

Chapter 2

Industry Analysis

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I. Diamond Model

The four attributes of company attributes individually and as a system constitutes the diamond of company advantages as well as disadvantages. These attributes are

1. Factors conditions: factors that company can supply their customers and necessary to compete with competitors.
2. Demand conditions: The nature of home-market demand for the product or service.
3. Related and supporting industries: The presence or absence of supplier industries and other related industries that are competitive.
4. Firm strategy, Structure, and Rivalry: The conditions that show how companies are created, organized, and managed, as well as the nature of domestic rivalry.

The determinants create the environment in which companies are born and learn how to compete. Each point on the diamond affects essential ingredients for achieving competitive success: the availability of resources and skill necessary for competitive advantage in an industries; the information that shapes the opportunities that companies perceive and the directions in which they deploy their resources and skills; the goals of the owners, managers, and individuals in companies; and most important, the pressures on companies to invest and innovate.

When a national environment permits and supports the most rapid accumulation of specialized assets and skills, sometimes simply because of greater effort and commitment, companies gain a competitive advantage. When a national environment affords better ongoing information and insight into product and process needs, companies gain a competitive advantage. Finally, when the national environment pressures companies to innovate and invest, companies both gain a competitive advantage and upgrade those advantages overtime.

Figure 2-1 : *Umbrella Making Center 1978 Co., Ltd* and Stakeholders

