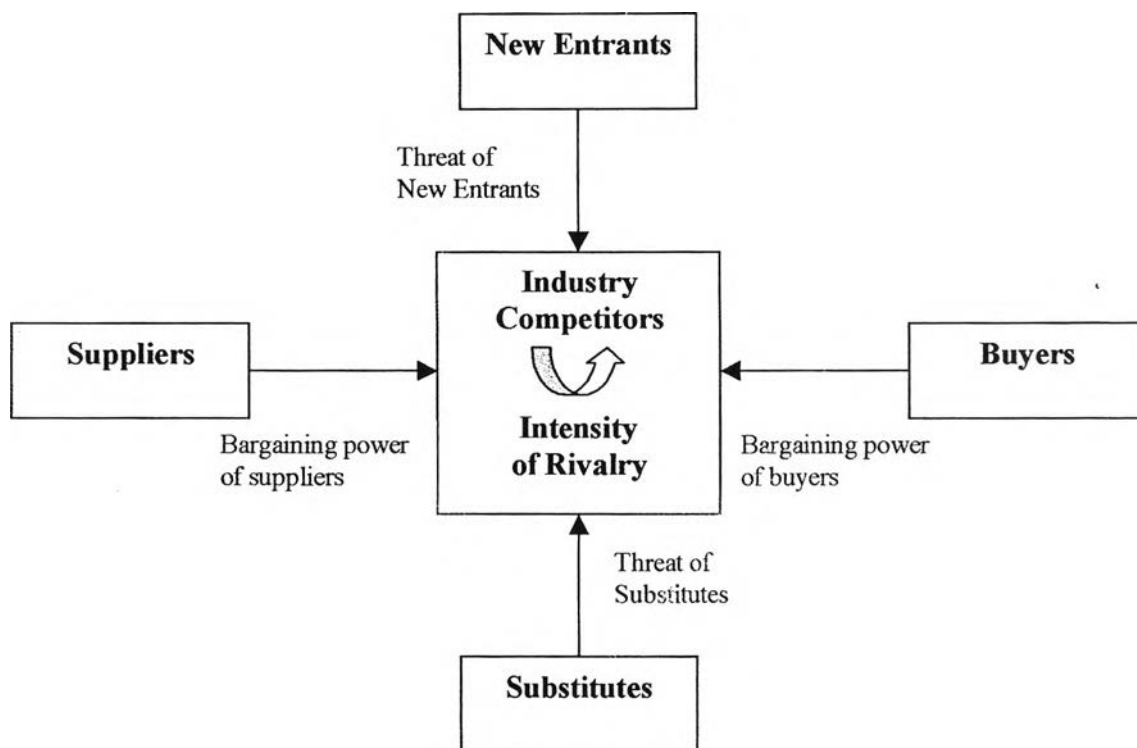


Figure 4.1 Porter's five forces model

#### 4.1.1 The threat of new entrants

In the case of clothing industry, there are many clothing manufacturers in worldwide countries for a long time. Some countries play an importance role in exports and imports such as USA, Italy, China, Hong Kong, etc in clothing industry. Moreover, clothing industry has a quite large exports market size. Although, the factual new entrants are not exist, there are a fierce competition in this industry, especially China. After joining WTO's member, China becomes stronger, driving by low pricing competitiveness. It can be said that China seems to be renewing entrants in clothing industry and can have a high market share in worldwide low and medium-end markets for commodity items with low pricing. Even though China has high potential to export to respond the demand in low and medium-end market, China may lose the export market share in high-end market, resulting by quota system. It can be interpreted that Thai clothing industry can maintain a level of the profits in high-end export market by the severe quota system but Thai clothing industry may lose the low-end market.

To sum up, the clothing industry is one of the main export industry in Thailand, therefore, if there are an increasing number of new or renewing entrants in the market, they will affect the value of exports from Thailand.

Although, being the new entrants in clothing industry are more attractive to enhance a level of profits, there are some main barriers as well. The barriers of new entrants are presented as follow:

- Economies of scales
- Production differentiation
- Capital requirement
- Access to distribution channels
- Government policies
- Cost disadvantage independent of size

#### **4.1.2 Intensity of rivalry among existing competitors**

Nowadays, clothing market size is very big in the world market, therefore all clothing manufacturers in worldwide countries entry to this market to increase their profits and enhance market shares. Thus, Thai clothing industry is confronting with high competition in clothing exports markets from various countries around the world. Because China, Hong Kong and Mexico are the significant leaders of clothing exports in low and medium-end markets, it is quite hard for Thai clothing exports to complete with these countries in global market, by low pricing. On the other hand, the products for high-end market belong to fashion leader countries such as, Italy and France. The amount of exports in these countries is not much but their clothing exports can reach in very high value.

