



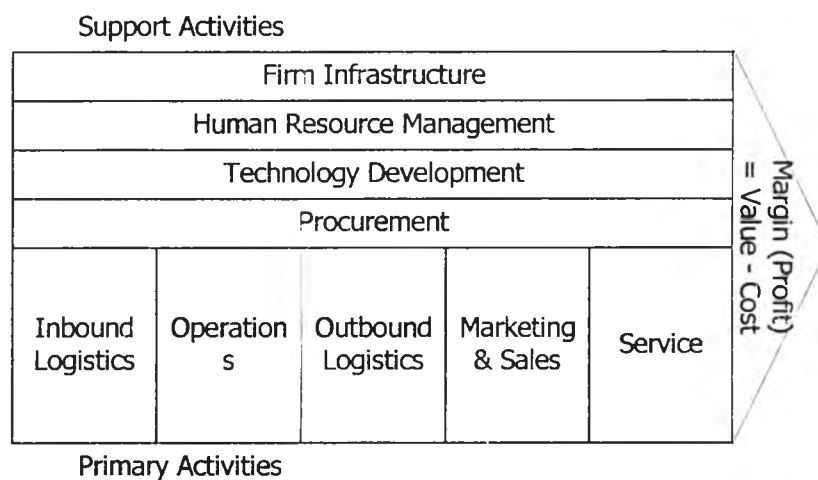
# CHAPTER 4

## INDUSTRY ANALYSIS

Industry analysis in this chapter consists of two valuable tools to analyse the internal and external factors of Thai jewelry industry. These are Porter's Value Chain Analysis and Five Forces Competitor Analysis.

### 4.1 Porter's Value Chain Analysis

The overview of the performance of Thai jewelry industry can be analysed in terms of the primary activities and the support activities of the industry as follows:



#### 4.1.1 Primary Activities:

##### 1. Inbound logistics

One competitive advantage of Thai jewelry industry is resources, as Thailand is one of the significant centres of cutting gemstones and diamonds because of low labour cost and highly skilled labour. Furthermore, it is the centre of raw materials in Indochina such as ruby from Myanmar and blue sapphire from Cambodia. Therefore, the raw material costs of Thai jewelry industry are cheap compared to other competitors such as Italy and Hong Kong.

However, the competitive advantage of Thai jewelry industry in inbound logistics has decreased continually both source of raw material and labour cost. Although, in the past, our country was known as one of the most important sources of coloured gemstones, but a rapid and continuous expansion of jewelry industry in the last few years forced us to import more of the raw materials. Because of the fact that the materials, which are gemstones, in our country are not enough and they cannot serve the growing demand of the market. Moreover, Thailand does not have other (or have but not enough) main raw materials in producing jewelry such as diamond, gold, and platinum. So, we have to export a lot of raw materials. In 1999, Thailand imported raw materials in jewelry industry, which included diamond, gemstone, gold, platinum and silver as high as US\$ 1,217.7 millions.

In term of labour cost, Thailand also has lost the competitive advantage of low labour cost to the new-coming jewelry countries, which mostly are the developing countries that have the cost of living less than Thailand such as India, China, and Vietnam.

## ***2. Operations***

Thailand has the Vertical Integration system in jewelry industry; in other words, Thailand can conduct the operations from stone mining stage until finished jewelry. Consequently, it enhances the production capability of Thai jewelry industry in term of low cost of transportation and material handling, which lead to low production cost.

The quality of Thai jewelry operations is high. Although we don't have many high technology machines, Thai labours have high skill and elaborate. So, we can produce fine jewelry, which is acceptable worldwide. Moreover Thai people basically have high potentiality in handicraft work thus this special character can be counted as an advantage for Thai jewelry industry.

However, the operations of Thai jewelry have to be improved in many areas, for example, designing, and research and development (R&D) in machinery, tools, and equipments. Because all of them are key factors, which will lead Thai jewelry industry to succeed in production process.

