

Macro general
environment
evaluation marketing
essay



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Tomei Consolidated Berhad has a mission to establish itself as a premium brand in Gold and Jewelry, with excellence in its quality, design, service value. This is supported by Tomei's financial performance where it has a substantial growth in revenue and profit. Moreover, Tomei has a positively growing trend projected for its revenue and hence, increasing trend of net earnings per share for shareholders which fulfill the requirement in maximizing shareholders wealth. However, based on analysis of gearing ratio, Tomei is dependent on short-term borrowings to sustain its operations and growth of the company in term of expansion plan. This would require Tomei to be aware of its financing decision in order to remain its good record with bankers and avoid possibility of facing liquidity problem in the future.

The macro-environment of Tomei is being evaluated using PEST forces which refer to political, economical, social and technology factors. Different foreign trade regulations, China's open door policy, Special Economic Zones and political stability affect the political factor. In the economical factor, it is influenced by sovereign debt crisis and downgrading of the US credit rating. Next, demographics, festive seasons and ceremonial functions influence the social factor. In the technology factor, it is affected by Tomei's advanced technology in refining and craving the gold, diamond and gemstone to turn them into jewelry.

The industry level analysis of Tomei is carried out using the Porter's 5 forces which analyses the industry structural features. The increase in the intensity of rivalry among the firms causes jewelry companies to struggle to achieve market leadership. The market penetration into jewelry market is getting more difficult due to the growth of companies already established in the

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industry and due to high initial investment costs. The threat of substitutes depends on the relative price and performance of the competing products, and customers' preferences. In jewelry industry, the customers' demand can be defined to be very unstable because different customers expect different design and requirements for jewelry. Since diamonds are scarce and hard to acquire, diamond mining companies are able to fully control over its selling price.

Furthermore, national competitive advantages of Malaysia produce successful firms such as Tomei which can be evaluated in the four elements consisting of demand conditions; related and supporting industries; factor conditions and structure, strategy and rivalry. There is high home demand in Malaysia for jewelry which enables Tomei to gain economies of scale and experience effects to compete globally. For factor conditions, Tomei has to exploit the advanced factors such as infrastructure such as digital telecommunication to facilitate communication in among firms in the jewelry industry. Unique vision and goals, firm's structure and the extent of competitive rivalry between domestic firms influence the element of firm structure, strategy and rivalry. In the related and supporting industries, Tomei has form a cluster with Eugen Schofer GmbH & Co in the technology partnership which gives Tomei the competitive advantage in the jewelry industry.

Based on BCG matrix analysis, it is observable that Tomei has both its manufacturing & wholesales, and retail segment in star quadrant. This is reflecting that both the segments have high relative market share and high market growth which would require Tomei to sustain its market share to <https://assignbuster.com/macro-general-environment-evaluation-marketing-essay/>

remain competitive against its main rival, Poh Kong. In addition, Tomei uses balanced scorecard to evaluate the key performance indicators comprises of both financial and non-financial aspects.

It is recommended for Tomei to implement market development, product development and diversification based on geographically areas by expanding its business in other countries such as India to improve its portfolio performance.

2.0 Background of Tomei

Tomei Consolidated Berhad (Tomei) is an investment holding company which involves in the design, manufacture and retail of jewelry. In addition, Tomei also engages in the refining of gold and jewelry; and trading of diamonds and jewelry. Tomei started out as a business in design and manufacturing of jewelry; and supplying to the local jewelers way back in 1968. The first retail outlet was established in the early seventies in Campbell Shopping Complex in Kuala Lumpur under the brand name of TOMEI. Subsequently, Tomei had engaged into wholesale and distribution of jewelry business. Tomei operates its retail business under 5 major umbrella brands namely TOMEI, MY DIAMOND, T. H. JEWELRY, LE LUMIERE and GOLDHEART.

