

The Rise and Fall of Tanin: Another Survival of the Fittest?

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Abstract

This case study demonstrates a guideline for strategic international business management based on the real case of Tanin, one of the leading electric companies in Thailand. Tanin, during the 1980s, faced problems with its continuous declining sales and profit, eventually resulting in its illiquidity. After several attempts and unrelenting dedication, experts discovered some internal problems at Tanin. First, the organizational management was convoluted and unsophisticated. Second, it still used the same old marketing strategies that used to be very successful in the past but eventually became very ineffective. Third, Tanin's R&D did not place emphasis on establishing new technology; instead, it concentrated too much on developing pre-existing technology. Fourth, Tanin was the only supplier in the industry that allowed retailers to resell unsold products to Tanin. This policy did not motivate retailers to promote Tanin products since they knew well that even if they could not move the product, they were still able to resell it to Tanin

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for a refund. It is suggested that Tanin might adapt the Three Generic Strategies by Porter (1980) to increase the plausibility of its organization.

Keywords: Tanin, Appliance, Electrical Device, Thailand, Four Asian Tigers, Population Ecology Theory, Three Generic Strategies, Multinational Enterprise

ความรู้เรื่องและความเสื่อมถอยของธานินทร์ กับแนวโน้มของการเป็นผู้อยู่รอดที่แข็งแกร่งที่สุด

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บทคัดย่อ

กรณีศึกษานี้มีจุดประสงค์เพื่อเสนอแนวทางในการจัดการธุรกิจระหว่างประเทศอย่างมีกลยุทธ์โดยใช้กรณีศึกษาจริงของบริษัท ธานินทร์ อุตสาหกรรม จำกัด (อดีตบริษัทชั้นนำด้านเครื่องใช้ไฟฟ้าของไทย) โดยในช่วงปี ค.ศ. 1980 ธานินทร์ประสบปัญหายอดขายและกำไรตกต่ำอย่างต่อเนื่องจนส่งผลถึงสภาพคล่องของบริษัท ภายหลังจากการพยายามค้นหาสาเหตุอย่างไม่ย่อท้อของผู้เชี่ยวชาญ ทำให้ทราบถึงปัญหาภายในของบริษัท ธานินทร์ อุตสาหกรรม จำกัด หลาย ๆ ประการ ดังนี้ ประการแรก คือ การจัดการองค์กรที่ไม่เป็นระบบและระเบียบ ประการที่สอง คือ ธานินทร์ยังมีการใช้กลยุทธ์การตลาดบางรูปแบบที่เคยใช้ได้ผลในอดีตแต่ใช้ไม่ได้ผลในปัจจุบัน ประการที่สาม คือ หน่วยงานวิจัยและพัฒนาของบริษัทมิได้ทุ่มเทในการพัฒนาเทคโนโลยีใหม่ ๆ แต่กลับไปใส่ใจในการพัฒนาเทคโนโลยีเก่าให้ดีกว่าเดิม ประการที่สี่ คือ ธานินทร์เป็นบริษัทเดียวในอุตสาหกรรมที่อนุญาตให้ผู้ค้าปลีกขายสินค้าเก่าของธานินทร์กลับคืนได้ ซึ่งนโยบายนี้ทำให้ผู้ค้าปลีกไม่มีความกระตือรือร้นในการส่งเสริมสินค้าของธานินทร์ (เพราะผู้ค้าปลีกทราบคืออยู่แล้วว่าถึงแม้จะขายสินค้าของธานินทร์

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ให้กับลูกค้าไม่ได้ แต่ก็ยังสามารถขายคืนให้กับธานินทร์ได้อยู่ดี) ท้ายที่สุดผู้เขียนได้แนะนำกลยุทธ์การแข่งขันสามรูปแบบของพอร์เตอร์ (1980) เพื่อเพิ่มโอกาสในการอยู่รอดของธานินทร์ในอุตสาหกรรมนี้

คำสำคัญ: ธานินทร์ เครื่องใช้ เครื่องใช้ไฟฟ้า ประเทศไทย สี่เสือเศรษฐกิจ ทฤษฎีนิเวศวิทยา ประชากร กลยุทธ์การแข่งขันสามรูปแบบ กิจการข้ามชาติ

Suppose country A is better than country B at making automobiles, and country B is better than country A at making bread. It is obvious that both would benefit if A specialized in automobiles, B specialized in bread and they traded their products. That is a case of absolute advantage. But what if a country is bad at making everything? – Olivier De Meistre (2006)