### ***3. Outbound logistics***

The outbound logistics of Thai jewelry industry is not quite good. The tax and customs protocol do not support the export of jewelry product as much as they should be. Moreover, the insurance cost in Thailand is quite high. So, most of Thai jewel exporters do not insure their exported merchandise. Thus, the transportation or delivery merchandise of Thai jewelry to customers has high risk from losing.

### ***4. Marketing & sales***

The marketing and sale should be improved seriously compared to other competitors. The slow development and unprofessional design are our weaknesses; besides the sales transactions in abroad should be stimulated. Moreover, most of Thai entrepreneurs are lack of marketing tactics and management visions. The general problems of Thai marketing are un-standardised price strategy and low volume of marketing activity. By the way, many projects that Thai jewelry has already operated are the foundation of Jewel Fest Club, and the joining international fair frequently. Moreover, the projects that Thai jewelry should further implement more in marketing and sales area are as follows:

- Bring in new technology and new distribution channel such as Internet, and E-Commerce to help in sales transaction, advertisement and to provide marketing information, etc.
- Create Thai's brand name in the international market.
- Training and teaching more knowledge and tactics in marketing to Thai entrepreneurs.
- Improve the operation of Thai commerce offices in abroad, especially in information system, such as data, rule, and marketing constrain of our customers and competitors.

### ***5. Service***

The service of Thai jewelry industry also should be improved seriously. At this time, the after sale services incurring in Jewel Fest Club such as guarantee certificate, 30 days warrantee, etc. are help to added value and increase the trustfulness of Thai jewelries.

Although Thai government has several policies, which could help to support jewelry industry, Thai taxation doesn't support Thai jewelry export like other countries, i.e. Belgium, USA, Israel, and Hong Kong do.

#### *4.1.2 Support Activities:*

##### *1. Procurement*

In term of resources, Thai jewelry producers buy cutting gemstones and diamond from domestic gemstone traders. However, other resources such as gold, silver, and platinum have to be bought from abroad. Because Thai jewelry producers procure cutting gemstone, which is main resources accounted for 30% of total production cost, form the gem producers in Thailand; Thai jewelry producers have the advantage in low raw material cost. Moreover, Thai cutting skill is well known and acceptable on high quality cutting worldwide.

During the past 3 years, Thai government had contacted with the government of many countries that have gemstone mining such as Madagascar and Zambia for sourcing rough stones. Rough stones are the most important material in jewelry industry. Currently, sourcing only in Thailand and neighbouring countries are not enough because of the lower amount of resources.

##### *2. Technology development*

Thailand has unique technology that can add value to the gemstone, which is "COOK" technique With this technique, those damaged stones that need to be repaired or poorly cut stones that need to re-cut can be added more value and improved its quality, so that they can be sold out at a higher price. Besides cook technique, Thailand has a few high technologies in jewelry industry. Most of high technologies only used in big producers' operation are imported technologies. Thus small producers' have to use only domestic technologies, which are low-tech, due to low capital of investment. In conclusion, the technology development of Thai jewelry needs to enhance.

### ***3. Human resource management***

Thailand has a lot of labour. Moreover, the basic of Thai people is they have high potential in handicraft work. Nowadays, Thailand has labour in jewelry industry about 200,000 persons. Although Thailand has a lot of labour resources, but the productivity is quite low compared to our competitors such as Belgium, Italy, and Hong Kong. Moreover, the competitive advantage arising from low labour cost has reduced due to new competitors such as China, India, and Vietnam have very low labour cost.

Additionally, the lack of workforces in some fields, such as designer, gemologist, etc. must be resolved. Thus, a lot of building human resource projects arise such as:

- Gems and jewelry training programme in Chantaburee Technique Collage and Trad Technique Collage by Ministry of Education
- Gems and jewelry business promotion project by Ministry of University Affairs
- Research project for determining the appropriate co-operation in producing and developing human resource in jewelry business between state owned universities and private organisations
- Institute for developing gems and jewelry industry by Department of Industrial Promotion, Ministry of Industry.