To survive from the vital situation, Thai clothing needs to identify the threats of our competitors and then turn it into our opportunities to improve position under this situation. In the other words, it is necessary for Thai clothing industry to develop its

potential in order to complete more effectively with other existing competitors in global stage.

### **4.1.3 Bargaining power of suppliers**

A manufacturing industry requires raw material, labor, components and other supplies. This requirement leads to buyer and supplier relationships between the industry and the enterprises that provide its raw material used to produce products.

Raw materials are basically used in Thai clothing manufacturing, which are woven and knitted fabric and other accessories such as zipper, provided by domestic suppliers. Furthermore, there are many competitive suppliers in the textile market for woven and knitted fabric. Moreover, Thai clothing manufacturers import some raw materials from other countries such as Taiwan, China, South Korea, etc. Although the Thai clothing industry imports some kinds of materials from foreign suppliers, they cannot bust profits by threatening to raise prices or reduce quality. With many sources of material, the Thai clothing industry has more bargaining power than suppliers. It can be concluded that bargaining power of suppliers will not affect seriously the Thai clothing industry.

### **4.1.4 Bargaining power of buyers**

Thai clothing products are normally sold to buyers both in domestic and foreign countries. In domestic markets, the products are distributed to customers through department stores, clothing trade centers, discount stores, direct sale, etc. For the foreign market, the products are sold in the shops and department stores. In general, most of Thai clothing products are manufactured following the orders from buyers and the Thai clothing manufacturer does not have its own brand name.

Thai clothing manufacturing will face a high competition for maintaining the market shares for the brand name customers, due to our neighbor countries have a lower cost such as China, Indonesia, India. In this case, the buyer, has its own famous brand, becomes stronger and can negotiate with Thai clothing manufacturers to reduce the price and increase the quality.

In addition, the bargaining power of buyers will be strong in term of bringing down product price, if they deal in high volume of products. Under such condition, the buyers can set the product price by quarantining at the maximum volume of order for the manufacturers. Thus, Thai clothing manufacturers will be impacted from mass production because in world clothing industries, there are various countries, providing the lower costs for the commodity items than Thailand. That means the power of bargaining belongs to the buyers rather than suppliers or manufacturers.

To conclude, there are some factors that influence Thai clothing manufacturers lose the bargaining power, which are the intensity of buyers and mass volume orders.

#### **4.1.5 The threat of substitutes**

Thai clothing manufacturers provide a wide range kind of products to responding the customers' demand and reaching their requirements in various markets. Clothing product is a significant commodity item for human life, therefore the appearance of product will be changed from time to time, resulting by new design, fashion trend, product price, and so on. Although, in Porter's model, substitute products are referred to products in other industries, it cannot definitely identify the substitute products in clothing industry. This result is a good sign for worldwide clothing industries including Thai clothing manufacturing.

## **4.2 Questionnaire**

The information received from many entrepreneurs though questionnaires can be used as a tool to analyze industry situation. The received information concerns with general information of the company such as, the characteristic of business, the number of workers, the number of machines and so on. Moreover, there is the information about manufacturers' opinion to the situation of Thai clothing industry including internal and external factors that have the affect to industry. In this method, we also get the information of important factors to the success in Thai clothing industry.

#### 4.2.1 General information

We received 40 questionnaires from interviewees, found that

##### *Type of business;*

- 27 manufacturers or 67% produce the products from customers' order
- 8 manufacturers or 20% have their own brand name
- 5 manufacturers or 13% have their own brand name and produce the products from customers' order

