

CHAPTER 7

THE CRITICAL SUCCESS FACTORS AND STRATEGIES

After the expert team selects the critical success factors by weighting method in previous chapter, this chapter presents the details in each aspect of the critical success factors, which enable Thai clothing industry to complete with other foreign competitors in medium and high-end market.

According to the situation analysis, the data received from 40 entrepreneurs by questionnaire, the expert team selects six major critical success factors of Thai clothing industry, which consist of:

- Technology
- Human Resource
- Brand name
- Tax
- Financial support
- Raw material

Moreover, the detail of each critical success factor and the strategies to achieve these factors are also illustrated by the following.

7.1 Technology

At the present, Thai clothing industry is facing the problems about inefficiency of manufacturing process, which has the result from out-of-date machines and obsolete manufacturing technology. Most of machines used in this industry are operated for a long time with low technology. From this cause, it can lead to low capacity and

inconsistency of product quality. Thus, technology is an important factor that can help Thai products compete with products from other foreign countries.

Although clothing industry is defined as the labor-intensive industry, many of high technology production machines are certainly essential. This is because the products are produced as mass production so the quantity and quality will become the important factors in this industry. Nowadays, there are few numbers of clothing manufacturers in Thailand that use high technology machines in their operation. The existing modern machines are used in specific companies especially in the large size of company.

In general, high technology machines such as, computer pattern, design, grading and marking system, computer cutter system and computer spreader system not only help manufacturers reduce production time and costs but also they provide the quality of products consistency. As a result, lead-time of production and the cost from hiring labors can be reduced. From this reason, it can be stated that technology is an important success factor, assisting Thai clothing manufacturers have more competitive advantage for completing in the global market.

However, most of high-tech machines are imported. Using high technology machines from abroad result in the production processes are more effective but it would be better if these machines are designed and produced in Thailand. Nowadays, Thai clothing industry needs to import high-tech machines from foreign countries with very high price. This leads the company spend more money in this field instead of using in development of other parts in the company. Thus, in order to reduce the production cost from purchasing these modern machines, it is necessary to do more research and development in Thailand so that in the future clothing manufacturers will have lower price of modern technologies use in manufacturing process.

Therefore, in order to achieve this success factor, the supportive strategy is:

- ***Support technology development***

Research and development is the significant factor to improve the effectiveness and capability of machines and equipments. Although this activity normally spends more time and money, it has a positive impact on Thai clothing manufacturers to develop the business in long-term period. However, so as to make a progress in technology development, the government should support this research and development activity through Ministry of Science and Technology. For this strategy, not only the manufacturers can purchase lower price of machines but also it can be a good chance for Thai engineers to develop and improve technology for manufacturing processes in various industries in Thailand.

- ***Provide cheaper machines to manufacturers***

Some of modern machines can give high benefits to manufacturers' production processes. Certainly, the cost of these machines is so high, which is difficult for small and medium manufacturers to invest. Thus, the government sector in the part of industrial promotion department should provide the opportunity to these manufacturers. Leasing is an appropriate way to allow these manufacturers spend less money for investment. This strategy will help entrepreneurs to have more chance to use high-tech machine in business operation.

In conclusion, Thai clothing industry is facing the problem of low production efficiency, which is the result from out-of-date machines and obsolete manufacturing technology. Thus, machines and equipment used in process should be developed and supported continuously in order to increase the efficiency of production process and reduce costs of production.

7.2 Human Resources

In this clothing industry, besides high technology machines can assist to increase productivity and quality, one of the most important factors is concerned with human resources. Thai labors generally have enough skill to work effectively in manufacturing processes, which produce the products for medium and high-end market. In low-end market, Thai manufacturers have to face the problem about the lower labor costs of foreign countries, such as China, Sri Lanka, India and Vietnam. This is the difficulty for Thai products to complete with the products from these countries in low-end market. Thus, in order to avoid high competition in low market, Thai manufacturers need to enhance their products to sell more in higher level of market. In this case, high skilled workers and designers are required.