Additionally, there are also several private institutes and associations that developing human resource for Thai jewelry industry which are:

- Thai Gems Traders and Jewelry Association, who found Jewel Fest Club
- Jewellers' Association
- Thai Diamond Manufacturers Association, TDMA
- Asian Institute of Gemological Sciences

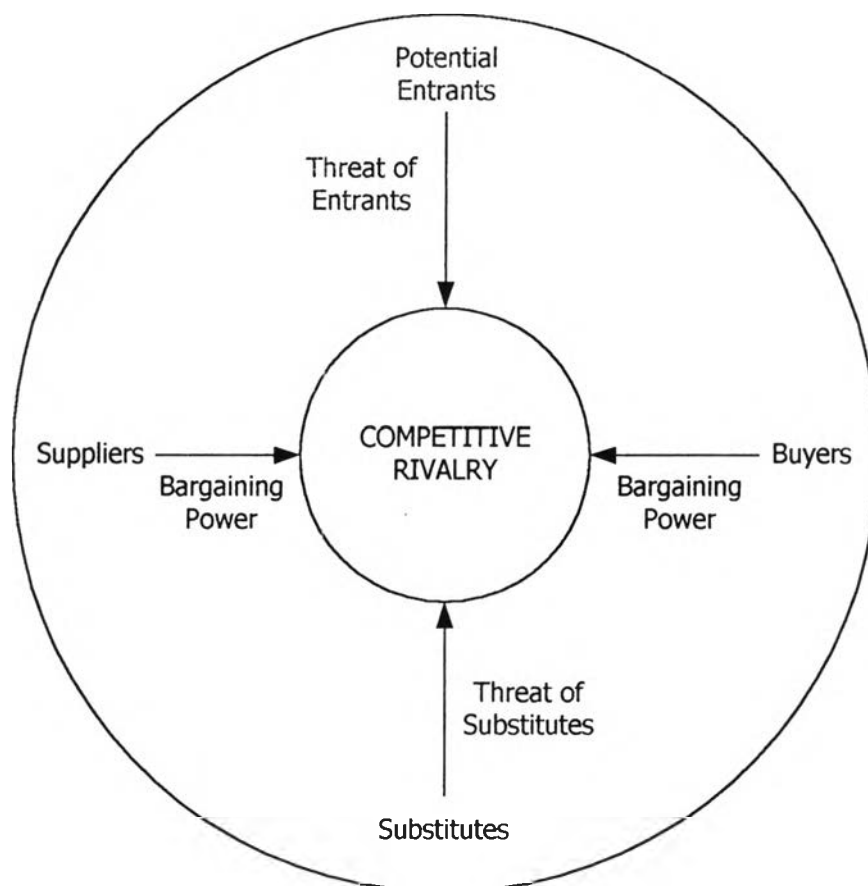
### ***4. Infrastructure***

Jewelry centre is the important tool in marketing tactic because it is the centre point of trading. Because a lot of jewelry traders invest in jewelry centre together, it will make higher competition and the marketing of this industry will be developed rapidly. Moreover it will respond to the market demand and also it can be the exhibition for trading fair or the convention hall for meeting of international jewelry association. At this time, there are 6 jewelry centres in Thailand which all of these are belonging to the private sectors. Six jewelry centres are Gemopolis, Jewelry Trade Center, Rangsun Silom Precious Tower, Bangkok Gems and Jewelry Tower, Gem Towers, and Topaz Tower.

Each jewelry centre project mostly emphasise on including the jewelry and gems shops. Only Gemopolis emphasise on include production part with sales part. The prominent point of Gemopolis is it is the special industrial promotion area, which is supported by Industrial Estate of Thailand and Board of Investment (BOI). The jewelry producers who join with this project will receive the special offer such as three-year income tax exempt, and exempt for purchase tax and import tax for raw materials and machines.

#### *4.2 Porter's 5 Forces Competitor Analysis*

Having gathered information on the competition and the industry, the organisation will then assess the data. One of the most common approaches is to make an overall assessment based on the five forces that determine industry competitiveness – buyers, suppliers, potential new entrants to the industry, the availability of substitute goods and services, and rivalry among the competitors.



