

THE BLACK OCEAN STRATEGY IN THAILAND LOGISTIC INDUSTRY THE CASE STUDY OF USED CAR SECTOR

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THE CASE STUDY OF USED CAR SECTOR****Kittichok Nithisathian**

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Keywords: Black ocean strategy, logistic industry, auto market, small and medium enterprise, cost and pricing**Abstract:** The logistic is the core of Thai economy. While many business authors are focused on blue ocean strategy in pursuit of tapping into uncontested market space by using differentiation and low cost. There is another strategy that are most commonly use but not much revealed in the literature. It is named black ocean strategy and commonly use in logistic industry. It is the secret mantra from the past which still widely use in today business world. This paper has focus on used car sector as a part of logistic industry to study the viable of this strategy and found that black ocean is commonly used by used car companies. Since the automotive tax in Thailand is pretty high many logistic companies prefer to go for used car which is more economy. The study found that black ocean strategy is the viable tools to reduce the purchasing cost as well as increase the selling price for both logistic buyer and purchaser.**1 Introduction**

Thailand is the main logistic hub of ASEAN. The location of Thailand is in the centre where it connects with Laos, Myanmar, Cambodia, Malaysia, and Vietnam; make Thailand at the logistic hub of the region (GMS: Greater Mekong Sub-region). According to the World Bank's Logistics Performance Index 2018 Thailand ranking has rose from 45th in the year 2016 to the 32nd in the year 2018. It is only second to Singapore in the same region.

The growth in logistic industry required vehicle, which in term boots automotive sector as an important part of Thailand economy. Albeit the growth of automotive industry, the taxation system for cars in Thailand is a bit confusing, which in term make the car retail price extremely high in this country. Since reducing the logistics time and costs is one target of Thailand [1], to reduce the operation cost several local logistic company use second hand cars, and motorcycles. However, the pricing and cost structure for second-hand cars is much more complicated than the first-hand car. In the situation where negotiations are more complex black ocean strategy tends to be another tool that Thai used car sellers are applied.

The purpose of this paper is to study the existing of black ocean strategy in used car industry where logistic company may concern and be able to align the strategy when purchase the second-hand car.

2 Literature review**2.1 Strategy**

Strategy is "στρατηγία" (stratégia) in Greek. The original meaning of this word in Greek means supreme commander of the troops [2]. It first noted in 18th century as the "art of general", as well as, the "art of arrangement of troops" [3].

The strategy for art of general address (1) Vision: where the troop are going (2) Mission: how the troop act and do in order to reach the destination (3) Competitive Advantage: how the troop will acquire their superior advantage than their opponent (4) Tactics: what will be the troop's man oeuvres to move, and (5) and Sustainability: how the troop remain survive [3, 4].

The concept of strategy has transfer from military to business. It is how the company influential the forthcoming

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business opportunity and reaching the required ends with their existing resources [5].

Strategy is the combination of mission, vision, people and structure [3]. It is the pattern that integrates company's major goals, policies and sequential actions into a solid whole [6]. People and structure are two main elements that drive the organization. And the firmware that imprinted inside people and structure is "culture". Culture can facilitate the firm to achieve (or avoiding) from reaching their goals and their visions [7].

Company strategy tries to create competitive advantage that allows companies to outperform its competitors. Strategic management should consider how to build and sustaining the competitive advantage [8].

The company is facing hard time through competitive and dynamic environment in order to attain sustainable competitive advantage company is applying dynamic capabilities [9, 10].

2.2 Sustainable competitive advantage and Dynamic capabilities

It has been said that successful organizations must have dynamic capabilities [9] which is the company's ability to adapt to the changes that they are facing in the business environment [11]. It is also the pattern of decisions that

affected the capability of the company to reach their long-term goals and objectives [12]. The term capabilities refer to a company's ability to exploits it resources [13].

The competitiveness may the cause of resource or products. However, analysing a company from the resource side has more benefit, since resources is anything that might be thought of as a strengths or weaknesses of a given company [14].

The concept of competitiveness is focused on how to detect the precise strategy at the accurate amount of resource distribution [15]. And the dynamic capabilities theory is resource-based view [16], where the company can use resources to gain competitive advantage. It has been suggested by Barney in his VRIO framework that the resource that increase the company's competencies must have value, rareness, imitability, and organization [17].