Tomei had venture into Vietnam and China to expand its business upon granted the license or approval from the respective government of the both countries. To date, Tomei has a chain of 70 jewelry retail outlets and 18 jewelry retail kiosks. Moreover, Tomei also exports their products to other regional countries such as Indonesia, Singapore, Thailand, United Arab Emirates and Europe. Throughout its business operation, Tomei has received

numerous awards for its excellence customer service and reputable brand such as the status “ Superbrands Malaysia 2003/2004” and the title “ Malaysian Brand Certification” awarded by SIRIM QAS International Sdn Bhd. Tomei also had being accredited with ISO in Quality Management System for its retailing of jewelry from Lloyd’s Register Quality Assurance Kuala Lumpur since 2003 as a results of Tomei’s continuous effort and commitment to quality of products and customer service.

Now, Tomei holds the exclusive distribution right to sell Prima Gold which refers to 24k jewelry and the exclusive distribution right from Shenzhen Batar Jewellery Company Limited to distribute Batar Jewelry in Malaysia. Subsequently, Tomei secured the license to manufacture, distribute, and sell gold products under Baby Looney Tunes character in Malaysia from Warner Bros. Consumer Product Inc., USA. Recently, Tomei has launched its own e-portal, [www. GoldSilver2u. com](http://www.GoldSilver2u.com) which specializes in gold and silver investment in line with the increasing demand for gold investment products. Hence, the performance of the company has been consistently improving on a yearly basis.

3. 0 Environmental scan

3. 1 Macro/general environment evaluation

The macro-environment of Tomei can be analyzed by using the PEST forces which cannot be directly influenced by the Tomei itself. PEST framework includes political, economic, social and technological changes that Tomei has to respond to and adapt to its environment.

In the political factor, Tomei faces different foreign trade regulations in different countries as it wishes to expand its business to other regions as one of the ways in achieving its mission of establishing Tomei as a premium brand in gold and jewelry with excellence in quality, design and value. For instance, China's open door policy[1] in the year 1978 implemented by Deng Xiaoping with the rise of power of the Communist Party of China has opened up an opportunity for foreign investment into China. As a result, China has become the major producer and exporter of the world due to its cheaper labor cost. In addition, Chinese government had also set up Special Economic Zones whereby market-driven capitalist policies are adopted to encourage the maneuver of foreign capital in China market. Among the policies being implemented are the preferential tax exemptions[2], investing in new infrastructure like office buildings and reduces tariffs or customs duty to attract foreign firms to invest on China especially those firms whose finished goods are mostly for export. Thus, Tomei has taken this opportunity to tap into the China's market to further expand its retailing business in the year 2007.

Besides, it is essential for Tomei to consider the political stability of the countries that it wishes to venture into the market. This is because venturing into unstable political environment may lead to wars could disrupt the operation of the business. Currently, the world is affected by the political upheaval in the Middle Eastern countries and African continent. This will bring impact to the export market and the supply chain of Tomei as Tomei has export businesses to other regional countries as well.

Next, economic factor in the macro-environment such as sovereign debt crisis in the European Union countries and the downgrading of the US credit rating do affect Tomei's performance. Hence, investors turn to gold investment due to their fear of competitive devaluation, the debasement of currencies and the possibility of soaring inflation at some point in the future to protect their wealth[3]and hedge against inflation. This has caused the price of gold and silver to increase continuously. Thus, Tomei has exploited this opportunity to offer more gold and silver products and venture into the gold and silver investment segment of the market. Tomei had launched its e-portal for selling gold and silver investment products in Malaysia in November 2011 which provides customers another channel to buy and invest in gold and silver investment products such as gold bars and gold wafers. These products are guaranteed buy back which will give the investors a sense of security of their investment. In addition, Tomei's extensive retail outlets make the sell back of the investment products easier for the customers to attract them to invest with Tomei in this gold and silver investment market.

In line with Tomei's mission of becoming the premium brand in gold and jewelry, Tomei faces several social factors. One of the social factors is the demographics of the customers in the countries that Tomei operates. For instance, the group of elderly people will favor to buy gold products and jewelry such as jade as compared to middle age people who will prefer to buy silver, diamond and white gold products. Hence, Tomei had acquired GOLDHEART which offers diamond, platinum and white gold products and

established “ My Diamond” retail shops to cater for the youthful and trendy people while “ Tomei” retail shops cater for the preference of elderly people.