At present, Thai clothing products distributed to low-end market are being threatened from the products of neighboring countries, which has lower price. This is because these countries have lower labor costs than in Thailand. In this case, it is difficult for Thailand to complete with these countries in low-end market. Thus, Thai manufacturers need to enhance the value of products by emphasis on quality and design to respond the demand of customers in upper market.

Due to clothing industry is labor-intensive industry, skilled labors is an important factor for developing this industry. If labors do not have enough skill, it will lead to spending more time for production and inconsistency of product's quality, which is the negative impact on the business. Thus, in order to build up the products to higher market, developing skill's labors need to be operated.

Moreover, another important key success factor in clothing industry involves design activity. Nowadays, Thai clothing industry is still lack of fashion designers. Most of products are produced as mass production with common style whereas in each year fashion leaders such as, Italy, France, USA, UK and Hong Kong produce many kinds of fashionable clothing. Furthermore, most of products from these countries are sold into

high market. Thus, if Thai clothing producers want to be one of fashion leaders, designing method need to be developed.

To be successful, there are several strategies to achieve the critical success factor in term of human aspect, which consist of:

- ***Establish training courses within the company***

Training can help production workers understand the knowledge together with improve their working's skills. The manufacturers should arrange the training courses and seminars continuously to develop labors' capability. Moreover, the government organizations such as, Department of Industrial Promotion should provide specialists to teach and train the workers in the company continually.

- ***Develop personal to enhance the capability in clothing industry***

This strategy can be the way to increase the potential of personal in Thai clothing industry and to develop personal capability in term of knowledge and skills. The Department of Industrial Promotion, Ministry of Industrial and Thai garment development foundation should arrange and support the strategy in term of providing knowledge and education courses and seminars.

- ***Develop the standard and skilled labor enhancement***

Thailand-Government Labor: Department of Skill Development, Ministry of Labor should support clothing industry in term of improving Thai labors' skills and enhancement their capability by arranging the training course for both the existing labors and potential labors in clothing industry. This lead to the understanding and practicing of labors for working efficiently in the clothing industry.

- *Develop education programs in educational institute*

Many curriculums in universities and colleges that involve clothing industry should be developed to suit to current situation in term of production process, technology utilization and so on. Education programs development can help to increase the number of knowledgeable specialists in clothing industry in Thailand.

7.3 Brand name

Nowadays, Thai clothing products are still lack of brand name development. Most of Thai manufacturers do not have their own brand name. If they have, their brands are still not popular or well known. Normally, brand name is the important component to enable the products well known. Besides the quality of products, brand name is a factor that the customers will consider before buying the products. Moreover, it can influent the customer's decision to buy the products. When compare to famous brand names from Hong Kong and other western countries, it is disadvantage for Thai products to increase market share in global market for medium and high-end target markets. The quality and prices of Thai clothing can complete with products from other countries but Thai brand name image needs to develop more.

Brand name not only makes the customers know the products but also it can present the potential of Thai products in global stage. From the advantage of brand image development, it can say that brand name is one of the most important key success factors in developing Thai clothing industry. Additionally, to accomplish critical success factor in term of brand image, the strategies to achieve could be as follow:

- *Promote Thai brand name to global market*

In this case, Thai manufacturers should be supported from government sector such as, Department of Export Promotion in order to

promote Thai brand name to international market. It can be done by arranging fashion exhibition or holding fashion fair.

- ***Support building Thai brand name***

Besides promotion of existing brand name, building the new brand name is one of useful ways to enhance the product image. However, the products under Thai brand name should be controlled the standard to ensure that the products have the quality enough to sell to customers. In this case, it should be under the responsibility of the government section such as, Ministry of industry.

- ***Establish fashion fair***

In this case, government, private association and entrepreneurs should collaborate to present Thai clothing products. Due to only Thai manufacturers who have own brand name cannot arrange a huge fashion show similar with western fashion leaders, the government section should support establishment of fashion fair by promoting and advertising to Thai and foreign visitors.