The sustainable competitive advantage can be function as how to measure strategy index, as well as transformational leadership approach (Figure 1), sense and respond (S&R) monitoring technique, and how to transform leadership [18]. According to Bradley and Nolan it is better for company apply sense and respond technique to reply to the world where it is harder to effectively make decisions and implement them under uncertain business situations in the new economy [19, 20, 21, 22].

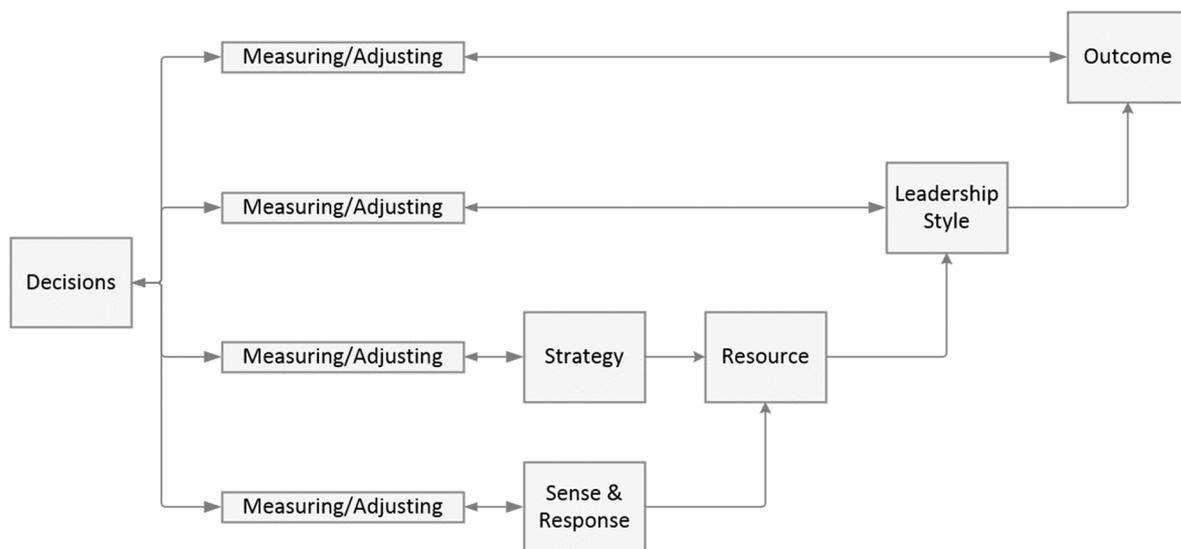


Figure 1 The benefits of implementing sustainable competitive advantage adapted from Liu, 2013, p. 2829

The excellence model by Sivusuo, Sivusuo, and Takala, 2018 suggested that in order to develop sustainable competitive advantage there are two driven: norm-driven or competitiveness (basics), and value driven or competitive advantage (excellence).

The norm-driven side is the elements for attaining ordinary outcomes and can be influenced by the organization itself such as management and organization

structure. The value-drive side is the elements for attaining excellency and to lead opportunities.

The role of entrepreneurial actions and innovations is crucial for dynamic capabilities in term of value-driven side [11]. Currently, company must be innovative, initiative and brave for doing something different [10].

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2.3 Colour of Ocean Strategy

Several literatures mentioned the strategy in term of two main colour “Red” and “Blue” (Figure 2). It is the different point of view for strategic management [23]. Red Ocean Strategy represents all the businesses that presently exist in the well define or current market space, where the business borders are acknowledged, and the company need to be beat competitors by their superior advantage (competitive advantage). According to Michael E. Porter, the company is recommended to achieve differentiation, cost leadership, or focus strategy with the intention of gain competitive advantage [8] and to survive. On the other hand, Blue Ocean Strategy were suggested the company should rather find uncontested market space where competition irrelevant [24], which in turn competitive advantage may not important.