In Malaysia, there are many festive seasons that are celebrated by Malaysians such as Chinese New Year, Hari Raya Aidil Fitri and Deepavali. During these festive seasons, many people will purchase gold and silver products to be given to the closed ones as gifts or for ornamental usage. Hence, Tomei needs to roll out more of the mentioned products to cater for the rise in demand in the gold and silver products during these festive seasons. Furthermore, gold jewelry has always been the norm ornamental usage for the wedding dowry and ceremonial/formal functions. Thus, Tomei needs to ensure that their products meet the requirements of such ceremonial functions leading to the acquisition of GOLDHEART which specializes in jewelry for wedding collections[4].

Lastly, as Tomei’s business involves design and manufacturing of gold and jewelry, Tomei has to adopt the best advanced technology in refining the gold, diamond and gemstones and craving them to be jewelries. This is because the dimension of the diamond being cut influences its value besides its color and carat size. The finer the cutting dimension of the diamond, the higher value of the diamond would be. In the case of gold and gemstones, the design of these jewelries determines their prices whereby a more unique and complex design will have a high price tag. Thus, Tomei has constantly keep updated with the modern technology in the refining and craving of the gold, diamond and gemstones through the technological partnership with Eugen Schofer GmbH & Co, one of the largest jewelry chain manufacturers in Germany to produce high quality and best designed jewelries at lower cost.
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3. 2: Industry level analysis

The industry level analysis of Tomei is carried out using the Porter's 5 forces which analyses the industry structural features that will contribute to the competitive forces in the jewelry industry and hence determining the industry profitability. The following refers to the industry structural features that are being assessed:

Rivalry among existing firms: High

The intensity of rivalry in jewelry industry is affected by the following industry characteristics such as large number of firms increases rivalry because the firms are competing with each other to attract customers and also compete in order to obtain resources such as gold and diamond to manufacture the jewellery. The increase in the intensity of rivalry among the firms that own similar market share causes jewelry companies to struggle to achieve market leadership[5]. In this case, Poh Kong was known to be the leading manufacturer and retailer of gold and gem set jewelry in Malaysia since year 2010[6]. However, Tomei had been fighting back by growing strong with aggressive expansion, striving to preserve its edge over the other competitors and to sustain all relevant market requirements where it will continue to shine above the rest. Today, Tomei Group has become an integrated manufacturer and retailer of gold and jewelry[7].

Due to the group continuous effort and commitment to quality, the group was awarded with ISO in Quality Management System for its retailing in jewelry since year 2003. In this year, Tomei Group has further established its position with the winning of the prestigious Enterprise 50 awards. This

directly lead to an increase in competitive advantage as Tomei Group is actively finding ways to cater the needs and meet the demand of young and trendy lifestyle required by the customers. Therefore, they introduce a brand called My Diamond, which specializing in trendy white gold and diamond collections to the market in year 2002.

It is very common to find that the jewellery industry companies compete by using price war strategy. However, specialty jewellery companies would choose to compete on quality rather than competing on price. Brand identification and recognition, on the other hand, tends to constrain rivalry. Moreover, there is a high growth rate in the industry. As the jewelry industry expands globally, the industry's top competitors are opening more stores with the purpose of increasing its market share and capitalizing on competition. This had caused the industry to be stagnant that now competes by taking market share away and creates price wars among many of the firms in the industry[8].

Moreover, Tomei has strengthened its specialization in the wedding jewelry segment with its acquisition of Goldheart Jewelry Sdn Bhd for RM5. 6mil[9]. The group is aiming to expand further by opening at least 10 retail outlets this year, which consists of four in Malaysia, two in Vietnam and four in China. The switching costs and degrees of differentiation get lower as the industry grows. These low degrees of differentiation lead to consumers purchasing items based on price rather than quality. Therefore, Tomei has to offer promotion and cash rebates to attract more customers to its retail shops.