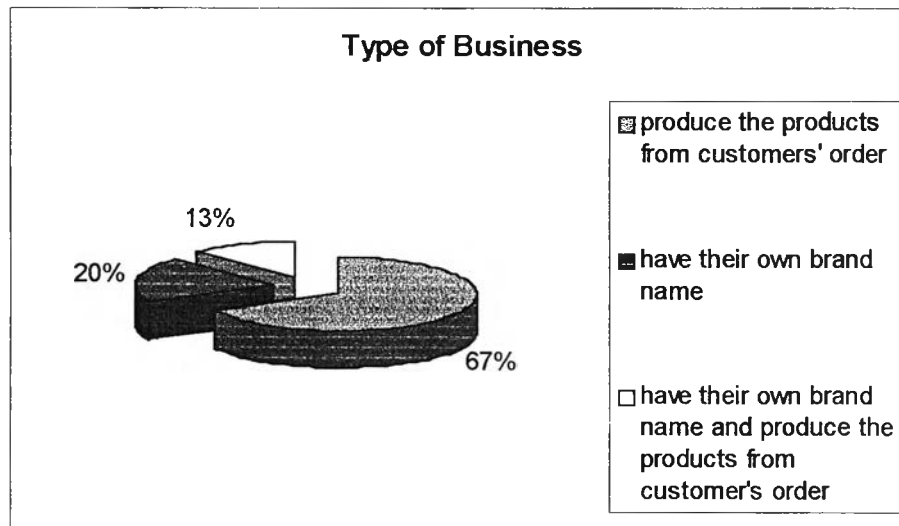


Figure 4.2: Type of business

Source: Questionnaire

##### *Number of workers;*

- 19 manufacturers or 47% have number of workers less than 50 persons
- 15 manufacturers or 38% have number of workers between 50 and 100 persons
- 6 manufacturers or 15% have number of workers more than 100 persons

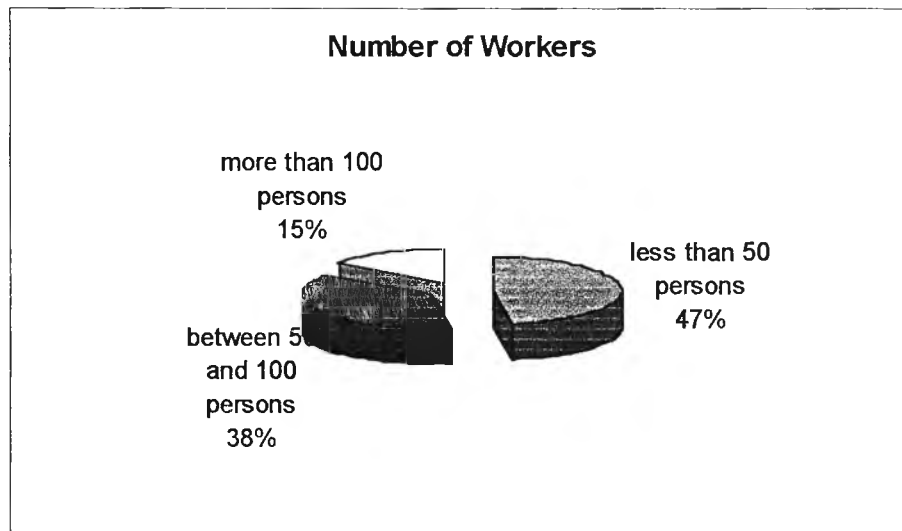


Figure 4.3: Number of workers

Source: Questionnaire

***Number of machines;***

- 23 manufacturers or 57% have less than 50 machines
- 12 manufacturers or 30% have between 50 and 100 machines
- 5 manufacturers or 13% have more than 100 machines