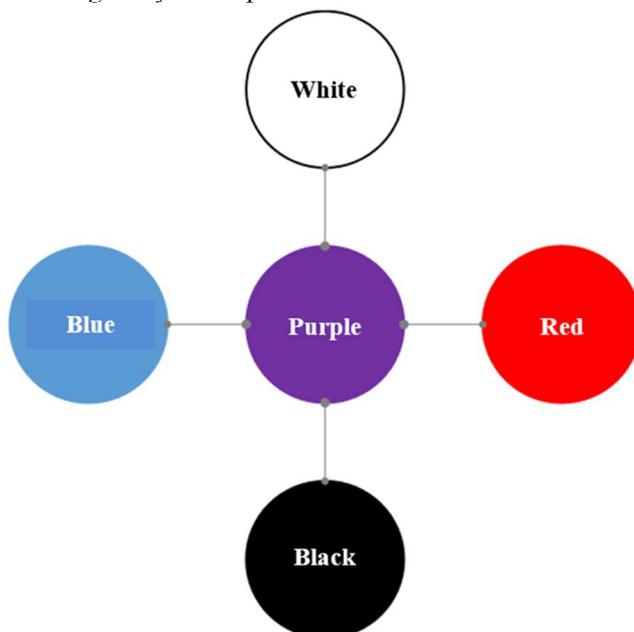


Figure 2 Ocean Strategy Frontier adapted from Nithisathian, black Ocean Strategy: Empirical Research, 2016

There are 2 more Thai literature that view the colour of ocean strategy differently. There are three more colours added “Purple, White, and Black” ocean strategy.

“Purple ocean strategy” believed that no strategy is dynamic and company may change the colour of their ocean strategy to match with the circumstances [23].

The Ocean strategy frontier can utilize together with type of business strategy. Literature has classified business strategy into four types prospectors: who prefer to create changes, defenders: who focusing on maturing market, analysers: who apply strategy between prospector and defender, and reactors: who response to the strategy of competitors. [25]. Prospectors may move toward blue ocean strategy, while defenders try to stick on red ocean strategy. Purple ocean may be the area where analysers and reactor try to fit in before moving toward other direction.

In addition to blue, purple and red ocean strategy there are another two strategies which are white and black ocean. For “White ocean strategy” and “Black ocean strategy” are more dealing with the role of entrepreneurial actions and innovations of the company. White ocean strategy viewed that entrepreneurs should role the company to support corporate social responsibility [26], while Black ocean strategy suggested the entrepreneur should take advantage from social norms [23].

2.3.1 White Ocean Strategy

The White Ocean strategy proposed by Thai business executive and syndicated columnist Danai Chanchaochai [26]. He has addressed the Buddhism managing approach, and highlights the humanity first formerly looking to oneself. This concept is connected to the concept of corporate social responsibility (CSR) and also the concept of “Marketing 3.0” by Philip Kotler et. al that view the market shifted toward the human spirit [27]. The concept of White Ocean strategy by Chanchaochai [26] focus on 7 key main activities comprised of (1) Net positive impact on society, (2) long-term goal and macro view, (3) People, Planet, Profit, and Passion, (4) The World of abundance and sharing, (5) Integrity, (6) Individual social responsibility, and (7) setting the World new benchmark.

In the other side of the coin literature stated that company mostly does not understand the benefit of corporate social responsibility and just use it as a kind of corporate public relation [28, 29, 30]. A Marxist point of view to the concept of capitalism suggested that “business morals and ethics are unbearable since the capitalism itself inclines to generate materialistic, over-reaching, and unprincipled business conduct” [31, p. 565]. Carroll [32] stated that before anything else, profit purpose was recognized as the main motivation for entrepreneurship. The term profit purpose was soon developed to profit maximization, where all business tasks are predicted upon the financial concern of the organization. This is the foundation, the first, and the basic form of CSR which comprises of 1) economic level of CRS, 2) legal level of CSR, 3) ethical level of CRS, and 4) philanthropic level of CSR.

2.3.2 Black Ocean Strategy

Aithal and Suresh Kumar [33] stated that Atharva-Veda is an ancient Indian philosophy to guarantee that the company or person is reaching the objective or goal. The Black ocean strategy is not framing to confront the competition or developing uncontested market space but strategy in low ethical environment. They have proposed the investment versus perceived risk matrix (Figure 3).

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HIGH	Red Ocean Strategy	Black Ocean Strategy
LOW	Blue Ocean Strategy	Green Ocean Strategy
↑ Investment in the Business / Perceived Risk →	LOW	HIGH

Figure 3 Investment versus perceived risk matrix

Aithal and Suresh Kumar [33] suggested that Black ocean strategy will be implemented with the following condition: 1) need for existence 2) going to lose large amount of investment 3) the company is having a big trouble, and 4) the happen of uncommon chance.

According to Aithal and Suresh Kumar [33] there are 6 steps of adopting Black Ocean Strategy (Figure 4) 1) Problem recognition 2) Expect the resolution 3) Investigation for possibilities answer 4) Select the finest solution 5) try to reach the goal, and 6) seldomly use the black ocean strategy.