The Objectives of this Case Study for Learners

- i. To be able to explain and to analyze basic Asian economic and social structures
- ii. To be able to analyze the advantages and disadvantages of the structures in each country in Asia
- iii. To comprehend Asian business operations, especially multinational enterprises (MNEs)
- iv. To be able to explain and compare the differences between Asian management styles and other management styles
- v. To be able to analyze the Asian CEOs' behavioral management of MNEs
- vi. To evocate and understand the code of conduct in business operations in Asia

Tanin's Beginning

“Channel B should be the left speaker and Channel A should be the right speaker, every baht worth by Tanin” – Tanin's Sound Advertising^{1,2} (Voice by Paibool Suppawari)³

In order to surpass the dynamics of marketing in the contemporary world, a company should know its strengths, weaknesses, opportunities, threats, and even its own competitive advantage. No matter how experienced your organization is, it cannot 100% guarantee that your organization will experience long-term survival. This can be explained by the population ecology theory proposed by Hannan and Freeman (1977), in which there is a relationship between the organization and the environment, and where the organization needs to adapt to the external environment. As a result, here lies the real case of then-Thailand's biggest electrical device company during the 1980's, Tanin. Two experts, one in electrical engineering and one in financial management, were hired as general managers for Tanin Group Inc., to solve the problem for Tanin due to its continuous declining sales

and profits for many months, eventually resulting in Tanin's illiquidity (Manager, 2013; Pongpon, 2010). They knew this brand very well since it had prospered in the electronic appliance market for more than 30 years. Sharing a high market share in Thailand with Sony and International (currently Panasonic), experts never expected that Tanin would someday come into a state of recession (Manager, 2013; Manager Magazine, 1987). One expert industrial analyst even claimed that:

“Tanin had developed for thirty years. Though it could not defeat Japanese companies, it should not have had to succumb to its Korean competitors. At least, Tanin was the same level as Samsung. There was not a single element Samsung possessed to which Tanin couldn't be plausibly compared.”⁴



Figure 1: Tanin's Advertising and Its Radios⁵

Business Competitiveness

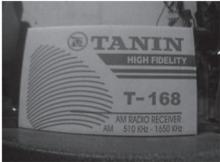
In 1946, similar to other multinational-enterprises, Tanin began with a small family business selling radios (Ok Nation Blog, 2010). With the spearhead figure of Mr. Udom Wittayasirinun and seven ambitious employees in the beginning, Tanin decided to become a large-scale radio manufacturer in Thailand (Manager Magazine, 1987). By 1962, it had experienced enormous success and decided to expand the company, and its radio thus became a popular product: cheaper price (all of the components were produced domestically), better quality than foreign competitors, and a better marketing strategy, such as direct sales (Jatuchai, 2011). Figure 2 shows Tanin's logo.



Figure 2: Tanin's Logo⁶

In 1983, Tanin was regarded as one of the top three players in the electric appliance industry with net sales of more than 33 million USD (Lauseriwani, 1988). All of Tanin's products were OEM/ODM (full spectrum of electric appliances; see some examples in Table 1), without depending on imitation or buying patents (Manager Magazine, 1987). It also was the only Thai brand in the electric appliance industry that had sub-branch companies (Petch Service, 2013). Tanin concentrated on home-appliance products such as TVs (both color and black-and-white), fans, rice cookers, radios, and so on (Pong, 2010).

Table 1: Sample Tanin Products

Product	Category	Model	Product	Category	Model
	Radio	T-168 ⁷		Batteries	. ⁸
	Pocket Radio	TF-268 ⁹		Desktop Radio	TF-101A ¹⁰
	Adaptor	A-268 ¹¹		Desktop Radio	TF-2222 ¹²

In reality, Tanin could produce most of its material parts itself but still had to import certain components from overseas; that is, it enjoyed a lengthy stretch of satisfactory annual revenues until its sharp decline in sales and increasing illiquidity issues (Manager Magazine, 1987). One employee in Tanin even stated that:

“You know, in the past, Tanin could sell at least 100,000 radios annually. But these couple years, it couldn’t sell radios AT ALL. How could Tanin pay its debts to trustees?”¹³