Threat of New Entrants: Moderate to Low

Not many of the existing firms have contracts/deals with well-known diamond distributing companies. New entrants may face difficulties in getting into a contract with these companies, because they are lack of the financial support and a reputable name which may cause doubt in the diamond distributing company and thus no contract will be formed as the diamond distributors are not secured with the performance of the potential new entrants.

The entry into jewelry market is getting more difficult due to the growth of companies already established in the industry and due to high initial investment costs. Existing firms experience economies of scale from large investments in research and development, brand advertising, or in physical location of stores and therefore, causes the barriers to entry and to exit are very high in jewelry industry. Large economies of scale make it harder for new entrants to compete in an industry. The more assets a firm has, the greater the firms' ability to take advantage of economies of scale. The following chart shows some of the competitors' total assets from 2008 to 2011.

Chart 1: Total assets from 2008 to 2011

Years

2008

RM'000

2009

RM'000

2010

RM'000

2011

RM'000

Tomei Group

242, 324

262, 083

302, 946

386, 977

Poh Kong

501, 319

490, 109

509, 641

576, 408

DeGem

210, 836

214, 552

219, 109

266, 656

As shown in the above table, there are a few of jewelry companies that are listed but there are a lot of private jewelry companies such as Lazo Diamond, SK Jewellery, 321K Jewelry etc. The competition among the jewelry industry is quite high but hardly have few companies willing to go listed due to a lot of constraints.

Threat of Substitute Products: High

The threat of substitutes depends on the relative price and performance of the competing products, and customers' preferences. A substitute product also will affect the price elasticity of jewelry. For example, as more substitutes become available in the market the demand becomes more elastic because customers have more alternative choices. Therefore, a close substitute product limits the ability of the firms in the industry to raise prices and the competition engendered further by a threat of substitute comes from products outside the industry. For example, the prices of the gold, diamonds and gemstones are constrained by the prices of pearls and crystal. These pearls and crystal are the substitute products of gold and diamond, yet they are not rivals in the gold and diamond industry.

Bargaining Power of Customers: Moderate

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When there are a large number of buyers in the industry, the buyers have the ability to set its price as high or low as they wish to be. Customers will have little bargaining power regarding price when they shop at luxury stores and refuse to search for alternatives because of such a limited selection. However, when customer's purchasing power is strong, when there is a case that there are many suppliers and only one buyer whereby the bargaining power of the buyer is relatively strong. In jewelry industry, the customers' demand can be defined to be very unstable because different customers expect different design and requirements for jewelry. Some may pursue to have trendy and the latest design, some prefer to go for a better and reputable brand name, some may go for different gemstones. It is also possible that some customers who believe in ' Feng Shui' will prefer to wear crystals than wearing a diamond or gold. There is a belief that certain crystals may bring luck or good changes in the people's life. Therefore, the bargaining power of buyers considers being moderate in jewelry industry.

Bargaining Power of Suppliers: High

Since diamonds are scarce and hard to acquire, diamond mining companies are able to fully control over its selling price.

Diamond-mining companies such as DeBeers have the absolute control on the price of the diamonds that are supplied to several firms in the jewelry industry, such as Tomei Consolidated Bhd. Since these scarce resources are of great value to the firms, the bargaining power of the supplier is even greater. With geographically diverse world-class mining assets, DeBeers[10] have the largest diamond resource and reputable position in the

world, as well as an extensive global distribution network and strong brand name that connect with people from all walks of life. The power of suppliers within the jewelry industry has skyrocketed within the last few years due to natural gemstone scarcity.

3. 3: National competitive advantage

Country like Malaysia has produce successful firms such as Tomei due to the national competitive advantages possessed by Malaysia whereby Tomei could use Malaysia's national backgrounds to lever world-class competitive advantages. These national competitive advantages of Malaysia can be analyzed by using the Porter's Diamond that consists of four major elements such as the demand conditions; related and supporting industries; factor conditions; and firm structure, strategy and rivalry.