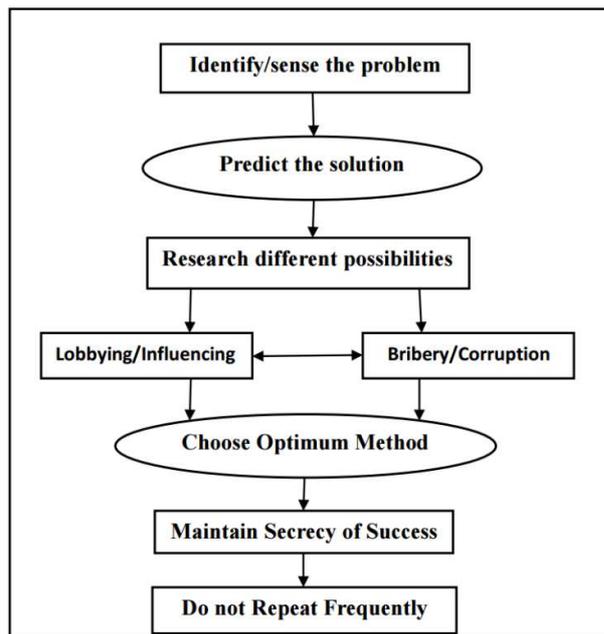


Figure 4 Block diagram various steps involved in the procedure of adopting black ocean strategy

Kittichok Nithisathian [23] suggested that Black Ocean strategy is the capability to compensate the company earlier than reimbursing to the other. Black Ocean strategy is focus on opportunity both as a tool to access and manage the opportunity. Also, trust is the main area that Black Ocean strategy dealing with.

Trust is frequently observed in today’s literature [34]. It is considered to be the main concern of today business alliance [35], can impact individuals to align with the company interests. Trust is the magnet that combines all parties together, it can generates robust communities as well as active businesses result [36], it can create as well as damage any kind of human connection [37].

Nithisathian, et al., [38] argued that in currently business environment deliberate cheats are usually use hope as an instrument to betray, while opportunistic parties try to take benefit or gain when they become trusted. Black Ocean strategy is dealing with trust by create “trust trap”. The trust trap formed by thoughtful cheat and opportunistic is extremely harmful. Trust trap can make an untruthful memory, which has a long-term outcome [39]. It is important for firm to use White ocean strategy while also cautious relationship with business partner who may use Black ocean strategy is suggested.

The core concept of Black Ocean strategy is the ability of the firm to “manage” audience attitude (create trust) as well as able to “execute” strategy without concern the impact to another party [23].

Recent study of Black Ocean strategy found that several opportunistic try to build a “White” reputation, while truly apply “Black” ocean strategy. This is the habit to gain trust while able to use trust trap simultaneously. The “White” ocean strategy and “The Black” ocean strategy may be the other side of the coin or may be unable to separate [40].

2.3.3 Black and White Ocean Strategy

Carroll [32] suggested three ethical management approaches (Table 1) which comprises of 1) immoral approach, 2) amoral approach, and 3) moral approach).

Table 1 Three Moral types and Orientation Toward Customer by Carroll (1991)

Approaches	Description
Immoral Approach	Ethical is not mentioned. And company try to take opportunity from customer whenever possible.
Amoral Approach	The decision is based on profit rather than ethical consequences.
Moral Approach	Both parties are work with fairness. Customer’s satisfaction are highest goal of the company.

2.4 Used Car Industry and Logistic in Thailand

Thailand is being the logistic hub of ASEAN due to the logistic location. However, Thailand are facing major problem on both basic infrastructure and supply-chain management. The quality of road in Thailand is sub-standard to neighbour country like Singapore and Malaysia in term of infrastructure, punctuality, planning, management systems as well as technology. And that is a lot of work for Thailand to develop. In term of supply-chain management Thailand still need a good

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understanding mainly from small and medium size logistic firm to formulate good logistic plans and strategies.

The used-car markets is a small part of supply-chain management but important for Thailand logistic management. Though it may consider as a reverse logistics system, it is a good approach to reduce the initial investment cost. Although the use of second-hand car can be purchase for a fraction of the cost of a new car it require a lot of maintenance, however many used car dealer does not replace some components before selling and it may cost a big problem for logistic system when the car is on service [41].