According to the history of Tanin, it seems to have been wishful thinking for Tanin’s CEO to promote Tanin as world-class brand. However, there are pervading similarities of themes between business and war; they both need conquerors or at least a few survivors of the battle. During the 80’s and 90’s, there were many emerging markets in Asia that were becoming key players in the global market (Central Intelligence Agency, 2013), for example (Figure 3), the Four Asian Tigers (FATs) – Korea, Hong Kong, Taiwan, and Singapore – and top players from Southeast Asia (SEA) such as Malaysia, Thailand, and Singapore. These countries were the top emerging markets and top exporters in Asia (Table 2). Malaysia was especially concentrating on the global halal food market (Agil and Nor, 2012). Nowadays, Hong Kong, Taiwan, and Singapore are considered developed countries (Wikipedia, 2013a), even though some experts consider Hong Kong and Taiwan to be parts of China. Due to these facts, it was difficult for Tanin to compete with strong delegates in the home electric appliance industry. What should Tanin have done to solve this problem?

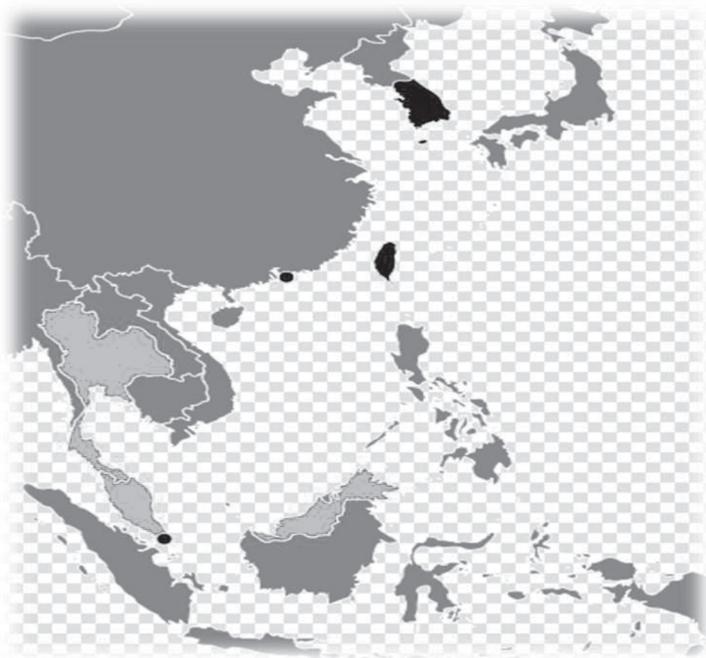


Figure 3: FATs and Some Key Players in SEA¹⁴

Table 2: List of Countries by Exports in 2010 (Selected Countries)¹⁶

World Rank 2010/2013	Country	Export 2010/2013	Difference	Result
1/1	China (FAT) ¹⁵	\$1,506,000,000,000/\$2,210,000,000,000	+\$704,000,000,000	Λ
4/4	Japan	\$765,200,000,000/\$697,000,000,000	-\$68,200,000,000	V
6/6	South Korea (FAT)	\$466,300,000,000/\$557,300,000,000	+\$91,000,000,000	Λ
12/12	Singapore (FAT)	\$351,200,000,000/\$442,900,000,000	+\$91,700,000,000	Λ
17/13	Saudi Arabia	\$235,300,000,000/\$376,300,000,000	+\$141,000,000,000	Λ
20/16	India	\$201,000,000,000/\$317,800,000,000	+\$116,800,000,000	Λ
22/15	United Arab Emirates	\$195,800,000,000/\$368,900,000,000	+\$173,100,000,000	Λ
23/22	Malaysia (SEA)	\$192,800,000,000/\$230,700,000,000	+\$37,900,000,000	Λ
24/23	Thailand (SEA)	\$191,300,000,000/\$229,100,000,000	+\$37,800,000,000	Λ
28/26	Indonesia (SEA)	\$146,300,000,000/\$178,900,000,000	+\$32,600,000,000	Λ

Internal and External Threats

After several attempts and unrelenting dedication, the experts discovered some internal problems at Tanin. First, the organizational management was convoluted and unsophisticated, as was the long-term marketing plan (Manager Magazine, 1987). For example, Tanin concentrated too much on niche and low-end markets (radios, fans, and etc.) that only generated a low profit; it even encouraged installment payments (Jatuchai, 2011).

