

IDENTIFICATION OF STRATEGIC GROUPS WITHIN THE VALUE-ADDED TEA INDUSTRY SEGMENT, SRI LANKA

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Based on the intra-industry differences, groups of firms with similar characteristics can be identified. These existing groups within an industry are referred to as strategic groups. Mapping of such strategic groups within an industry is considered to be important in identifying the existing mobility barriers across the groups and in explaining the different performance outcomes. Therefore, a study was conducted with a view to identify the existing strategic groups within the value-added tea industry segment of Sri Lanka and to explain the differences across the groups. Analysis was done based on the primary data gathered from 40 of the 47 value-added tea producing firms registered at the Ceylon Chamber of Commerce.

Ten resource- and sixteen strategy-based sources of competitive advantage were selected based on six dimensions each. These six dimensions of core resources represented — scale, skill, brand equity, managerial talent, experience effects and backward integration. Production, marketing, promotion, product innovation, quality and competitive strategies represented the six dimensions of core strategies. The standardised variables that resulted from the factor analyses were subjected to cluster analysis. Three groups were identified: *private labelling*, *niche market* and *mass market oriented* based on the nature of the firms comprising the groups.

Group comparisons revealed that thirteen original variables were significantly different across these three strategic groups. The third group had a number of significantly different core resources and strategies compared with the other two groups. Some of these significant differences of the group three that act as mobility barriers were shown to be greater brand awareness, higher outward foreign direct investments, higher research and development intensity and higher perceived competitive advantage. Further, comparisons of the performance indicators showed that only the third group had a number of significantly different performance levels. No performance differences were apparent between the first and the second groups. Overall, the analysis revealed that firms in strategic group three have strong mobility barriers that prevent other firms from entering into the group, and this could be the main basis for higher performance differences.

Even though only four companies that are among the highest value-added tea producers in the country have been categorised within the third group, a majority of the firms were categorised into two separate groups that represented a relatively lower level of sources of competitive advantage. Given this scenario, the future survival of Sri Lankan value-added tea producers seems to be extremely uncertain — unless they have a proper strategic focus in developing their basis of competitive advantage. Strengthening of sources of competitive advantage of these firms is vital in enhancing their own performance and will invariably be important in facing the competitive threats that accelerate along with the globalization of the tea industry. Therefore, any assistance programmes that aims at developing sources of competitive advantage and enhancing firm performance should be created by considering strategic group differences.