The finding from the State shows the number of second hand cars consumption three folds of new car, and this number is higher in Thailand where the price of new car is skyrocket [42]. In Thailand, where population is around 60 million, there are around 1 - 1.5 million used car circulate in the market [43]. Only in the year 2018 there are around 1,020,000 used cars sold with the growth rate more than 17% [44]. This is a big industry in Thailand, however Office of the consumer Protection Board (OTPB) reported that there are more than 129 cases complain about unconditioned car sold [45].

3 Methodology

In this study, the methodology that researcher has applied is the 'constructive approach'. It is applied study science in order to find of new understanding in the normative form [46]. It is both empirical and normative types of research. It is a problem-solving methodology by the construction of diagrams, models, organizations, plans, and etc.

The constructive research comprises of 6 main tasks comprises of (1) finding the potential problem that need to be answer, (2) obtaining the in depth understanding of the issue, (3) come up with the creative solution or idea, (4) presenting how the idea is feasible, (5) showing the connection between theory and research finding and (6) inspecting the area of applicability of the answer [46].

In order to demonstrate how the solution is workable, researcher has applied qualitative research method to conduct the in-depth interview. Since the goal of qualitative research and in-depth interview is to acquire the in-dept understands [47].

According to the rules of thumb-based approach the grounded theory of action research required, 20 – 30 of the cases [47]. Thus, the researcher selects sampling size for this research at 20 used car companies plus 10 additional cases.

The sampling selection was through snowball selection technique. The snowball or chain sampling technique is the approach to identify cases from respondents who know people who understand what cases are information-rich [48]. The respondents are an owner or a sale manager of the company.

The interview was conducted in Bangkok during November 2018 to March 2019. As the guidelines for

length of interviews for 20 respondents is 30 minutes to 1 hour [47], researcher has conducted the interview with the approximately 1 – 2 hours interview time per person. Some respondents need to interview more than one time in order to get more in-depth information.

4 Finding

The researcher found the existing of black ocean strategy in Thai logistic and used car industry. As mentioned earlier black ocean strategy discussed about (1) ability to manage attitude (AMA): ability of the firm to "manage" audience attitude (create trust), and (2) ability to execute strategy (AES): ability of the firm to "execute" strategy without concern the impact to another party. There are many extents in logistic and used car industry that involved with black ocean strategy.

4.1 Imported Car

Started from the source of used car. The current research showed that many developed countries export the used vehicles (that create pollution) to poorer countries [49]. For example, more than 99% of all automobile imported to Kenya are all used from Japan and Europe. Many of these used vehicles release high levels of pollution which intern impacts the climate as well as the health of people.

Though, Thailand might not face the problem of imported used car. Thailand have become a dumping ground for vehicle trashed from Japan, and Europe. Recent report showed that Thailand imported 167,000 tons of plastic and 100,000 tokens of high-tech waste in 2017 [50].

Although, used spare part, and vehicle trash imported to Thailand can caused several kinds of problem, the number of imports is still skyrocket. This can be considered as ability to executive strategy (AES) for both importer and exporter for this segment.

4.2 Used Car Industry

According to the in-depth interview, researcher found that logistic and used car company apply both "ability to manage attitude", and "ability to executive strategy" on their used car industry supply chain for both customer and supplier.

Research found that used car company is the only expert in this business, where the car seller and the car buyer are mostly lack of experience in trading used car. This give the competitive advantage for used car company to deal with both customer and supplier.

4.2.1 Ability to manage attitude (AMA)

AMA toward seller: According to the interview many strategies has been applied in order to reduce the price of car purchased no matter that strategy is ethical or unethical. For example, (1) *criticism* on used car imperfection is the most common strategy that apply by both seller and buyer. In most case, used car sell to the used car company can be

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repair at a little cost. But most of the used car company will manage the attitude of seller and make them accept the imperfection of their car in order to reduce the price. (2) *Time pressure* is another strategy that commonly use. The used car company will force to seller to sell the car right now. If they do not want to sell and come back on other time the price will go even lower. This is the method to make irrational decision by seller as well as prevent the seller to try to sell the car to another used car company. (3) *Non-verbal communication*, such as lack of interest on the car, look at the watch frequently to state that do not have much time, and keep the seller waiting can make the seller feel uncomfortable, and lose their guard on the negotiation.

AMA toward buyer: The interview result showed that the used car company try to encourage buyer to buy the car as highest price as possible, as well as try to up sell, and cross sell without concern about buyer budget. Some of the respondent admitted that they (1) *sell a pup*. The odometer is the common adjusted, and many times they did not inform the buyer that the car used to have accident. The product modification may (2) *add value* to the car, but intern it means that the car may have some hidden problem. For example, used car company will add car decoration set to hide some defect. Used car company may change the tires and scrub the car to make it look new, in order to sell the car as the higher price. Some respondents admitted that (3) *do not tell all the defect*, which might reduce the value and attractiveness of the car.

