

## **CHAPTER 6**

### **CASE STUDY ANALYSIS**

The content of this chapter is about a strategic formulation using a case study of Chanakam Developer. Firstly, a brief profile of Chanakam case study will be provided for a better understanding. A strategic formulation will start with an Environmental Scanning both internal and external. The environmental scanning will be conducted with a helping hand of some useful analysis tools e.g. PEST Analysis, Porter's 5 Force Analysis, SWOT Analysis, etc. All the information gained from these tools will be further used to formulate strategic plan for Chanakam.

#### **6.1 BUSINESS PROFILE OF CHANAKARN CASE STUDY**

##### **6.1.1 Company's Vision**

“To be the number one real estate developer in Rayong”

##### **6.1.2 Company's Mission**

“To be the area's premier independent real estate developer through the development of staff and by offering professional service and quality products”

##### **6.1.3 Company's Objectives**

- (1) To sell fixed assets including related products and services;
- (2) To meet the customer's requirement by providing quality house with reasonable price;

(3) To make a reasonable profit which can maintain and assure the progress of the company.

#### **6.1.4 Successfully completed projects**

(1) **Chanakarn Project 1**, located on Saeng-Chan Neramit Road, Amphoe Muang Rayong. It consisted of 208 units: 10 shop-houses, 5 single houses, 23 two-storeys townhouses, and 170 townhouses.

(2) **Chanakarn Project 2**, located at Soi Gork Yai Cha, Amphoe Muang Rayong. It consisted of 139 units: 9 two-stories single houses, 4 one-storey houses, 46 duplex, 58 one storey townhouses, and 22 vacant land.

#### **6.1.5 Lessons Learned From the Past Experience**

##### **(1) Chanakarn Project 1:**

The company started the project in September 1992. The prices of the houses were cheaper than its competitors around that area. However, in the beginning the sales volume went slowly because it did not do any marketing. Until later, the company decided to advertise through radio media and hand-bills. It worked very well. Many customers came to visit at the site each day, and even more on weekends. Some decided to buy at the first time visiting due to the price, location, design and friendly sales people.

The construction of the whole project was completed by the end of 1994. And all the houses were transferred to the customers within 2-3 months without any difficulties of getting loans from the bank.

### **Lessons Learned**

This was the first time that the company got into land and house business. The company had to think about:

- how to make people know the company;
- how to make people to trust the company.

**(2) Chanakarn Project 2:** This project started on August 1994. This project was sold off within 9 months. And the construction started in December 1995 and completed in January 1997.

### **Lessons Learned from Project 2**

By analyzing the customer's profile who bought the Chanakarn's project, it is found that 29% of customers knew about the company from parents and relatives, 27% knew from their friends / colleagues, 23% heard from the Radio, 16% were accidentally passing by, and 5% knew from a brochure and billboard. Therefore, this has shown that Chanakarn has a good represent to customers. It is then necessary that the Company should keep good relations with customers.

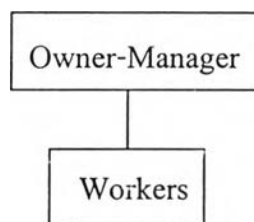
## **6.2 INTERNAL ENVIRONMENT SCANNING**

An internal environment scanning is an analysis of the organization itself in order to identify and develop its resources. Strengths and Weaknesses as a result of the internal analysis will answer the question how the organization will be able to take advantage of opportunities while avoiding threats.

### 6.2.1 Organization Structure

As shown in section 5.1, an organization structure of Chanakarn case is a simple structure consisting of Owner-Manager and Workers. This type of structure has no functional or product categories illustrated as follows:

**Figure 6-1:** Simple Structure



**Source:** Thomas L. Wheelen and J. David Hunger, *Strategic Management and Business Policy, Entering 21 st Century Global Society, Sixth Edition*, Addison Weley, 1998

A single structure is very suitable with Chanakarn case because Chanakarn is a small, entrepreneur-dominated company. It operates in a small scale with an obvious product type. Employees are generalists with various capabilities. This type of structure makes Chanakarn versatile and be able to response any change immediately.

### 6.2.2 Culture

Culture refers to benefits, expectations, and value learned and shared by all members and transmitted from one generation of employees to another. Chanakarn always strongly believes in doing business frankly towards both its customers and

employees. Almost all of the employees have been worked for Chanakam since the first operate of the business. The concept of doing business faithfully, as a theme of the business, hence are always transmitted from the owner to all the employees and kept in everyone's mind. Obviously, all employees have an identical culture results in co-operation among all members and a good reputation of the Chanakam towards the customers.