Second, based on an article by Manager Magazine (1987), it was written that Tanin still used the same old marketing strategies, which used to be very successful in the past but eventually became very ineffective (such as the price differentiation strategy). This resulted in inventory control issues (over stock) for Tanin since it could not compete with foreign countries such as Taiwan and Korea (Samsung) in the European TV market (Lauseriwanit, 1988). Jatuchai (2011) reported that Tanin even had to move to the Chinese TV market, but it again failed since the Tanin brand was unassociated with a high-quality product image.

Third, Tanin's R&D did not place emphasis on establishing new technology; instead, it concentrated too much on developing pre-existing technology (Lauseriwanit, 1988). Lauseriwanit mentioned that in year 1977, most manufacturers were about to stop producing black and white TVs, but Tanin still produced and exported them to the UK and surrounding areas. Surprisingly, nostalgia for watching black and white TV continued the demand in Europe. That is, it created a significant demand for black and white TVs (Manager Magazine, 1987), which made Tanin enjoy a high profit gain during that time. However, Korean companies in addition to Taiwanese companies saw this new opportunity and flooded the European TV market, and Lauseriwanit (1988) concluded that the European Economic Community (EEC) had to establish a barrier to these Asian manufacturers in order to protect European manufacturers.

Fourth, Tanin's sales policy also had problems. It was the only supplier in the industry that allowed retailers to resell unsold products to Tanin; this policy, as a result, did not motivate retailers to promote Tanin products (Manager Magazine, 1987). Why bother convincing customers to buy Tanin products when it was better to promote and sell other brands that were less famous than Tanin since the retailers could not resell these products

to their original suppliers? Due to a recession in Thailand at that time, people had less purchasing power, and the Thai government decided to devalue the Thai baht (Central Intelligence Agency, 2013); that is, it caused Tanin to source foreign imported parts at an outrageously inflated cost, forcing Tanin to increase the selling price of its product (Manager Magazine, 1987).

Conclusion: Deciding on the Priority, Survive or Die?

In any case, regardless of the difficulties that arose, it was time for Tanin to fight aggressively in order to survive or leave the market like succumber. Neighboring countries like Malaysia could be strong competitors for Tanin as well, even though these two countries were already competitors in the Halal food market (Agil and Nor, 2012). Nonetheless, one tool that Tanin might have used to solve aforementioned problems was the Three Generic Strategies suggested by Porter (1980). This tool considers two dimensions: strategic target and strategic advantage. In these two dimensions, there are also sub-dimensions such as the uniqueness perceived by the customer, low cost position, industrywide (the target industry in which the company concentrates), and particular segment only. Finally the Three Generic Strategies are: differentiation (how a company makes its product unique in order to be at the forefront of the customer’s mind), overall cost leadership (low price but reasonable quality), and focus (the concentration on a particular buyer group).

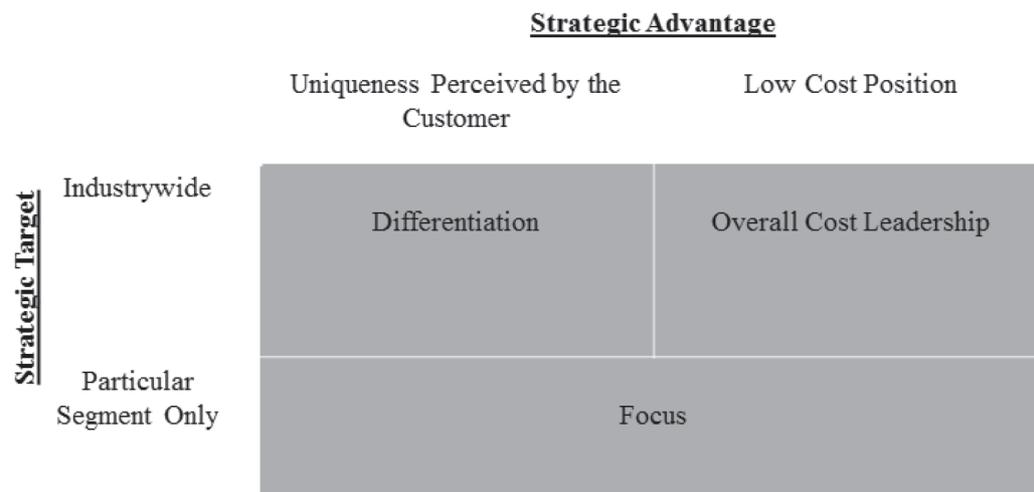


Figure 4: Three Generic Strategies by Porter (1980)