4.2.2 Ability to execute strategy (AES)

AES toward seller: Researcher found that most of seller have financial problem. And they need quick money to solve their problem. According to the empirical study major problem are (1) do not have money to pay school tuition fee, (2) need money for other financial problem, and (3) need money to go back home during the new year (Songkran). Thus, used car selling by owner is seasonal in Thailand, where school and holiday is the major factor that impact the price of used car purchased by the used car company. Most of the respondents stated that they do not feel anything when they crush the price from the seller. Only some of them stated that they feel guilty in the beginning. But the more they are in this industry, they feel this is common practice if you want to survive in this industry. Several respondents show self-advocacy toward squeeze the price from the needy such as: if I am not doing this other used car company will do the same, if I give them good price, they might laugh at me, if I give them high price and I cannot sell I might be the one who are in the big problem.

AES toward buyer: There are many ASE toward buyer. For example, the used car company try to get the highest price as possible. The respondent stated that the best car for the buyer is the car that is dead stock. For them they are happy to sell the car that is dead stock than the car that can sell quickly. Since, it can increase their cash flow as well as reduce the risk of sunk cost. Thus, they will encourage

the buyer to buy the dead stock more than the quick item. The used car company will recommend buyer to buy unnecessary option such as insurance and instalment in expecting the higher income, etc.

4.3 Logistic Industry

Although the respondents in this research are used car company, there are several finding that related to the logistic industry in Thailand and around the world that related to AMA and AES. This is not validating the existing of AMA and AES but also recognized that the black ocean is not only limited to used card industry.

4.3.1 Ability to manage attitude (AMA)

Respondent explained that the car industry in Thailand will provide no cost for normal factory scheduled maintenance in order to gain trust from the buyer. But in reality, it is another way to make more revenue for their car dealer. Since after the scheduled maintenance at the car dealer workshop, the owner will receive the bad news that many auto parts need to be replaced. And those parts are not covered in the no cost maintenance plan.

This kind of AMA is commonly found in Thailand. It is the result of trust toward car dealer who give the scheduled maintenance, plus the poor car knowledge by car owner make AMA is easy on Thai car industry.

4.3.2 Ability to execute strategy (AES)

The case of Volkswagen in the year 2015 may be one good case of AES in car industry. In September, 2015 the Environmental Protection Agency (EPA) has found that Volkswagen cars that sold in United State for more than 482,000 cars had a "defeat software" to test carbon dioxide emission levels of their diesel engines, which in turn showed better performance than reality [51]. The engine emitted nitrogen oxide pollutants more than 40 times above the United State law. By using AES Volkswagen is not only ignore the impact of the United State law, but also the environment, and the trust from their customers.

If this case has not been caught Volkswagen will gain competitive advantage from their competitor in term of cost leadership (selling cheaper diesel engine than the competitors). This was a very big news for the year 2015. However, in the year 2019 European commission finds not only Volkswagen but also other German automakers (Daimler and BMW) that illegally colluded on emissions technology [52]. This finding also suggested that AES is a common practice for the car industry in order to gain competitive advantage.

The case of poor quality of bus and trucks that generate smog in Bangkok. According to the research there are more than 2.5 million diesel-powered buses and trucks on Bangkok city road [53]. Diesel-powered produce a large number of PM2.5 particulate matter that harm people health and environment. However, changing the buses and the trucks may cost a lot of money for company. The

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logistic company use AES and remain using diesel engine to avoid increase the logistic cost.

5 Recommendation and Conclusion

This paper has conducted the in-depth interview with people in logistic and used car industry. And found that black ocean strategy is exist. The focus of this paper is based on used car industry, anyhow researcher believe that black ocean is applied on all part of supply chain.

While, the use of ability to manage attitude (AMA) and the use of ability to executive strategy (AES) can sharpen the strategy, consider as a part of competitive advantage as well as strengthen the cost leadership position of the logistic company, it may also reduce the CSR perception, and value of the logistic firm.

The logistic company may need to think wisely before applying black ocean strategy on their partners and stakeholders.

On the other hand, since black ocean strategy is normally applying in supply chain network, the logistic company must be aware of AMA and AES and be cautious in all business practices.

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