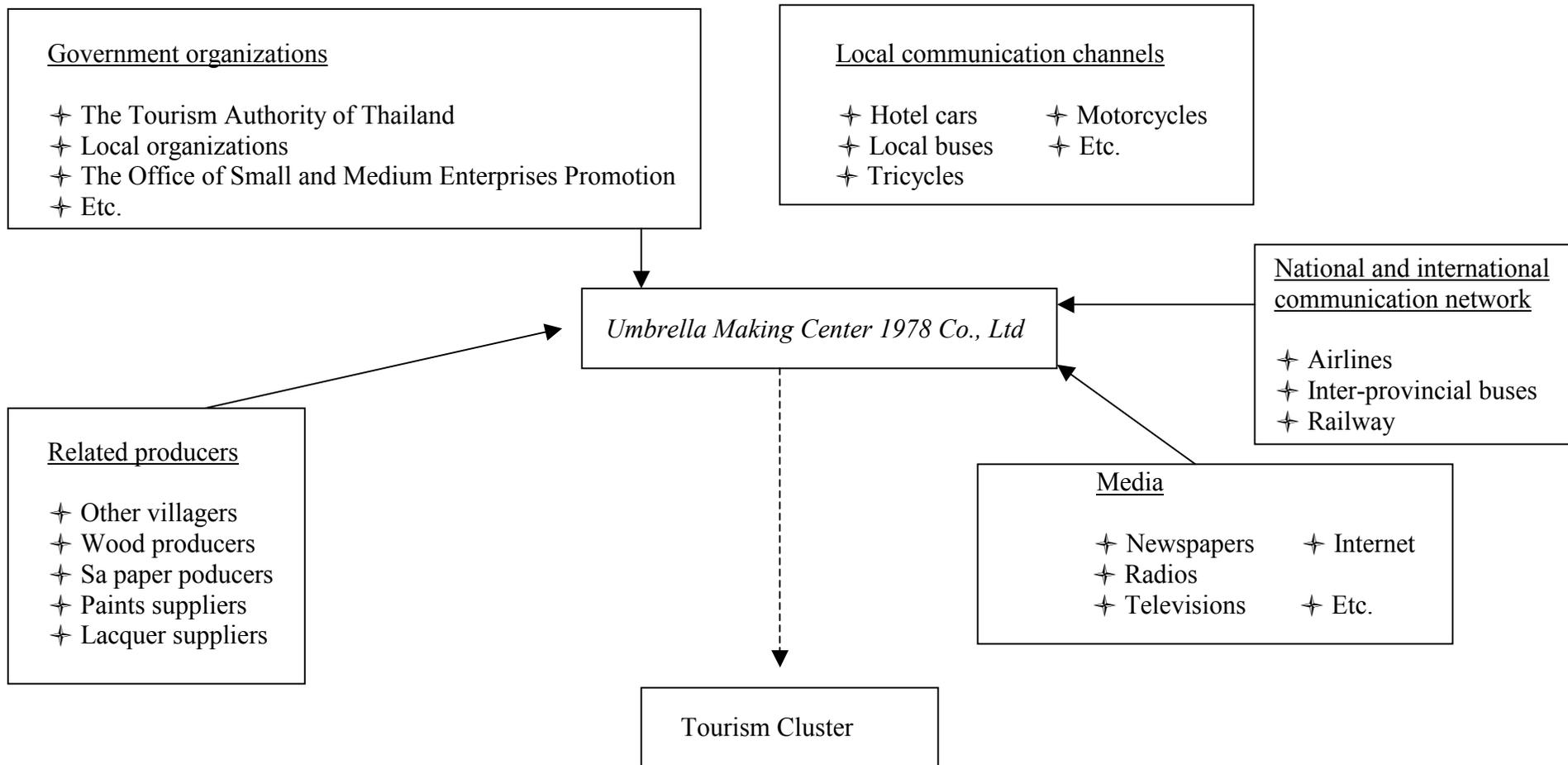
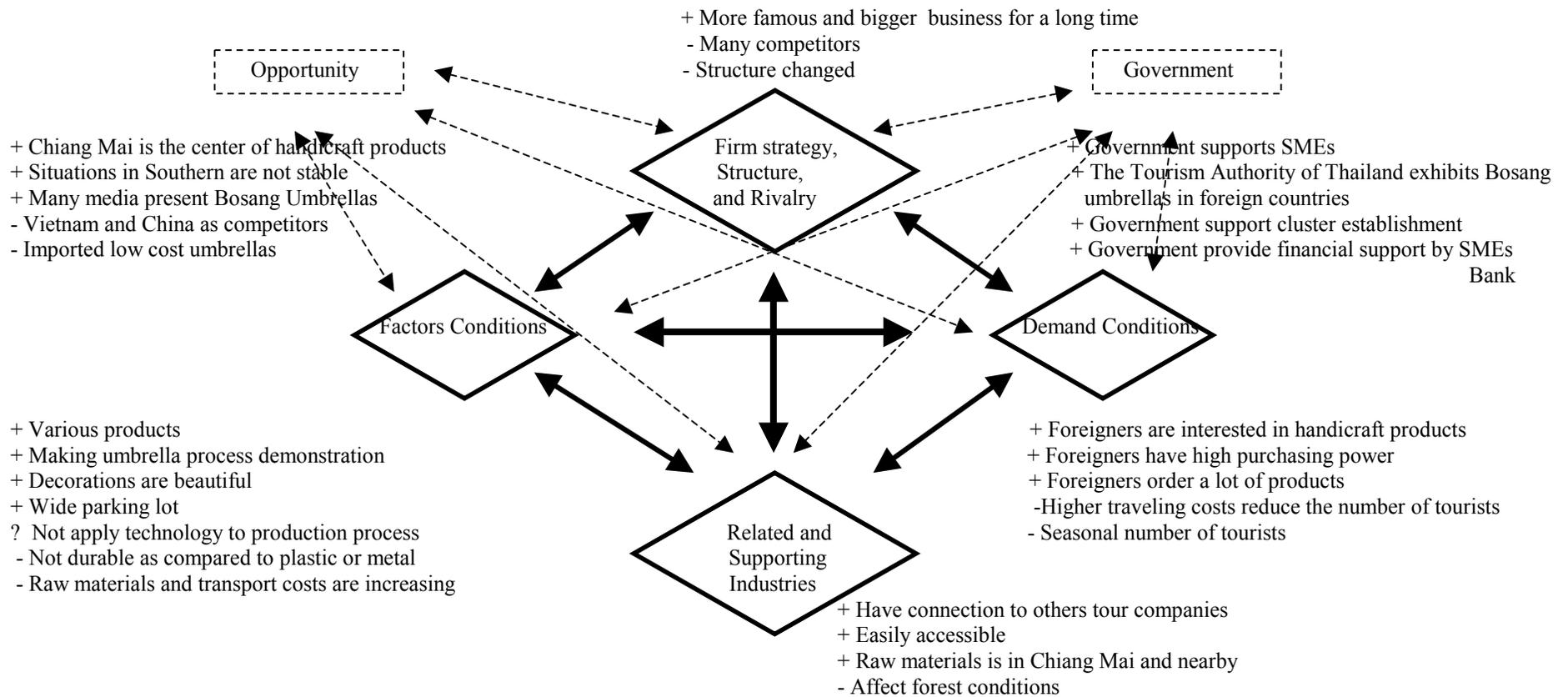


Figure 2-2 : Diamond Model of *Umbrella Making Center 1978 Co., Ltd*



II. Factor Conditions

Not only *Umbrella Making Center 1978 Co., Ltd* sells Bosang umbrellas, they also sell other handicraft products such as painting and sculpture etc. So there are various products in the company. When tourists visit here, they may be not be interested in Bosang umbrellas. Then they can buy other products. An interesting point for the company is presenting Bosang umbrella process demonstration. Not only tourists can shop many products, they can see the whole process of making Bosang umbrellas also. Moreover there is space for parking. Tourists can also spend time for shopping and refreshing.

Chiang Mai people are known as calm and patient. That is good point that the decorations on the umbrellas are beautiful, artful and unique. There are many styles to decorate umbrellas for customers' (tourists') choice. And they can design their own style. Moreover, customers let workers paint on their bodies. This is famous for foreigners too.

Making umbrella process does not apply technology to its production process. It still maintain local making umbrella from the past. Many customers are attracted by this local wisdom. However, the company cannot expand to mass production. The process only depends on labor. Sometimes the company cannot produce enough umbrellas to customer wants. Then the company cannot raise sales more as it should be.

About raw materials, the company uses Sa paper and wood to make umbrellas. These materials are not durable as compared to plastic or metal. Then nowadays (year 2005) raw materials such as wood become scarce. It makes price of wood higher. Transportation cost is also increasing. It is increasing as the result of fuel prices increase. These make cost of production increase.