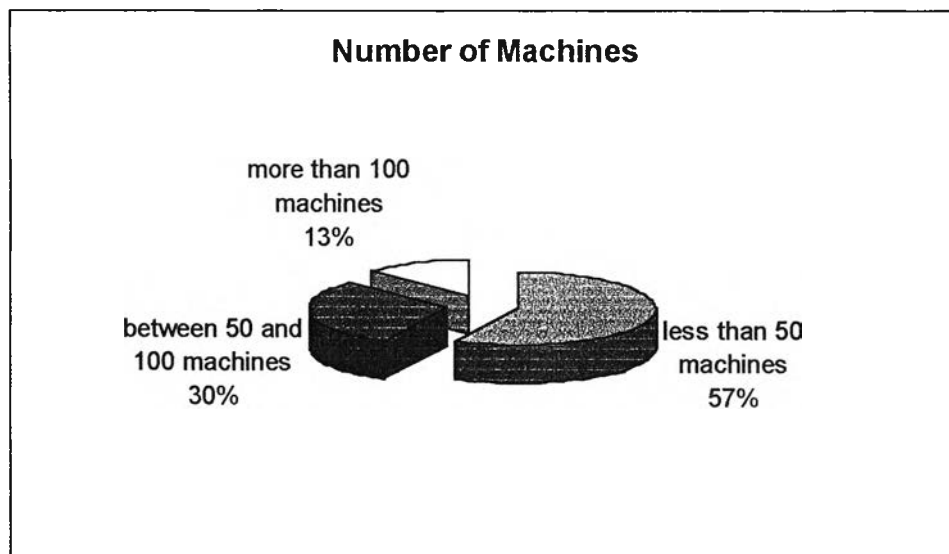


Figure 4.4: Number of machines

Source: Questionnaire

**Raw materials;**

- 28 manufacturers or 70% use raw materials from local sources
- 2 manufacturers or 5% use raw materials from international sources
- 10 manufacturers or 25% use raw materials both from local and international sources

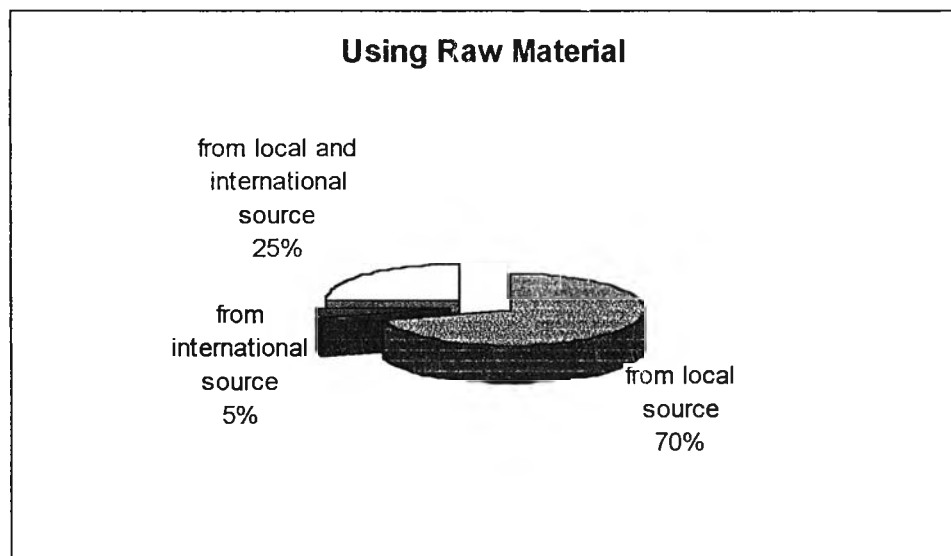


Figure 4.5: Using raw material

Source: Questionnaire

#### 4.2.2 The situation of Thai clothing industry

In this part of questionnaire, we ask for internal factors and external factors, which impact on the potential of Thai clothing industry both positive and negative aspect. Moreover, we also ask for the significant factors to the success of Thai clothing industry. The manufacturers' attitude can be the guideline in order to evaluate the current situation of clothing industry in Thailand. Obviously, the information received from this method is another important source, which can help to analyze the situation of industry more accurate.



The following table shows data from total questionnaires, which the manufacturers agree and disagree with the assumption. Furthermore, the rank of each agreed information is also established.

#### 4.2.2.1 Internal factors

In this section, we ask the manufacturers about the internal factors, which are strengths and weaknesses of Thai clothing industry. The opinion is different in each manufacturer. The conclusion of their agreement and disagreement are gathered in the following table.

Table 4.1: Manufacturers' opinion to internal factors of Thai clothing industry

Internal situation of Thai clothing industry			
	Yes	No	<i>Rank</i>
1. High labor cost	37	3	<i>2</i>
2. High cost of raw materials	7	33	<i>15</i>
3. Lack of technology	38	2	<i>1</i>
4. Lack of research & development	25	15	<i>8</i>
5. Lack of specialists	22	18	<i>9</i>
6. Lack of design capability	28	12	<i>6</i>
7. High tax rate of imported raw materials	16	23	<i>12</i>
8. High tax rate of imported machines	9	31	<i>14</i>
9. Lack of brand name development	35	5	<i>3</i>
10. Lack of management for SMEs	27	13	<i>7</i>
11. Lack of skilled labors	5	35	<i>16</i>
12. Sufficient number of workers	32	8	<i>4</i>
13. Huge local market	30	10	<i>5</i>
14. High quality of raw material	12	28	<i>13</i>
15. Center of the region	18	22	<i>11</i>
16. High production capacity	19	21	<i>10</i>

Source: Questionnaire

After the data is collected, we can rank briefly the assumption that manufacturers agree with current situation of Thai clothing industry as follow;

- Lack of technology
- High labor cost
- Lack of brand name development
- Sufficient number of workers
- Huge local market
- Etc.