- ***Support E-commerce system***

At the present, running the business through E-commerce system is convenient and popular. The products can be presented to customers around the world under global network. To promote Thai clothing products to international market, trading by E-commerce should be established. In this case, the government sector by Department of Export Promotion should support E-commerce system to increase the distribution channel for Thai exporters. This strategy enables Thai clothing products to be well-known in global market.

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- ***Support management in SMEs:***

There are many small and medium entrepreneurs in Thai clothing industry. They are normally still lack of management system in terms of financing, marketing and so on. If management system of SMEs is operated, it will have a positive affect to overall of Thai clothing industry because most of manufacturers have small and medium size. Thus, the management process in SMEs should be developed in order to increase their potential and competitiveness for completing in local and international market.

7.4 Tax

Although most of raw materials used in clothing production process can be produced within the domestic, some of them have to import from foreign countries. If imported raw materials in fiber production process are expensive, it will lead to high cost of production in this process and the next process. This is because manufacturing process in textile industry has continuously involvement, as business cycle.

At present, the price of imported raw materials is high due mainly to high import tax rate. In Thailand, tax rate for imported raw materials is high compare to other

neighbor countries such as, Indonesia, Taiwan and Malaysia. These countries are our important competitors so Thailand would have disadvantage from high import tax rate.

If tax rate decreases, the cost of production of will reduce also. Thus, tax can be one of the most important factors to enable the business success.

The strategies to achieve critical success factor in term of tax are presented as follow:

- ***Provide the suitable import tax rate of raw materials***

In Thailand, tax rate of imported raw materials is high compare to other foreign competitors. Thus, to reduce production cost from raw materials, Department of Foreign Trade, Ministry of Commerce should have the policies and measures for reduce tax rate of imported raw materials. It will help Thai manufacturers to have more competitive advantage for the cost of production.

7.5 Financial support

Financial support is another significant factor for running business because it is a source of fund for investment and operation. Clothing industry is one of industries that needs a quite high financial support for investment in factory, machines, equipment, and the working capital and operation usage. The clothing industry invests a large amount of money to set up the factory and buy machines, which is presented as capital investment. Setting up factory uses high capital investment in the beginning of operation period, therefore the clothing industry needs to raise funds by loaning from the bank in long term obligations or the other ways.

After running the operations, the clothing manufacturing also has to use a working capital for costs of production, factory overhead costs and other expenses. However, in clothing manufacturing, the cost of raw material is a major cost of

production costs, which occupies 65 percent of total production costs. That means a working capital is allocated in large amount for raw material costs. Moreover, to increase their production capacities, the manufacturers need a large amount of money for purchasing new high technology of machines and equipment. Because high technology of machines have to import from other countries such as USA, Japan and Italy, which are more expensive than before. In case of import raw material or machine, the clothing industry faces high costs that are affected by the fluctuation of Thai Baht.

From above mentioned, the clothing manufacturers allocate a large amount of funds for capital investment and working capital, therefore they needs to contain more financial support to prevent liquidity problem. Liquidity problem will be happen when outflow of money is higher than inflow of money. Moreover, from data collection, most of Thai clothing manufacturers are small size enterprises, up to 10 million Baht. Therefore, some of them may not have sufficient financial support to run on the customers' orders. In clothing manufacturing, the manufacturers need to pay for production costs such as raw material, wages and other expenses before delivery shipment, and they will receive the payment after delivery shipment. As a result, they will face with the liquidity problem from the lead-time of cash inflows and cash outflows.

Therefore, it can be said that the financial support is another critical success factor for Thai clothing industry to survive in the global market.

To reach the critical success factors, there are several strategies to support the Thai clothing manufacturers in term of financial support.

- ***Provide financial support***

Government should have the policy to promote the clothing industry for their exports and investments so as to complete with the other competitors. The government should support financial fund for clothing export industry to invest in high technology machines and equipments. In

addition, the manufacturer will have more liquidity for doing business. The government should also cooperate with the relevant institutions such as Export-Import Bank (EXIM Bank) and The Industrial Financial Cooperation of Thailand (IFCT) to support Thai clothing industry in terms of long-term loans with low interest rate. Therefore, the financial fund will assist manufacturers to eliminate the financial problems and have opportunity to grow in future.