### **6.2.3 Human Resource**

As previously stated that the employees of Chanakam are capable of various tasks. Although, there is no need to train them to be a specialist in some specific way, training them to work more efficiently and effectively is still necessary. Their working skills can be improved by using new technology. For example, working with computer allows them to finish their work more efficiently within a shorter period of time.

Nowadays, there is no systematic database about customers as well as a market research. This makes Chanakam hardly set its proper strategy. Therefore, a suitable training course is a key to develop these employees to have enough potential to generate the higher value-added tasks,. This will generate profit towards both the Chanakam and the employees. Chanakam will be operated with a higher working performance while the workers will gain more proud of being a human-being or self admiration.

In view of material procurement, Chanakam has a good reputation towards its suppliers. All payments are always done on time. Though the payment term in some cases is shortened according to an economic crisis, this shortened payment term is still better than those of other companies and the suppliers still prefer doing their business with Chanakam.

About labour resource, though there are plenty of labour in Rayong, a skilled-labour is rarely found. This problem causes the construction task to be completed with lower quality or may take longer time than it should be. This is because some parts of time is spent in developing these unskilled-workers to gain the required skills.

#### **6.2.4 Source of Finance**

Chanakarn needs the construction loan from Cathay Finance, one of the closure 56 finance institutes. Due to economic crisis, credit lines for the project was cut. Therefore, Chanakarn must depend on internally generated cash flow to finance projects.

### **6.3 SUMMARIZATION OF STRENGTHS AND WEAKNESSES**

From all the details discussed above, Strengths and Weaknesses of Chanakarn case can be summarized as follows:

#### **6.3.1 Strengths**

**Good Image:** Chanakarn is quite well-known among the customers in Rayong because of its long experience in construction business. So far, Chanakarn's project was very success and its quality was trustful. There is no bad record of Chanakarn. Therefore, "Chanakarn" is highly accepted among its customers and also suppliers.

**Good Credit:** Chanakarn has a good credit, therefore there is always a way to find source of funds.

**Controllable Sub-Contractors:** The construction agreements are very strictly signed. The sub-contractors will only get pay if they produce quality products within a given period stated in a contract. Moreover, the sub-contractors who cannot perform according to the contract will be cut off from the list and never be selected again.

**Good Relationship with Customers:** Doing business faithfully is a core concept of Chanakarn. Due to Chanakarn's frankly working style, it always creates high satisfaction to its customers. Good relationship is then easily created. With this relationship, the customers may tell their friends words-to-words to buy Chanakarn's project, experienced from Project 2 in which 56% of customer knew about Chanakarn from their parents / relatives and friends/ colleagues.

**Good Relationship with Suppliers:** Because Chanakarn always finishes any payment within an agreed period of time. Thus, a bad record never occurs. All suppliers are willing to deal with Chanakarn. This results in a smooth working. A construction task has never been interrupted because of a supply shortage. Therefore, Chanakarn always finishes its project on time.

**Title-Deed Ready to Transfer:** Any title-deed possessed by Chanakarn are legally acquired. Hence, a title-deed is ready to be transferred to the buyer whenever all issues stated in a contract is fully completed.

### 6.3.2 Weaknesses

**Lack of Skilled Labour:** As previously mentioned, it is one of Chanakarn's problems. However, this topic seems not to be a problem of only Chanakarn. The government organization must take care of this problem as a national trouble. Otherwise, it can affect the productivity of the country as a whole.

**No Marketing Research:** This issue makes Chanakarn hard to capture some specific characteristic of the market at the present and also in the future. It may cause Chanakarn lose its market share if this problem is not properly procured.

**No Proper Financial Plan:** Chanakarn is an entrepreneur-dominated company. The business is run mainly based on the experience and the decision of the owner. All the financial stuffs are not systematically planned. Though a present liquidity and a financial status of Chanakarn is still in a satisfactory level. All these issues can be even better with a properly managed financial system.

**Not Enough Facilities Provided in the Project:** Almost all of Chanakarn's projects are not equipped with facilities e.g. club house, swimming pool, tennis court, etc. These issues may cause Chanakarn less attract the people who are making a buying decision compared with the other projects provided with all these facilities.