III. Demand Conditions

Demand for major products, Bosang umbrellas, is mostly foreigners' demand. It is because foreigners are interested in Thai handicraft products. They have high purchasing power. They do not only buy Bosang umbrellas for souvenirs but they still order a lot of umbrellas from their countries also. So Bosang umbrellas are a major product in the company for exporting.

However, higher traveling costs, lodging cost and other expenses, can reduce the number of tourists. Furthermore, number of tourists depends on season. Many tourists prefer to come to Chiang Mai during winter and festival season.

IV. Related and Supporting Industries

The company is related to tourism business. When tourists visit Chiang Mai, they also come to the company and buy products for souvenirs. So the company has connection to other tourism agencies. When tourism agency takes their tourists to Chiang Mai, it will stop at *Umbrella Making Center 1978 Co., Ltd*

and let tourists buy the souvenirs. Moreover Chiang Mai is a big city in Northern area. There are many streets and roads to everywhere in Chiang Mai. It is convenient to go to *Umbrella Making Center 1978 Co., Ltd.*

For production process, raw materials that make umbrellas can be found in Chiang Mai and nearby area. Sa paper and wood are major raw materials. The company can produce some of Sa paper by itself and order it from Tonpao village. Wood and bamboo are rare in Chiang Mai. The company has to order from nearby provinces. Then the suppliers are able to deliver wood and bamboo to the company easily.

Because wood is the important raw material that make umbrellas. So making umbrellas will affect forest conditions in the country. When cutting tree for making umbrellas and not growing them, it can reduce forest areas in country.

V. Firm Strategy, Structure, and Rivalry

Making Bosang umbrella is not difficult and it does not require complex technology. This industry does not have barrier to entry and exit. There are many competitors. Moreover, the company has changed their status from umbrella making center to *Umbrella Making Center 1978 Co., Ltd* for 2 months.¹ So the company is so far not well organized. However, *Umbrella Making Center 1978 Co., Ltd* is more famous and has bigger business than others for a long time. It is advantage for the company.

Not only the company has to compete with other Bosang umbrella producers. But it has to compete with other souvenir shops also. It is because Chiang Mai is the center of handicraft products. Therefore, tourists can buy many souvenirs from many places.

VI. The Role of Government

Government's proper role is as a catalyst and challenger; it is to encourage or even push companies to raise their aspirations and move to higher levels of competitive performance, even though this process may be inherently unpleasant and difficult. Government cannot create competitive industries; only companies can do that. Government plays a role that is inherently partial, that succeeds only when working in tandem with favorable underlying conditions in the diamond. Still, government's role transmitting and amplifying the diamond is a powerful one. Government policies that succeed are those that create an environment in which companies can gain competitive advantage rather than those that involve government directly in the process.

The company is also supported by the government. Now (year 2005) the government governs by Prime Minister Taksin Shinawatra supports SMEs business. It includes providing financial support by SME bank and related policy

¹ From interview with Mr. Kiattipong Pipatjariya (Personnel Manager) on 5th August 2005

that supports conducting business. The government not only supports SMEs business, but also supports clusters establishment, if the company is ready to join. Moreover, The Tourism Authority of Thailand exhibits and sells Bosang umbrellas in foreign countries, including organizes the Bosang Umbrellas Festival. The festival will take place in January. The festival draws crowds of Thais and foreigners to see the colorful parades, listen to music, enjoy folk dancing and beauty contests.

VI. Opportunity

There are external factors that support the company. The company located in Chiang Mai. Chiang Mai is the center of handicraft products (that mentioned earlier). Many tourists both Thais and foreigners who are interested in hand made products will think about Chiang Mai as first priority.

The present time (year 2005), situations in Southern area are not stable. As the result of terrorism and flood. Therefore, tourists prefer to visit Northern area and others. The company is not only supported by the government and other organizations. There are many media such as local newspaper, local website, television and tourism magazines. They also present Bosang umbrellas to people both Thais and foreigners.

About other country, China and Vietnam just open their countries. They are going to be our important competitors. It is because costs and wages are low. It makes export price cheaper. Including imported low cost umbrellas will effect sale value of Bosang umbrellas of *Umbrella Making Center 1978 Co., Ltd.*

VII. Conclusions & Recommendations

Diamond Model is a tool to analyse competitive advantage. This model analyses the key factors that effect on the company. The company can see board view. It can understand what are advantages and disadvantages, how to convert disadvantages into advantages. Moreover, the government also plays important supportive role for the success of SMEs.

Umbrella Making Center 1978 Co., Ltd conducts the business independently. There are many stakeholders involved in the business. If the company coordinates with its stakeholders and form a cluster, it should make more benefits. Cluster enables the company to buy raw materials cheaper. The specialization of each village makes the company get higher quality of components. Then the company can buy components cheaper also. When the company receives order of umbrellas from customers, the company can produce them on time. Sometimes there are a lot of orders, the company can share orders with other producers to make umbrellas enough to satisfy customer wants also.