After intensive analysis, in order for Tanin to survive in this competitive market, it therefore should have done the following:

- i. Since the organizational management was convoluted and unsophisticated, Tanin needed to reengineer its organization. In fact, Tanin, as a company with family (business) member intervention, could have arranged family members to accept responsibility for each division. If any divisions were performing poorly, the board of directors could have monitored or even dropped that division.
- ii. Even though selling at a low price was the old marketing strategy, Tanin might have maintained this strategy and even made it better by creating a new identity (perhaps cheap-price but good-quality TVs). It could have focused on particular buyers. For instance, if Thai people perceived Tanin as a second class brand, they could have exported their products to Thailand's neighboring countries or even the countries in ASEAN.
- iii. Tanin could have placed more effort in developing brand new products with brand new technology. Instead of listening to the board of directors, it also should have listened to its young employees in order to understand the changes in current marketing preferences.
- iv. It needed to cancel its resell policy to motivate seller to promote Tanin's products. Figure 5 shows the plausible solutions for Tanin's survival.

		<u>Strategic Advantage</u>	
		Uniqueness Perceived by the Customer	Low Cost Position
<u>Strategic Target</u>	Industrywide	Differentiation <ul style="list-style-type: none"> • Creating Identity: Low Price but Good Quality • Brand New Product with Brand New Technology for Young Generation 	Overall Cost Leadership (Maintain Tanin’s Old Marketing Strategy) <ul style="list-style-type: none"> • Selling Cheap Price
	Particular Segment Only	Focus <ul style="list-style-type: none"> • Neighboring Countries (Myanmar, Laos, Cambodia, Vietnam, and Malaysia) • ASEAN Countries (The Philippines, Brunei, Singapore, and Indonesia) 	

Figure 5: The Plausible Solutions for Tanin’s Survival

Epilogue

Tanin should have realized what its strengths and weaknesses were in order to increase its competitive advantage. It might have considered what the niche markets in those neighboring countries (Myanmar, Laos, Cambodia, Vietnam and Malaysia) and ASEAN countries (The Philippines, Brunei, Singapore, and Indonesia) were; that is, determining which products neighboring and ASEAN countries were good at manufacturing and bad at manufacturing. Hopefully, after the rise and fall of Tanin, there may be a renaissance of Tanin.

Questions

- i. Do you think that there should be more internal/external threats to be added to what author has suggested? Why or why not?
- ii. Do you think that world-class brands (Samsung, Panasonic, Sony, and etc.) have encountered this kind of problem? If so, please give an example and a plausible solution.
- iii. Nowadays, some groups of people collect Tanin’s array of products as a vintage collection. What do you think about this? Should this be an opportunity for Tanin?

- iv. Apart from the Three Generic Strategies, do you think that there may be other applicable managerial tools? Why? Please provide evidence to support your answer.
- v. Are only MNEs (nowadays or even in the past) facing this kind of problem? Why or why not? How about domestic enterprises? Please provide evidence to support your answer.

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Endnotes

- ¹ Based on “The End of Tanin’s Legend (Irrational Thai’s Preference)” by Khon Rim Klong (2010).
- ² Based on “Tanin Radio, the Past that Is Uneasily Forgotten” by Ajberm (2012).
- ³ Ibid.
- ⁴ Based on “Tanin Union Inc.: The First Industrial Step of Thailand-look-a-like-Samsung” by Nop Noranart (1989).
- ⁵ Adapted from “The Fall of Thai’s Electrical Device Manufacturer (Tanin) due to Thai Nonnationalists” by Pongpon (2010) and Every Baht Worth by Tanin by Nhum Wittayu Kao (2012).
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- ⁹ Adapted from “Price, Tanin Radio” by Priceza (2014).
- ¹⁰ Based on “Every Baht Worth by Tanin” by Nhum Wittayu Kao (2012).
- ¹¹ Ibid.
- ¹² Ibid.
- ¹³ Based on “Tanin Industry Inc.: The Overlooked Real Problems” by Manager Magazine (1987).
- ¹⁴ Adapted from “Four Asian Tigers” by Wikipedia (2013b).
- ¹⁵ Hong Kong, Macao, and Taiwan included.
- ¹⁶ Adapted from “Lists of Countries by Exports” by Wikipedia (2013c).