## **6.4 EXTERNAL ENVIRONMENT SCANNING**

Here, issues that are outside the organization will be analyzed. Opportunities and Threats are identified to illustrate effects of these external issues. PEST and Porter's Five Force Analysis are going to be conducted as an analysis tool.

### **6.4.1 PEST Analysis**

PEST analysis is the way to study the societal environment. All the forces analyzed from this tool do not frequently directly affect on short-term activities of the organization but frequently influence the long-run operations.



#### **6.4.1.1 Political-Legal**

Political-legal forces that regulate the value, mores, and customs of society. Government is the key factor to encourage the development especially in developing countries such as Thailand.

Two opportunities provided by the government:

(1) Board of Investment has transformed Rayong into a diversified industrial powerhouse. 59% of Thailand's petrochemical plants are in Rayong, and that in the future about of 50% of all vehicle manufacturers will be there.

(Source: <http://www.thaitrade.com>).

(2) The government is working on a new policy, in order for foreigners to own a land if those foreigners marry to Thais or invest in Thailand at least 25 million Baht.

#### **6.4.1.2 Economics**

Economic forces that regulate the exchange of materials, money, energy, and information. Single factors may affect the organization by more than one mechanism.

There are two of economic threats affecting the Company:

- The closure of Cathey Finance Corporation, leading to credit lines for the project was cut. Thus, Chanakarn must depend on internally generated cash flow to finance project.

- Unemployment or workers laid-off in Map Ta Phut Industrials Estates resulted in reduction purchasing power. The following effects are getting in the present housing market:

1. The demand of expensive houses decreases.
2. Buyers have low confidence in buying new houses.
3. The cost of construction materials increases, the price index are 167.4 and 191.1 in 1997 and 1998 respectively (Source: Quarterly Journal of Government Housing Bank, July-September 1999). The price increased by 14.34% which is relatively high compared to the housing price which has a growth of 2.9% only (see Figure 4-7, section 4.2.7).

Some customers have lost their jobs and resulting in unable to pay their down - payment. Some cannot get loans from the banks. Hence, consumers will lose their houses and Chanakam may have cash flow problem.

#### **6.4.1.3 Socio-Cultural**

Socio-Cultural forces that regulate the values, mores, and custom of society. Social attitudes change with time, and increased foreign travel, better education and international communications have resulted in a general attitude of rising expectations in standards of products and services and overall company performance.

The buyer's behaviour on buying houses has changed. In the past, the buyers seemed to buy the house related to their income, if they earned a lot then they bought expensive houses and big houses. But at present, the buyers are more careful on their spending especially for houses and cars. They do not care about the prices and sizing anymore. They are now more concerned of utilizing area.

#### **6.4.1.4 Technological**

Technological forces that generate problem-solving inventions. Technical changes can have many influences on a business, on its products, its markets, and its operation. Chanakam realizes that the technology improvements can increase the efficiency of the existing system especially in top management, customer service, marketing and improvement of employees' efficiency.

Such as telephones, facsimile, and so forth can be a competitive advantage in the present competing markets if the firm can communicate with the customers faster in terms of customer service and marketing. However, Internet is one of efficient tool which can be used to communicate to the customers. Since in Rayong, there is only one company; Preecha Private Beach, using Internet as a communication tool.

#### **6.4.2 Porter's Five Force Analysis**

In order to scan the industry, Port's Five Force Analysis will be applied by a discussion against the following issues.

##### **6.4.2.1 Threat of New Entrants**

- Developers who have no experience in this business are likely to fail or survive in this economy. This is because they do not know the perception of what the customers really want or expect. One obvious example was Piman Condotel Project, the project was 9 storeys condominiums with a unit price of 481,000 Baht. The price was very high when compared to Chanakarn project, a customer can get a townhouse with minimum area of 80 square metres.

- High capital requirement. Due to economic crisis, the banks or financial institutes stop providing loans to the property developers causing those developers to go bankrupt as they could not find other source of fund. For example, Ban Ruen Kwan was affected by the closure of Nitipat Capital Company, and William Garden was affected by the closure of Ek Thanakij Finance Corp.

- Slowness of the bureaucratic system concerning asking for permission to have electricity, tap water into the site. This normally takes a long time, resulting in higher production costs, interest payments to the banks, and also administration expenses. From interviewing the developers (see Appendix B), Ban Chang Place Phase 1, Ban Ruen Kwan, Century Village, The Flora Ville, all agreed that this had caused them a lot of time and money. They would never entry into this business again.

