



CHAPTER 7

CRITICAL SUCCESS FACTORS OF THAI JEWELRY INDUSTRY

TO SURVIVE IN THE MEDIUM-END MARKET

From the information of SWOT analysis in Chapter 6 and the survey of entrepreneurs and experts in Thai jewelry industry in Chapter 5, the critical success factors that would maintain and strengthen our potential for survival in the medium-end market of jewelry business are analysed in this chapter.

The critical success factors could be determined in eight aspects as: raw materials, human resource, capital, technology, marketing, tax & government regulation, image & brand name, and internet. The details of each aspect of Thai jewelry industry's critical success factors are as follows:

7.1 Raw materials

In general, raw material is one of the most important critical success factors. It is the essential input of manufacturing process. Especially in jewelry industry, most raw materials are the high value objects, such as gold and diamond. The average material cost of this industry accounted for 70% of the total costs. Thus, raw materials almost represent the entire costs of the business; it is the biggest factor in the cost structure.

Thai jewelry industry has grown up with the advantage in raw materials. In the past Thailand had a lot of rubies and sapphires. Additionally, Thailand also Thailand has a well-known cutting gemstone industry, which strongly supported the expansion of jewelry industry. However, those raw materials in jewelry industry are non-renewable resources. The rubies and sapphires that are found in existing sources or mines in Thailand has reduced sharply both in quality and quantity. In the last decade, jewelry industry had increased the import of raw materials from abroad continuously.

The main import sources of gemstone of Thailand are neighbour countries in Indochina, Australia, Sri Lanka, and Madagascar. However, nowadays the external

sources of raw materials are more difficult to import because those countries would like to preserve the materials in their countries and increase the value added in order to be able to compete with Thailand. These countries are Sri Lanka, India and Vietnam. Moreover, the political instability of our suppliers and frontier countries as Myanmar and Cambodia also affects the industry because the cheap materials line along the frontier countries. Therefore, the first critical success factor in raw materials is improving the understanding and cooperation between Thailand and the supplier countries to make them allow and promote export of their materials to Thailand.

Moreover, the second critical success factor is to outsource the new raw material sources that can supply for the demand of Thai jewelry industry sufficiently. Not only the seeking for new sources of material from abroad is important, but also the survey for new sources in Thailand. Sourcing raw materials locally has several advantages, especially in terms of costs as it reduces the cost incurred from middlemen, transportations and customs duties. Domestic materials promote mining industry in Thailand. Inclusion, Thailand can reduce deficit in the balance of trade

Not only does Thailand have to search for the high quality and enough quantity raw materials, but the negotiation for the low price and constant supply is also important. In conclusion, all of sourcing raw material procedures have significant effects to the survival of Thai jewelry industry in the international market.

7.2 Human Resource

In the past, human resource of Thai jewelry industry had two advantageous points: Firstly, Thai production labours were the skilled and meticulous workers. And secondly, the labour cost was lower than the competitors, which mostly were the developed countries. Until the last five years, the new jewelry manufacturing countries such as China, India, and Mexico, which have advantage in lower labour cost than Thailand, have come in the competition of jewelry business, particular in low-end market. Thai entrepreneurs cannot compete in low-end market anymore because our labour costs are much higher than those competitors. Thus, many of Thai entrepreneurs have changed their position to the medium-end and also high-end market.

However, in the medium-end market, the customers' expectations are higher than in low-end market. The products must have better quality requiring more complicated

production technique and sophisticated design. Therefore, jewelry industry needs higher capable workers and the specialists in each function for maintaining and strengthening our potential to survive in medium-end market.

Although Thailand has a large number of workers in this industry, but we are still lack of highly skilled and specialists. Moreover, at this time the demand of highly skilled labours increases as a result of the market change as described earlier. In fact Thai jewelry workers have the potential to develop their capability because of the background from the handicraft ability. Therefore, the entrepreneurs should support the training and education to increase the skill of labour both on the job or the short courses that are arranged frequently. Additionally, the producing of new labours to the industry is also important to the success of this industry.