Demand Conditions

In Malaysia, the population comprises of three main races which are Malay, Chinese and Indian. There is high home demand by the Malaysian population as jewelries such as gold and diamond are purchased to be given as gifts to their closed ones during the festive seasons such as Chinese New Year, Hari Raya Aidil Fitri and Deepavali, and formal/ceremonial events. For instance, wedding dowry and ornaments normally includes gold or diamond which is a necessity for a wedding event. Thus, Tomei could take advantage of the high home demand by rolling out more jewelry products in order to cater for the demand. The high demand for jewelry enables Tomei to obtain the economies of scale by producing high volume of jewelry and gain experience effects to compete globally. Tomei has to keep coming out with new designs

of its jewelries to suit the changing fashion of the customers especially for the wedding events as the Malaysian customers are critical and demanding in jewelry products. As a result, Tomei gains experience effects and able to ensure there is continuous demand for Tomei's jewelry by the customers.

Factor Conditions

Factor conditions are categorized into basic and advanced factors but only the advanced factors are the roots of sustainable competitive success.

However, the government has to implement policies and play its role to encourage the development of advanced factors. The basic factors refer to land, labor and natural resources. In Malaysia, there is availability of land, labor and gold for the jewelry firms such as Tomei to exploit. Moreover, the advanced factors that exist in Malaysia such as digital telecommunication such as 3G which facilitates the communication in the business world and transfer the business information across the borders to compete globally. Hence, Tomei could make use of this competitive advantage to communicate and transfer information to its retail outlets and manufacturing facilities in the Vietnam and China.

Firm structure, strategy and rivalry

The domestic firms has its own unique vision and goals to be achieved, firm's structure of either traditional or empowerment approach, and extent of competitive rivalry between domestic firms which is fierce and internationally competitive such as Poh Kong and Habib. These factors have pushed the firms in the jewelry industry to improve its capability to sustain competitive advantages over the other competitors by either lower its costs, <https://assignbuster.com/macro-general-environment-evaluation-marketing-essay/>

improve the quality of both jewelry products and customer service and differentiate its products from its competitors' products. In the case of Tomei, it has taken the effort to differentiate itself by becoming an integrated designer, manufacturer, exporter and retailer in the gold and jewelry market

Related and supporting industries

The related and supporting industries are regarded as the complementary world-class producers of components or services of the jewelry industry that supports the internationally competitive firm such as Tomei. The close working relations and the ongoing coordination of related supporting industries enhance the competitive advantage of the industry by forming a cluster that refers to linkages between world-class related firms either by vertically which is between buyer and suppliers or horizontally which refers to common customers, technology and channels. For example, Tomei has technological partnership with Eugen Schofer GmbH & Co[11], the largest jewelry chain manufacturers in Germany. This enables the transfer of expertise within the cluster such as movement of highly-skilled staff to manufacture the sophisticated jewelry at lower cost. This collaboration has enable Tomei to design and manufacture approximately 70% of its jewelry in-house which leads to better margin and reduces its reliance on the outsourced jewelry. Now, Tomei has built up about 36, 000 in-house designs in which 1, 500 designs are actively being used for its manufacturing and retailing operations.

4. 0 Portfolio analysis

4. 1 Attractiveness of different business portfolios

In order to further analyze Tomei, an analysis on the portfolios of Tomei is essential to understand on the collection of products or businesses which is of core activities that generates revenues which is likely to be the operating segments. This would allow Tomei to determine which operating segments to invest additional funds as it lays the foundations for sound strategic planning. It is known that Tomei has principally engaged in manufacturing & wholesales and retailing of gold ornaments and jewelry.

Tomei's manufacturing and wholesales is to produce products that best meet the contemporary needs and preferences of customers. Today, Tomei has its own Tomei Group & Jewellery Manufacturing Sdn Bhd which now it has joint ventured with Eugen Schofer GmbH & Co, the largest chain manufacturer in Europe. Moreover, Tomei has license to set up manufacturing facilities in Socialist Republic of Vietnam in year 2006. In maintaining its leadership in wholesales segment, Tomei has formed a new joint venture company with a 55% interest to undertake the wholesales of white gold jewelry in Malaysia which the products are also marketed to other regional countries through appointed distributor.

