CHAPTER 2

LITERATURE REVIEWS

2.1 Introduction

The first step of strategic management is the step of strategic analysis, which includes internal and external analysis.

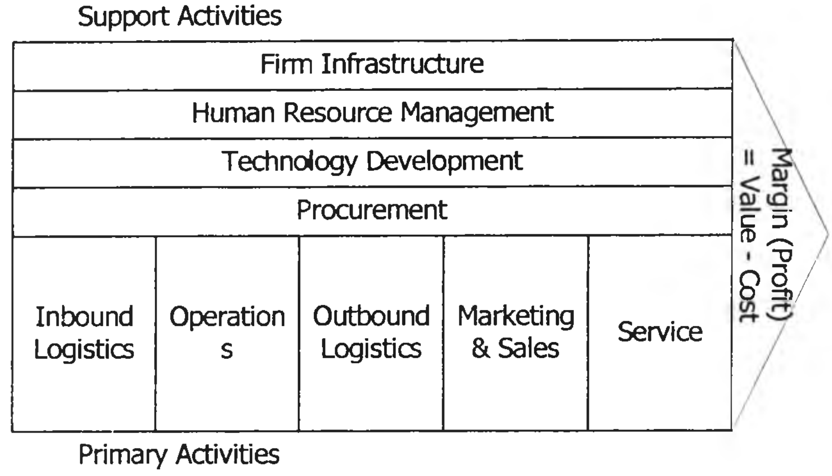
In term of ***internal environment analysis***, *"the internal contexts can be the tangible and intangible resources possessed by firms and how distinctive core skills and capabilities are developed. It is the ability to nurture and develop strategically relevant internal skills and capabilities that generates competitive advantage.*"(Ellis and Williams, 1995) The organisation's competitive position must be clarified in relation to the market place and leading competitors.

For ***external environment analysis***, an organisation's marketing environment is defined by Kotler (1991) as being "*made up of the actors and forces that affect the company's ability to develop and maintain successful transactions and relationships with its target customers.*" The key component of the organisation's task in order to analyse external environment including markets, customers, competitors, suppliers, distributors and facilitators. These tasks can be applied by using Porter's five forces competitor analysis.

2.2 Porter's Value Chain Analysis

Michael E. Porter suggests the effective way to carry out internal analysis that is to view the business is a collection of activities that are performed to design, produce, market, deliver, and support its products and services. All these activities can be represented using a value chain, illustrated in order to understand the behaviour of costs and existing & potential sources of differentiation. Competitive advantage is achieved by performing these strategically important activities more cheaply or better that its competitors.

Figure 2.1: Porter's value chain analysis model.



The value chain of an individual business is part of a value chain, which includes suppliers and customers. The achievement of competitive advantage relies upon a business understanding not only its own value chain but also how to fits into overall value chain.

The value chain displays total value, consisting of value activities and margin. The value activities can be divided into two board categories: primary activities and support activities.

2.2.1 *Primary Activities:*

Listed at the bottom of the figure, these are involved in the physical creating of the product and its sale and transfer to the customer as well as after sales service. The primary activities of the organisation are grouped into five main areas:

1. ***Inbound logistics*** are the activities concerned with receiving, storing and distributing the inputs to the product/service. These include materials handling, stock control, transport, etc.
2. ***Operations*** transform these various inputs into the final product or service: for example, machining, assembly, packaging, testing, etc.
3. ***Outbound logistics*** collect, store and distribute the product to customers. For tangible products this would involve warehousing, materials handling, transport, etc.; in which are services it may be more concerned with arrangements for bringing customers to the service if it is in a fixed location.

4. ***Marketing and sales*** provide the means whereby consumers/users are made aware of the product/service and are able to purchase it. This would include sales administration, advertising, selling, etc. In public service, communication network, which help users access a particular service are often important.
5. ***Service*** covers all those activities, which enhance or maintain the value of a product/service, such as installation, repair, training, spares, etc.

2.2.2 Support Activities:

These support the primary activities and each other by providing purchased inputs, technology, human resources and various business functions. These support activities can be divided into four areas:

1. ***Procurement.*** This refers to the process for acquiring the various resource inputs to the primary activities (not to the resources themselves).
2. ***Technology development.*** All value activities have a 'technology', even if it is simple 'know-how'. The key technologies may be concerned directly with the product (e.g. R&D product design) or with processes (e.g. process development) or with a particular resource (e.g. raw materials improvements).
3. ***Human resource management.*** This is a particular important area, which transcends all primary activities. It is concerned with those activities involved in recruiting, training, developing and rewarding people within the organisation.
4. ***Infrastructure.*** The systems of planning, finance, quality control, etc. are crucially important to an organisation's strategic capability in all primary activities. Infrastructure also consists of the structures and routines of the organisation, which sustain its culture.