#### 4.2.2.2 External factors

For external factors, we offer several assumptions that may have the positive affect to Thai clothing industry and also provide some assumptions, which can be the threats for increasing of industry's competitiveness. The conclusion of agreement and disagreement are gathered in the table as below.

Table 4.2: The affect of external factors to Thai clothing industry

External factors having affect to Thai clothing industry			
	Yes	No	<i>Rank</i>
<i>- Positive affect:</i>			
17. Free trade area	19	21	<i>3</i>
18. Trend of world population increase	24	16	<i>2</i>
19. Trend of world economic is better	25	15	<i>1</i>
<i>- Negative affect:</i>			
20. Becoming of China's WTO member	34	6	<i>1</i>
21. Uncertainty of world situation	29	11	<i>3</i>
22. Expansion of foreign products	16	24	<i>4</i>
23. Cancel quota system in 2005	30	10	<i>2</i>

Source: Questionnaire

For these external factors, the manufacturers agree that better of world economic trend, increasing of world population trend and free trade area will have the positive affect to increase the potential of Thai clothing industry. On the other hand, the most agreed assumption for negative affect involves becoming of China's WTO' membership whereas expansion of foreign products has the least affect to industry.

#### 4.2.2.3 The critical success factors

About the critical success factors, we ask the manufacturers for the factors that might lead to the increasing of industry's competitiveness. The conclusion of agreement and disagreement can be presented as follow.

Table4.3: The critical success factor of Thai clothing industry

The important factors for increasing competitiveness of Thai clothing industry			
	Yes	No	<i>Rank</i>
24. Technology development	33	7	<b>1</b>
25. Developing of labors' skills	30	10	<b>2</b>
26. Improving design capability	27	13	<b>4</b>
27. Financial support from government sector	29	11	<b>3</b>
28. Import of raw materials	10	30	<b>12</b>
29. Tax rate of imported raw materials	25	15	<b>5</b>
30. Tax rate of imported machines & equipment	21	19	<b>8</b>
31. Supporting E-commerce system	15	25	<b>11</b>
32. Increasing distribution channel	19	21	<b>10</b>
33. Marketing development	20	20	<b>9</b>
34. Supporting fashion exhibition	24	16	<b>6</b>
32. Supporting building brand name	23	17	<b>7</b>

Source: Questionnaire

The most important factors to the success in Thai clothing industry can be ranked briefly as below:

- Technology development
- Developing of labors' skills
- Financial support from government sector
- Improving design capability
- Tax rate of imported raw material
- Etc.

### **4.3 Conclusion of industry situation**

According to the information from Porter's five forces analysis and industry's information in previous chapter, it presents that Thai clothing industry is facing the problem about the strong competition for producing the clothing products to respond the customers in global market especially in low-end market. At the present, there are many high potential foreign competitors, which can produce a large amount of product with lower cost than in Thailand. These competitors include China, Indonesia, Vietnam and India. There is highly production capacity and low labor cost in these countries. Mostly, the products from these countries are sold to low-end market around the world especially the products from China. For low-end market, we can state that it is hard for Thai entrepreneurs to complete with foreign competitors who have lower labor cost.

Moreover, the information from questionnaires also support that Thai clothing industry still has some significant problems such as, lack of technology, high labor cost, lack of brand name development and etc. These problems are major obstacle to the completing in global market. Similarly, the external factors like becoming of China's WTO member, removing quota system in 2005 and uncertainty of world situation might affect the export potential of Thai clothing manufacturers.

From the industry situation, we can summarize that it is difficult for Thai clothing industry to increase the market share in global market especially in low-end market. The labor wage in Thailand is high compare to other countries, which export clothing

products to low-end market. Thailand cannot compete with other competitors in terms of the labor cost. To survive in global market, it is essential for Thai clothing industry to develop the products by emphasis the quality of product and design to sell in upper level of market. Thus, in this research we will determine the significant factors to enable Thai clothing industry has the potentiality to complete in higher level market.