#### *4.2.1 Threat of new entrants:*

Thai jewelry exporters need to examine the likelihood of new firms entering the industry and try to determine the impact that they might have on the exports. The real new entrants do not exist. Most of new entrants are those who already have entered in the jewelry market but only placed in the niche market. Those countries are Sri Lanka, Myanmar and Vietnam. These countries have rich resources and materials so they have potential to be a new entrant in this industry while other countries that are significant exporters of jewelry in the international market now have fewer resources. Even though they can have high market shares, they also have a chance to lose some market shares to those new entrants. Thailand is also one of the main exporters of jewelry, thus if there are a higher number of new entrants in the market, they will affect the value of exports from Thailand.

Even though the profit or the return on investment rate in this industry is very attractive for new entrants, there are some entry barriers as well. Those barriers are as follows:

- High capital investments
- Research and Development costs
- Industry standards
- Economies of scale
- Large distribution channel required
- Some closed market
- Government regulations

#### *4.2.2 Intensity of rivalry between existing competitors:*

At the present, the exporters of jewelry are facing with the high competition since they need to compete with two main groups of export countries. The first group consists of those countries that are the leaders in technology and fashion but do not have their own resources. Those countries are Italy, France and Hong Kong. Another group consists of developing countries that are trying to develop their products to be more competitive. China is the good example of this group because now China is trying to develop jewelry industry and it will be the potential competitor for Thai exporters in the future.

### *4.2.3 Threat of substitutes:*

Thai exporters need to look at the availability of substitute goods and services and try to anticipate when such offer will reach the market. The substitute product for this industry is imitated jewelry. Even though the price of this imitated jewelry is different from the natural one, the imitated jewelry can enter the market. Especially in the economic situation like today, there is a decrease in purchasing power so there is a good chance for this kind of product. The consumers tend to purchase imitated jewelry more than in the past.

Another substitute product is the redesigned product. In jewelry industry, the design and style of products are changing all the time. The changes may depend on the season or generation. Some season, this design is popular and seems modern but when time passes that design seems to be obsolete and needs to be thrown away. It is long-term substitutes. Thai exporters need to do market research to see the trend of the market. Thus, they will be able to compete with the competitors both within the same industry and the different industry.

### *4.2.4 Bargaining power of buyers:*

Thai exporters need to examine the power of their buyers because they will want to predict the likelihood of maintaining these customers.

#### ***I. Channels of Distribution***

The main channels of distribution for jewelry are Chain Jewelers, Independent Stores, Department Stores, Catalogue Showrooms, Discount Stores, and TV Shopping Programmers.

Each of these channels has their own sourcing methods. The most common approach to purchasing used by all of these organisations is to have principals within the company and/or their jewelry buyers travel to various manufacturing destinations or directly to foreign countries that have resources and/or production facilities. They would arrange to meet with manufacturers, visit jewelry marts during “market week” or attend trade shows jewelry centres of the world such as USA, Switzerland, Italy, Thailand, Hong Kong, etc. It is also customary for manufacturers, and importers/distributors to travel to the headquarters of very large clients such as chains and department stores.



There are buying seasons of channels. Second Quarter (April-June) and especially Fourth Quarter (October-December) are periods of high sales in the jewelry industry. Fourth quarter which includes Christmas account for the largest share of sales in the jewelry. Buying for the Christmas Season by channels usually take place during the months of August and September. Second Quarter is the second best selling season because of the celebrations, which include Mother's Day, Father's Day (in USA), Graduation, Weddings, and Anniversaries. Buying for this period by channels is anywhere from January to March.

In the case of Independent Stores, that have limited buying power, they have formed a unified jewelry-buying group, which will enable them to make large volume orders and thereby save considerably more than buying wholesale. The formation of the *Independent Jewelers Organization (IJO)* emerged in 1971 to help independent jewelers be competitive in the market by allowing them to buy directly from the source. Currently the IJO is made up of 800-plus jewelers and currently work with 100 suppliers from around the world. Members agree to purchase at least US\$ 25,000 annually (typically saving 5% to 9% on regular wholesale). IJO's members are concentrated in the U.S., Canada, Great Britain and Australia. Some independent jewelers still buy from wholesalers but the advantages offered by IJO are greater and more significant.