#### 6.4.2.2 Rivalry among Competitors

- Nowadays, the competitors tend to cut-down their prices in order to improve their liquidity, this is sometimes called “price-war”. Many marketing strategies have dug up to use leading to fierce competition (see Table 6-1).

**Table 6-1: Example of Marketing Strategies used in Rayong Property Market**

Project's Name	Price (Million Baht)	Price- Cutting (Baht)	Other Promotions
1.Kong Koran	1.20	20,000 - 50,000	Free first down payment
2.Kum Luang	0.50	5,000 -15,000	Free telephone line connection
3.Choke Nimitre 5	0.450	10,000 – 20,000	-
4.Rayong Condoplex	0.235	5,000 – 10,000	Free air conditioner
5.Preecha Private Beach	5.500	1,500,000 +	Free Granite Floor and decoration
6.Duang Ruetai	0.990	5,000-10,000	Free TV 21"
7.Pongpetch Park	1.284	104,000 of Downpayment	Free Internal Decoration

### **6.4.2.3 Bargaining Power of Buyers**

- Down - payment terms have to be more flexible. In the past, customers had to put down payment of 30% and other 70% pay on transferring date. But now, customers can put down payment only 15-20% and extend the payment period, instead of 18 installments to 25 installments. However, this flexibility has to be adjusted to suit each customer, in order that the company will keep its benefits as much as possible.

- Buyers' Market: As the market is buyer's, they tend to negotiate more for attractive promotions. For example, 5% discount is not satisfied the customers anymore, they wanted 10% discount, free telephone connections, free motorcycles and so on. However, this has to be considered case by case in order to improve sales even though a profit margin will be reduced.

### **6.4.2.4 Bargaining Power of Suppliers**

- Payment terms given to developers are shortening from 60 days to 30 days. Due to the economic crisis, all businesses require good cash flow, include the construction materials suppliers.

- A high competition among suppliers. As the construction business has been frozen, there is a high competition among suppliers themselves (see Table 6-2). Therefore, this can be beneficial to developers because they can bargain for the price reduction as long as developers have good credit. Otherwise, they will have to pay by cash.

**Table 6-2: Suppliers in Rayong Dealing with Chanakarn**

	Payment Terms	Promotions
1. Rayong Kehapan	30 days	Free delivery
2. Wiriya Panich	30 days	Free delivery and Free voucher every 10,000 Baht
3. Rayong Tang Seng	30 days	Free when order more than 5,000Baht
4. Sura Kamai	45 days	Free delivery
5. Rayong Karn Ka	30 days	Free delivery
6. Boon Rod	30 days	Free Delivery

#### **6.4.2.5 Substitute Products**

- Renting business plays an important role nowadays because people cannot afford to buy a house.

- More second-hand houses in the market. The property over-supply not only comprises of the existing housing stock but also those forfeited by the developers and also those forced sale by banks and financial institutions.

- Houses are substituted by those cheap condominiums.

#### **6.5 SUMMARIZATION OF OPPORTUNITIES AND THREATS**

According to all analysis, Opportunities and Threats of Chanakarn can be illustrated as follows:

### 6.5.1 Opportunities

**Board Of Investment Policy:** 59% of Thailand's petrochemical plants are located in Rayong and in the future about 50% of all vehicle manufacturers will be there. Hence, there will be more employment coming into Rayong, leading to higher purchasing power.

**Reduction Number of Existing Competitors:** Due to an economic crisis, 8 projects (with total of 730 units) left out from the business and 14 projects were temporary shut down. Total number of competitors in the existing market then reduced. This issue provides good opportunities for Chanakarn in that it increases an opportunities in selling the project.

**Location of Chanakarn's Projects:** Chanakarn owns a piece of land which located 6 kilometres from town, and 12 kilometers away from Industrial Estate such as Map Ta Phut and Padaeng Industry. Also, there is no competitors around that area yet. Therefore, this land is suitable for development.

**Buyer's Behaviour:** Before crisis, everyone wanted a detached house with a large area, but due to the economic crisis, people are more cautious on their spending. Therefore, their behaviour on sizing has changed.