In addition to the development of skilled labour, but also the designer is another critical success factors of jewelry industry. Thailand has a disadvantage in terms of designing. Most of products are in common design or some designs are imitated from those of the western. If we want to develop our products to the higher market and compete with other leading countries such as Hong Kong, Italy, or UK. Designing is the most important because jewelry is the product for beauty. The customers usually focus mainly on design.

The gemmologist is one of the human resources that are needed in the industry. Because nowadays there are a lot of new synthetic gemstones that are very similar to the natural ones. Therefore, the gemmologist has the importance in analysing and differentiating natural from synthetic gemstones, including the research for technology development of this industry.

The entrepreneur's capability is also essential to the success of Thai jewelry industry. Although, most of entrepreneurs have long experience in this business, they do not have extensive knowledge in management and marketing. The capability in management and marketing, including the potential in language and computer are necessary in contacting, negotiating and managing business in the global market, in which the competition has increased continuously. Therefore, only the capability in production cannot make the business successful; it has to have the high capability in management and marketing as well.

Education could level up the skill and expertise, and produce qualified human resource. Nowadays, there are several organisations both from governmental and private sectors that support the education and arrange the training, especially in skilled labours in

many branches and designers. However, the survey showed that the education arrangements by the government education departments do not work as they should be. Especially in skill labour, these departments cannot provide the market needs both in quantity part and quality of skill that match with the demand of the market. The two major problems are: First problem is the outmoded and obsolete machines and equipments. Second problem is the lack of teacher and trainer, which is the shortage both in quantity and quality. However, some entrepreneurs do not realize the importance of specialist as designer and gemmologist.

Therefore, the critical success factor is to give the proper education that match the market's need by training existing workers, producing new skilled labours in many branches, and also producing the qualified designers and gemmologists. Moreover, the entrepreneurs should be given the knowledge in management and marketing, including the understanding about the potential that specialists could develop the product and make the production process more accurate, more meticulous, faster and more efficient that will raise the market share of Thai jewelry industry in the global market.

7.3 Capital Investment

Capital is one of the most important processing factors in the industry as well as it is the critical success factor in Thai jewelry industry. It consists of the capital for investment in factory, machine and equipment and the working capital for operation usage.

Jewelry entrepreneurs have to put down some capital for the first investment. Although the factory investment in jewelry industry is not much because it does not need plenty of production area, but the machines and equipment in the production of jewelry have high prices. Particularly, the machines that are used in the mass production of jewelry industry and the high-grade jewelry are very expensive. Thai jewelry industry has to be based on technology and production experience from foreign countries that have a long time production development. Most of machines and equipment have to be imported from abroad such as USA, Italy, Germany, and Japan.

On the other big side of capital investment, jewelry industry also needs a large amount of working capital. Raw materials in jewelry production, especially gemstone and

precious metal, are very high value goods. The raw material cost accounts for 70% of production cost.

Moreover, both machines and equipment, as well as raw materials mostly have to be imported. At this time the exchange rate caused by the devaluation of Thai baht heavily affects the cost of imported raw materials, which is the main cost of production, and also equipment cost very much. The instability of Thai baht adds more loads to the importers and also the manufacturers a lot.

The devaluation of Thai baht has made the jewelry producers need to contain more working capital to buy the materials. Moreover, the effects from the economic crisis in Asia in 1997 still make most companies' cash flow negatively. Consequently, several jewelry companies in Thailand have faced the liquidity problem. Some companies do not have sufficient capital to buy the raw materials for their productions despite they have received customers' orders. Therefore, capital investment is another critical success factor for survive of Thai jewelry in the global market.

7.4 Technology

Production technology is one of the important factors. Although jewelry industry in Thailand, especially the big factories that produce as mass production, has the production method and high technology at same level as the other foreign competitors, almost all technologies are from foreign countries. Whereas, the small enterprise or the homemade jewelry industry still inferior in technology aspect.