## ***II. Consumer Behavior and Preferences***

The reasons for buying jewelry are as diverse as the people who desire them. Jewelry is usually sought after for one or others, as status symbols, tokens of romance and even as long term investments. Some of the many special occasions when jewelry is purchased are weddings, anniversaries, graduation, Mother's Day, Valentine's Day, and Christmas. Consumers will consider price, design and quality foremost among other things when purchasing jewelry.

Prices for diamond jewelry vary according to Carat, Cut, Clarity, and Color (4C's). Consumers use the 4C's criteria to measure the value of their purchase. In addition to the 4C's, channel of distribution is also an important determinant of price. The price for diamond jewelry can range anywhere from US\$ 200 to several hundred thousand dollars. When purchasing a diamond engagement ring, it is considered a rule of thumb to set aside two month's salary. Most diamond purchases are for women. Diamonds are the most popular stone because it is the most durable type of stone (hardest stone known to man), as it will resist any kind of deterioration or deformity. It is still

considered a rare stone and hard to come by, as only 20% of all rough diamonds are suitable for cutting into gem diamonds. Diamonds have developed a status symbol, representing well-being and success.

### ***III. Jewelry Consumer Profile***

#### ***Teen Purchasers***

This segment of the population is becoming increasingly more important to retailers. Teens are trendsetters, who would spend money to invest in building their image. In 1995, more than 25 million teenagers in the U.S. spent US\$ 69 Billion of their own money on jewelry, makeup, CDs, and entertainment.

The No.1 accessory among those ages 13-19 is silver jewelry according to a study by Teenage Research unlimited. Types of style popular with teens are bold shiny metal designs, especially in neck and waist chains, cuffs, ID and ankle bracelets, stackable rings, and neck wires and leather and silver lariats. Styles are contemporary and should be able to keep up with the active lifestyles of their consumers.

#### ***Affluent***

The picture of the affluent consumer is someone who is married with a general dual household income of over US\$ 100,000. He or she spent an average of US\$ 1,000 on the most recent jewelry purchase and US\$ 3,300 on jewelry in the past 2 years. The preferential jewelry category among the affluent is gold jewelry. Men, on average, tend to buy jewelry as gifts for someone else; women tend to shop for themselves and are willing to spend US\$ 1,500 for a piece of jewelry. Although the holidays are considered the top buying selling seasons for jewelry, upscale consumers also buy at other times of the year.

#### ***Seniors***

This group encompasses those 65 years of age and older. Seniors are also an important segment of the population to retailers. Many older adults look for ways to enjoy their later years and ways to indulge themselves.

#### ***Fashion Conscious Enthusiast***

This group is made up of women and men (to a small degree) that believe jewelry makes an important statement about the wearer and choose the jewelry they wear

carefully. They pay attention to jewelry advertising and, compare to other segments, like to wear more than one piece of jewelry at once. They are most accepting of men wearing jewelry. (This group may include the aforementioned.)

#### *Jewelry Appreciates*

They wear jewelry as part of their everyday wardrobe, but pay little attention to jewelry advertising or to price. Wearing jewelry is important, but they do not wear a lot at one time. (This group may include consumers within the initial three profiles.)

#### *Quality*

Consumers demand higher quality products. For instance, Baby Boomers, which make up the largest population segment in the U.S., have at least a high school education and some level higher education. Therefore, Baby Boomers tend to be discriminating shoppers, and demand higher quality. They do not fit the profile of discount store shoppers. When purchasing jewelry, whether it is gold, silver or diamond jewelry, the majority of consumers will go to chain jewelry store, better department stores or independent stores due to their reputation for quality and personalized attention. In addition, if consumers need servicing or to return the item, these store will do everything to accommodate their customers.

Customers prefer to have tailored service when they buy jewelry. The sales staff is expected to be knowledgeable about the jewelry and will go to places where their need will be appropriately serviced.

#### *4.2.5 Bargaining power of suppliers:*

Since Thai exporters act like the suppliers in jewelry industry of the world, there is no need for them to face with suppliers in the international market but they deal with suppliers in Thailand only. The sources of supply in Thailand come from both domestic production and imports.