Tomei's jewelry retail business has more than 70 retail outlets locally in Malaysia consisting of " Tomei", " My Diamond", " T. H. Jewellery", " Le Lumiere", and " Goldheart"[12]. Also, Tomei further establishing its position in other countries such as China and Vietnam by expanding its retail business by opening outlets at prominent location. For China, Tomei has

kiosk outlets at shopping malls in Shanghai while in Vietnam; it operates retail kiosk outlets at cities such as Ho Chi Minh and Hanoi.

Below is the BCG matrix on the two operating segments of Tomei which would help to evaluate the attractiveness of the different portfolios which also known as strategic business units:

High RELATIVE MARKET SHARES Low

High 10x 5x 1x 0. 5x 0. 1x

M & W

RETAIL

STAR

Problem child

Cash cow

Dog

60

MARKET GROWTH RATE

30

0

Low

Diagram 1: BCG matrix of Tomei[13]

In Tomei, the Boston Consulting Group (BCG) growth or share matrix is showing the market growth and the relative market share between the Tomei and the other competitor which most likely to compare with the market leader. The market leader of jewelry industry is Poh Kong which has retail and manufacturing & wholesales as well. Thus, the BCG matrix above is done based on comparison between Tomei and Poh Kong. BCG matrix is done to determine the position of Tomei's operating segments. Tomei's retail segment has a relative market share of 1.363 and market growth rate 57.1% while the manufacturing & wholesales has relative market share of 1.375 and market growth rate of 39.1%. The size of retail segment is bigger as it generates more revenue than manufacturing & wholesales segment, about triple the revenue of manufacturing & wholesales segment. As a result, it is seen that both retail and manufacturing & wholesales are in star quadrant.

Based on the BCG matrix, the manufacturing & wholesales segment of Tomei has high relative market share and high market growth rate. However, the revenue generated by manufacturing & wholesales segment is lesser than retail shown by the size of the circle. Falling in star quadrant shows that Tomei's manufacturing & wholesales segment is competitively strong in the industry. Thus, Tomei is required to invest considerable funds to keep up with the market growth rate as well as to stay competitive against its' main rival, Poh Kong. It is advisable for Tomei to hold market share to sufficiently match the commitment of rivals and requirement of marketplace. Tomei should consider product development strategy to retain its market share

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which is further elaborated in 5.0 recommendations to improve portfolio performance.

In the retail segment of Tomei, it is also in the star quadrant with high market growth rate and high relative market share. However, it is clearly observable that retail segment contributes more sales to Tomei although it has a smaller relative market share compare to Poh Kong. This is because retail segment has more customers' demand as well as provide Tomei with direct dealing with its customers which caused Tomei to switch focus from manufacturing & wholesales to retailing. In the star quadrant, Tomei need to offer more attractive long term prospects to reduce the risk of falling into cash cow quadrant one day.

For retail segment, Tomei may consider for market development where new market is explored with its existing products. This is done by Tomei aggressively where it expands its business to China and Vietnam. Tomei needs to absorb large amounts of cash from investment needs as fixed assets such as retail outlets to sustain growth and the need of cash to beat off competitor attack strategies. On 12 May 2011, Tomei intends to invest a total of RM25mil in capital expenditure in the financial year ending Dec 31, 2011 to open 10 new retail outlets. Tomei is targeted to expand its presence further by opening at least 10 retail outlets in 2011, comprising four retail outlets in Malaysia, two in Vietnam and at least four in China[14].

Furthermore, Tomei also constantly on the lookout to expand business further, and in fact the first quarter of 2011 has seen the opening a new Tomei retail outlet in City Square Johor Bahru, in line with the increasing affluence in the population and rising tourist arrivals. Tomei had the <https://assignbuster.com/macro-general-environment-evaluation-marketing-essay/>

preparation in new areas and likely to be attacked. On the other hand, Tomei is well managed and execute sales promotion and joint-promotion activities and to co-ordinate al