Thailand does not have enough technology development of our own. Therefore, we have to import very expensive technologies, machines and equipment from abroad.

Nowadays, the customers want higher quality products. Thus, for maintaining our market share in medium-end market, the production needs the higher and better technology. Technology development is one of the critical success factors of jewelry industry. Thailand has to develop own technology and production techniques. Not only will this developed technology increase the production efficiency, but Thailand will also have the cheap technologies, machines, and equipment for the small enterprises jewelry manufacturers. Moreover, it will reduce the import of technology from abroad.

In the technology development, the capital and the support from the entrepreneurs are necessary. At this time, Thailand Research Fund (TRF) has lent a hand by supporting the capital for analysing and researching for the new technology in producing jewelry.

7.5 Marketing

Most of Thai jewelry is produced by small factories and homemade factories. There are few factories that can produce as mass production. Therefore, the bargaining power of these small jewelers with the big importers from abroad is quite low. Furthermore, buying or producing in small volume makes the production cost higher than mass production. Inclusive, the producing of some accessories, especially those that are fashion trend, does not cover the cost of production because these accessories have to be produced by expensive machine and they are obsolete in short time. Therefore, it is not worth to produce in-plant; the small producers have to outsource these accessories from abroad.

The critical success factor in this case is the unity of Thai producers. The firm unity will increase the power in negotiation with foreign importers. Inclusive, Thai could produce some imported accessories by producing at the optimum volume and then allocating these accessories to the members. Therefore, the small producers will have lower cost of production and it will increase the competitive potential of Thai jewelry product in the world market.

Thai jewelry industry has been dependant only on few main markets. In 1999, Thailand exported jewelry to USA 44% of total. The others main markets were Germany, UK, Japan, France, and Switzerland. These six markets accounted for 78% of total export. Thus, if there are some trade barriers or changes in consumer preference in those major markets to favour the products from other countries, Thailand will be affected a lot. The other critical success factor of Thai jewelry industry's marketing is to find the new market to support the expansion of Thai jewelry industry. It will not only increase the market share in the world market but also reduce the effect from the changes in each main market. In addition, now it is easier to find new markets because Thailand has good relationship and trading with almost every country in the world. Thailand is the member of several international trading organisations as WTO, APEC and AFTA.

Moreover, the trading information is one of the critical success factors. The perfect trading information of all customers, suppliers, and competitors will help both Thai government and entrepreneurs to plan and create the appropriate marketing strategies with each market in particular situations.

The marketing aspect is so important. If Thailand cannot develop the marketing potential to add more value in our products and more satisfied our customers, we will face a serious export problem. We could not survive in this global market anymore. Furthermore, those new competitors who have the advantage of lower labour cost, such as China, India, and Vietnam, will out compete Thailand, taking away our market share in the global market.

7.6 Tax & Government Regulation

Tax structure problem is the fetal problem that must be solved with dispatch. Import duty rates for raw materials are still in the high level. Although the government has import tax exemption in some main raw materials such as diamond, gemstone, and gold, but many accessories that are used in assembling jewelry still have very high import rate.

Moreover, value added tax or VAT causes a higher cost in production and small businesses cannot afford the operating expenses. Although VAT could be refunded when selling to the customer or export, but the process is very complicated and time consuming. The higher tax rates over other competitors make production cost to Thai jewelers is higher. Consequently, Thailand will have less competitive ability in the world market.

Government regulation in operation of import and export still create the tardy problem and also the corruption problem. It is also one of the critical factors that government has to improve the documentation and others to accommodate the process in import-export for both Thai entrepreneurs and foreign importers. It will be the great inducement for the foreign jewelers to come to Thailand to buy our products.