Moreover, for the most effectiveness in value chain analysis, Porter (1985) suggests, "*The value chain analysis involves the following steps:*

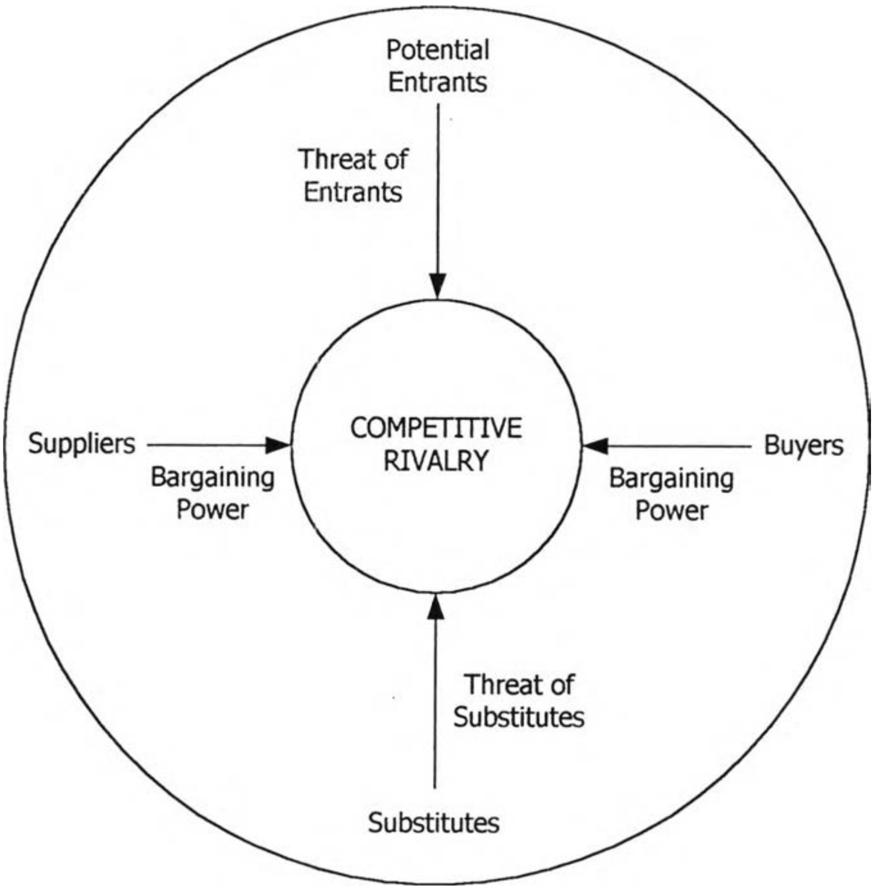
1. *Examine each product line's value chain.*
2. *Examine the linkages within each product line's value chain.*
3. *Examine the potential synergies among the value chains of different product lines or business units.*"

From this analysis, the organisation should increase its awareness concerning cost and the potential for lower costs and for differentiation in comparison with its competitors.

2.3 Porter's five Forces Competitor Analysis

The Porter's five forces approach can be included as a principle form in order to examine the forces that influence the organisations. Using this approach helps to develop the competitive advantage of the organisations. This approach comprises the threat of entry or barriers to entry, the extent of competitive rivalry, the threat of substitutes, the bargaining power of buyers, and the bargaining power of suppliers.

Figure 2.2: Porter's five forces competitor analysis model.



Source: Johnson and Scholes (1988), Exploring Corporate Strategy.

2.3.1 Threat of new entrants:

There are seven major sources of barriers to entry. These include economic of scale, product differentiation (brand name), capital requirements, switching costs, access to distribution channels, cost disadvantages independent of scale, and government policy.

2.3.2 Intensity of rivalry between existing competitors:

In fact, some markets are more competitive than others. The intensity of rivalry will be greater if:

1. The equal size of competitors are seeking dominance,
2. Product homogeneity requires activity to maintain share,
3. High fixed costs arouse price wars to maintain capacity,
4. The market life cycle is in the mature stage,
5. New inflows capacity have created excess capacity, and
6. High exit barriers in terms of legal constraints exist such as high cost non-transferable plant and equipment, emotional commitment.

2.3.3 Threat of substitutes:

Substitutes do not entirely replace existing products but reduce the costs of producing the same product or introduce new technology. As a result, the key issues that should be analysed are:

1. The possible threat of obsolescence,
2. The ability of customers to switch to the substitute,
3. The cost of providing some extra aspect of the service that will prevent switching, and
4. The likely reduction in profit margin if prices come down or are held.

2.3.4 Bargaining power of buyers:

Buyers mean the customers of the organisation. They will have more bargaining power under the following conditions:

1. If buyers are concentrated and there are few of them,

2. If the product from the organisation is undifferentiated,
3. If backward integration is possible, and
4. If the selling price from the organisation is unimportant to the total costs of the buyer.

2.3.5 Bargaining power of suppliers:

Suppliers can be more powerful if they are under the conditions as follows:

1. There are only a few suppliers,
2. No substitutes for the supplies they offer
3. Suppliers' prices from a large part of the total costs of the organisation, and
4. A supplier can potentially undertake the value-added process of the organisation.