7.6 Raw Material

In general, raw material is a fundamental input of manufacturing industry. In Thai clothing industry, fabric is an essential raw material to produce clothing products. In general, the types of clothing products are classified by the types of fabric, which are woven fabric and knitted fabric. Clothing industry is the bottom sector of textile industry, therefore raw materials can be supplied from domestic suppliers, which are the upstream and midstream industries of textile industry. However, clothing industry needs to import some kinds of raw materials from other countries for advance the quality of products, due to domestic suppliers cannot produce and supply such as wool and animal hair, woolen yarns and yarn of animal hair.

Therefore, it can say that raw material is one of the most critical success factors for the clothing manufacturing to advance and upgrade the quality of products for maintaining their competitiveness in the world market.

The clothing product is basically defined into two major groups as the types of fabric. Types of fabric can be made more complex to increase the fabric product lines and value-added for clothing products. Therefore, the various fabric product lines can assist the clothing manufacturers to upgrade the clothing products. However, there are some limitations in Thai textile industry to develop various fabric product lines because there is lack of high and modern technology to produce some kinds of fabric and develop fabric in high quality as other countries such as USA, Italy and Japan. The Thai textile industry

may not have sufficient financial support to invest in high technology. Therefore, the limitations of the Thai textile industry are also the barriers to the Thai clothing industry, due to both of them are very close related in business cycle.

As a result, the Thai textile industry may not perfectly supply the material in high quality as other countries for Thai clothing exports. Thai clothing exports in the global market are necessary to concern the quality of products and the differentiated products, therefore Thai manufacturers needs to import the raw material from high technology countries to occupy for medium and high-end market competitiveness in the global stage. Although, the Thai clothing industry can complete with other competitors in terms of the quality of products and the differentiated products, they may not lose the competitiveness in price to some countries due to high costs of raw materials. In contrast, for domestic markets, Thai manufacturers are not necessary to import raw material from abroad because they can use local raw material and competition in quality of product is low.

From the above mention, not only the lack of quality of raw material is a barrier for Thai clothing industry, but also the cost of production will increase from import raw material. Thus, it can be concluded that raw material is a significant critical success factor for Thai clothing industry. The Thai clothing industry should set up the potential strategies to tackle the barriers and to increase the competitiveness in the international markets.

There are some supportive strategies to achieve critical success factor in term of raw material that are presented as below:

- ***Develop policy of raw material tax***

The government by Department of Foreign Trade should have the policy to reduce import tax for textile raw materials. This will have the advantages to the clothing industry to reduce cost of raw materials. As a result, the manufacturer will have price competitiveness in the world market. The government by Customs

Department should have the policy for returning import tax to export manufacturers who import raw material within short period of time in order to minimize sunk cost and liquidity problem of the manufacturers. In addition, the government by Ministry of Commerce and Ministry of Foreign Affairs should develop international relationship to cooperate with other countries in order to promote and support the export of their raw materials to Thai clothing industry.

- ***Support coordination within Thai textile industry***

Since the clothing industry and textile industry closely relate with each other, these industries will secure and expand their competitiveness in the world market by coordinating within textile business cycle. To improve the quality of clothing raw material, the manufacturer of industry, textile and clothing industry should communicate with each other to share the information within the cycle. Thus, the manufacturers do not have to import the raw material because they can be supplied high quality of raw material by local market. As a result, the cost of production will be decreased. With low cost of production, the clothing manufacturer will have the competitiveness in terms of price and quality of product.

- ***Survey new sources of raw materials***

The government by Department of Export Promotion and Private Institution, Thai Garment Manufacturers Association and Thailand Textile Institution (THTI) should arrange the international textile exhibition in Thailand to provide new sources of raw material for Thai clothing industry. In addition, the manufacturer should join the International trading fair such as Text World to find new sources of material from abroad.