The export promotion policy of the government is one important critical success factor to Thai jewelry industry. Although in the past the government had supported exporting moderately until Thai jewelry has increased the export volume continuously. Nowadays, however compared to competitors, the degree of support from government is

seemed to be lower than every competitor. This makes Thai jewelry have been facing a serious disadvantage in the world market, as evidenced from the Effective Rate of Protection of Thai jewelry of -5.05%. Thus, the export promotion is one of the critical factors that must be solved urgently.

In addition, there are other critical government policies to help exporting such as the policies to find new markets and to negotiate for reduction in trade barriers. There are also the policy to support jewelry industry such as to lend the capital from BOI and other preferences as well as to arrange the industrial promoting area.

In conclusion, tax structure is the fetal obstacle for the success of Thai jewelry industry, as well as the other trading measures. If the government can help to improve the tax structure to be now competitive compared to other countries and to influence the jewelers to bring trader transaction to Thailand, it will not only make Thailand can survive in this industry, but also strengthen our potential for growth in the future.

7.7 Image & Brand Name

Image is an intangible property that can add much value to the product. Image has significant effect to the customers' buying decision, especially in the showpiece like jewelry. Accordingly, image of Thai jewelry is the essential factor for the success of this industry. As image is intangible property, creating image has to have the tangible symbol to present that image. It is brand name. Nowadays, most of Thai jewelry manufacturers do not have their brand names and thus there is no brand awareness in Thai jewelry. Although most of Thai jewelry is in medium-end market, which brand name is not the most important factor like in high-end market. But brand name also a factor that support and strengthen our potential for survival and also for expansion out market in the future. Therefore, Thai jewelry needs to create our own brand name. By the way, the brand name is not only the symbol of the product's company but it may also be the symbol of the country or origin illustrating for example "Made in Thailand" or "Product of Thailand" or "Produced by Thai Jewelers" or "Thailand Best" or others.

Besides creating Thai brand name, Thailand has to make that brand name be reliable and recognized as quality worldwide. The critical success factor is Thai jewelry must have standard of quality. Thailand has to determine the standard that all products must meet in order to use Thai brand name so as to guarantee the acceptable quality.

Additionally, another critical success factor is the trustfulness. It is essential to have the certificate of assurance from the concession institute for products, such as certificate of gems, certificate of gold percentage. It will increase the confidence in Thai jewelry in customers' view.

Among the compositions of Thai jewelry, the most advantage point is Thai gemstone or Thai cutting style gemstones. Thailand has good image in beautiful colour and excellent cutting shape of coloured stones. Therefore the easy way to create jewelry brand name is trying to raise the demand of jewelry with coloured stone, particularly red stone or ruby that Thailand already possesses the good image.

The other critical success factor is the trading ethics of sellers. Some Thai jewelers sell products to customers at prices that are not appropriate with their quality, happened in many cases when small jewelry shops sell to the foreign tourists. These actions negatively affect the overall image of Thai jewelry. Therefore, it is necessary to reduce these bad ethics.

7.8 Internet

Internet is the most interesting trend in the end of this decade and next decade (2001-2010). Nowadays, there is a huge number of Internet users particularly in western countries with the tendency of rapid increase in several other countries. Internet is the basic knowledge and essential infrastructure of electronic commerce or E-commerce. The E-commerce will be the most convenient and effective way to do business in next decade. It can bring the largest number of sales transaction and it can provide 24-hour service for any customers from anyplace of the world.

As same as the other businesses, Internet is one of the important critical success factors of jewelry industry. It is the great opportunity of Thai exporters to use the Internet as the effective sale transaction with consumers all over the world. At this time, there is very low level of entry barrier in jewelry business through the Internet because there is no leader in the market. Moreover, the consumers like to shop on-line more than in the past, including jewelry product. The trading jewelry through the Internet has very high growth rate both in business-to-business (B2B) and business-to-customer (B2C).

Additionally, not only does the Internet support on-line shopping or E-commerce, but the Internet can also provide the information about the product, company, and others

to the interested people. In conclusion, the Internet will be the critical factor to assist and support the growth of Thai jewelry industry if this industry has developed the Internet aspects seriously.