March 24, 2003 Chapter 5: Business Level Strategy

While I was reading the first article about Competitive Strategy, I disagreed with the sentence of “The five forces determine industry profitability because they influence the prices, costs, and required investment of firms in an industry—the elements of return on investment.” (p. 208) I believed that not only Porter’s five forces, but another two factors also equally affect those elements. They are political or legal issue by government and the movement of uncertain international environment.

I would like to give an example of the sugar mill industry in Thailand. Sugarcane is the basic raw material in sugar production and a commodity. Since the government acts as the mediator according to the Cane and Sugar Act 1984, in the last few years, both pre-season and post-season cane price announcements or the two-price policy have become a political issue¹. However, it becomes increasingly clear that a price hike is no longer sustainable. First of all, although the two-price policy that fixed the domestic price above the world price has facilitated the growth of the Thai sugar industry to become one of the top exporters, it fails to maintain adequate domestic supply of sugar whenever the world price is higher than the domestic one. Another problem is price hikes would engender and intensify conflict between the cane and sugar industry on one side and consumers and industries that use sugar as a raw material on the other side. This resulted in shortages of domestic sugar in early and late 2000 and changed Thais’ consumption behavior of sugar². Mitraphol Sugar Corp., Ltd.’s sales and profit, one of the local sugar millers in Thailand, was drastically declined because of the political interference and world price factor. The fluctuation and uncertainty of cost of raw material reflected the burden passed to consumers in form of sugar price increase. Consequently, the company found the solution by using byproduct of sugarcane, bagasse, as raw material in particle board production which required further investment³. This created another type of revenue and improved the overall profit. In conclusion, in the developing country, government still plays and critical role to determine the industry sustainability and profitability in terms of prices and costs and it affects directly to the industry chain.