2.4 SWOT Analysis

SWOT is an acronym for an industry's Strengths and **W**eaknesses and its environmental **O**pportunities and **T**hreats. It is a study of organisational resources and capabilities that assesses the industry's strengths and weaknesses and scans the external environment to identify both opportunities and threats. This analysis provides management with a critical view of the industry's internal and external environments. It is useful in evaluating the industry's fulfilment of its basic mission.

Warwick Manufacturing Group (1999) advises some suggestions as to what to look for in the final SWOT analysis as:

2.4.1 Strengths (Positive Internal Analysis)

- What are the firm's distinctive competencies and how well do these translate into competitive advantage?
- Is acknowledged as market leader?
- How resilient is the firm to competitive pressure?
- How is it perceived by the customers?
- How innovative are the products?
- Is the technology proprietary/home grown?

- Are the financial resources adequate?
- Does the firm have well conceived area/functional/SBU strategies?
- Is there a cost disadvantage; economics of scale?
- Is there a quality advantage?
- Are the management skills proven in this area?
- Others?

2.4.2 Weaknesses (Negative Internal analysis)

- Is there no unique or distinctive competencies or competitive advantages?
- Does the firm have no clear strategic direction?
- Is the competitive position deteriorating?
- Is the firm vulnerable to new competition?
- Does the firm have a poor image or reputation in the eyes of the customer?
- Are the marketing stills below average?
- Is the firm falling behind in R&D?
- Is the product range too narrow or too broad?
- Does the competition all access to same technology?
- Is there insufficient finance to fund new strategies, R&D, etc.?
- Are facilities obsolete?
- Is management poor/inexperienced?
- Others?

2.4.3 Opportunities (Positive External Analysis)

- Is there potential for market growth?
- Is there potential to serve new customer groups, markets or market segments with existing products?
- Can new/enhanced products be launched?
- Is there potential for diversification?
- Is there complacency/lack of capability amongst competitors?
- Others?

2.4.4 Threats (Negative External Analysis)

- The market growth slowing?
- What is likelihood of new competitors entering the market or a growth in competitive pressure?
- Is there a growth in substitutes?
- Is the firm vulnerable to recession?
- Is the government likely to take unfavourable action (policy, regulation or new legislation)?
- Is the power of customers & suppliers growing?
- Are customer tastes changing; due to social/demographic changes?
- Others?

From reading many texts and articles, we could summarise the concept of SWOT analysis in several points of view as follows:

Johnson et al., (1989) stated, "*SWOT analysis can be simply understood as the examination of an organisation's internal strengths and weaknesses, and its environments, opportunities, and threats. It is a general tool designed to be used in the preliminary stages of decision-making and as a precursor to strategic planning in various kinds of applications.*"

We strongly agree with Johnson et al., we believe that when correctly applied, it is possible for Thai jewelry industry to get an overall picture of its present situation in relation to its supplier, customer and competitor countries. An understanding of the external factors, (comprised of threats and opportunities), coupled with an internal examination of strengths and weaknesses assists in forming a vision of the future.

Bartol et al., (1991) suggested that "*SWOT usually reflect a person's existing position and viewpoint, which can be misused to justify a previously decided course of action rather than used as a means to open up new possibilities. It is important to note that sometimes threats can also be viewed as opportunities, depending on the people or groups involved. There is a saying, a pessimist is a person who sees a calamity in an opportunity, and an optimist is one who sees an opportunity in a calamity.*"

We also agree with Bartol et al., in the point that sometimes threats can also be viewed as opportunities. Therefore, we should determine opportunities and threats carefully. It should be recognised that opportunities and threats are not absolute. What might at first seem to be an opportunity may not emerge as such when considered against the resources of the organisation or the expectations of society. The greatest challenge in the SWOT method could probably be to make a correct judgment that would benefit all the industry.

Glass, N. M. (1991) listed that "*A SWOT analysis looks at future possibilities for the institution through a systematic approach of introspection into both positive and negative concerns. It is a relatively simple way of communicating ideas, policies, and concerns to others. It can help administrators to quickly expand their vision. Probably the strongest message from a SWOT analysis is that, whatever course of action is decided, decision making should contain each of the following elements: building on Strengths, minimizing Weaknesses, seizing Opportunities, and counteracting Threats.*"

From Glass's words, we believe that a SWOT analysis can be an excellent, fast tool for exploring the possibilities to build on strengths, minimise weaknesses, seize opportunities, and counteract threats for developing the potential of Thai jewelry industry. Moreover, in order to be most effectively used, a SWOT analysis needs to be flexible. Situations change with the passage of time and an updated analysis should be made frequently. SWOT is neither cumbersome nor time-consuming and is effective because of its simplicity. Used creatively, SWOT can form a foundation upon which to access the critical success factors of Thai jewelry industry and strategies to achieve them.