**Existence of Middle – Income Segment:** Refer to Thesis of Mr. Suchat Wongrintramatee, "A Survey of Housing Conditions Built for Employees in Rayong province", 1996. He found that the maximum of 24.7% want to purchase a house in 3-4 years time (from the time of Survey 1996), and 22.2% want to purchase a house in 1-2 years.

**Internet:** Internet can be used to communicate with the customers faster. Since Chanakarn is aiming for middle-income segment, internet can match to the target group better as nowadays those employees spend a lot of time on internet each day .

### 6.5.2 Threats

**The Closure of Cathay Finance Corp.:** Chanakarn had to find its own source of income in order to finance the project.

**Reduced Purchasing Power:** Because of an economic crisis, employees' income is reduced. Bonuses and overtimes are not paid. Moreover, some workers are laid off. All these tragic situations make the customers unable to afford their down-payments or even worse they have to leave down-payment because they cannot afford to pay the rest of payments.

**Strict Banking Policies:** Nowadays, it is very hard that a bank allows someone to get loan. Especially for people who are self-employed or freelance and have no certain source of income.

**Buyer's Market:** The present market does not belong to the suppliers any more. All the situations are absolutely changed due to a hard period of economies. It is a kind of over-supply in the existing market. Buyers increase their bargaining power towards the developers. Price, quality, payment term, premiums, etc. are dealt to more satisfy the buyers. This situation may cause the developers to lose some of their profit margin.

**Fierce Competitors:** Surviving at the present is an obvious guarantee for those developers. Any developers who are alive must have a great potential. It means that



Chanakam is competing with more qualified competitors. Therefore, every step from now must be carefully planned and managed.

**Shorten Payment Term:** Although Chanakam has a good credit towards its construction material suppliers, the payment-term that these suppliers deal with Chanakam is reduced from 60 days to 30 days which is the payment-term offered for a good credit customer. Chanakam's suppliers have to do this for their survival in the crisis. This makes Chanakam requires more liquidity in order to keep every working step goes on smoothly.

**Increased Construction Material Cost:** Price of construction material e.g. cements, tiles, sand, gravel, etc. dramatically increase. Therefore, construction cost of Chanakam is inevitably increased. This directly affects a selling price of the project. If the business wants to keep its margin, a selling price must be increased. This way reduces a chance in selling. On the other hand, if the business wants to fix a selling price to keeps its customers, a margin that the business should gain is reduced. The best solution might be finding a suitable tradeoff among these factors that can generate the highest benefits towards the business.

**Substitute Products:** Substitute product such as a second-hand house, a cheaper condominium are increasing their role in the business. People who are unable to afford a new house may change their targets to these substitute products which are cheaper than the price of a new house.

## 6.6 SWOT SUMMARY

From internal and external environment scanning discussed in section 6.2 and 6.4, SWOT as an output of this situational analysis can be summarized as follows:

**Table 6-2: SWOT Summary**

<u>Strengths</u>	<u>Weaknesses</u>
<ul style="list-style-type: none"> <li>- Good Image</li> <li>- Good Credit</li> <li>- Controllable Sub-Contractors</li> <li>- Good construction planning</li> <li>- Good Relationship with Customers</li> <li>- Good Relationship with Suppliers</li> <li>- Title-Deeds are ready to transfer</li> </ul>	<ul style="list-style-type: none"> <li>- Lack of Skilled Labour</li> <li>- No Marketing Research</li> <li>- No Proper Financial Plan</li> <li>- Traditional Way to Pass Information To Customers</li> <li>- Not Enough Facilities Provided in the Project</li> </ul>
<u>Opportunities</u>	<u>Threats</u>
<ul style="list-style-type: none"> <li>- BOI Policy</li> <li>- Reduction in number of Competitors</li> <li>- Location of a Piece of Land Own</li> <li>- Change of Attitude on Housing Sizes</li> <li>- Middle Income Segment</li> <li>- Prefabrication materials</li> <li>- Internet</li> </ul>	<ul style="list-style-type: none"> <li>- Closure of Cathey Finance</li> <li>- Reduced Purchasing Power</li> <li>- Strict Banking policies</li> <li>- Buyers' Market</li> <li>- Buyer's behavior change: lose confidence in developers</li> <li>- Fierce Competitions: "price –war"</li> <li>- Shorten Payment Term by Suppliers</li> <li>- Increase of Construction Material Cost</li> <li>- Substitute Products</li> </ul>