CHAPTER 2

RELATED LITERATURE SURVEYS

2.1 THEORETICAL DEFINITION

2.1.1 What is Housing?

What is housing? Basically, it is a highly complex product, bulky, durable, and immovable. Once built, it remains in existence for a long time.

There are certain idiosyncratic economic aspects that must also be recognized. Housing is not only sold but also rented. The purchase of new house, in contrast to the need for food and clothing, is postponable. Housing is also important for other economic reasons. For the owner, it represents their livelihood. For, manufacturer, it represents a vast market for his products. For bankers, it represents an outlet for the loanable funds. A vigorous housing program opens up vast opportunities for employment. Finally, and probably, most important of all, housing has high significant social implication because it provides the shelter for the people. Almost every person is affected in his day-to-day living by the kind of house in which he lives. Housing, therefore, needs a good urban planning. Each family is different from every other family, the use of housing remains highly individualistic. Yet, there are some common requirements of housing, for example, it should provide comfort, contentment, sanitary and aesthetic satisfaction.

The product will be effective if it can serve the market. The study of the housing market will provide a better understanding on the characteristic of the product.

2.1.2 Structure of Housing Market

Housing market in a large city is probably best thought of as an instance of monopolistic competition among a large number of sellers. The feature of product differentiation is common in the market structure.

A monopolistically competitive industry is one in which a large number independent firms produce a slightly differentiated products, which both price and various forms of non-price competition occur, and into which entry is relatively easy in the long run. In addition, to set its price and output so that its profit is maximized, each individual firm also attempts to differentiate its product and to promote (advertise) it in order to increase the firm's profit.

Competition in the housing market cannot be described as "pure", since the units supplied are clearly differentiated by size, quality and location. According to the existence of large number of sellers, no tendency for suppliers to act dependently by assuming that his own decision has no effect upon the rest of the market.

2.2 DEMAND AND SUPPLY

2.2.1 Housing Need Vs Housing Demand

At the outset of the study on the structure of housing industry, it would be important to start by explaining the distinction between the terms "housing need" and "housing demand" in which everyone always gets confused with.

The term 'housing need" is a social concept expressing:

1) The desired quantitative balance between the number of households and the number of housing units.
2) The quality of housing condition which should not fall below the accepted social and public health norms.

The concept of "housing demand" expresses the desire for housing which people are able and willing to pay. Households, which represent effective demand for housing, may or may not be in need of housing from a social point of view. Households with no "social needs" for housing frequently desire larger or better-equipped homes. Provided they are financially able to purchase or rent improved housing, these households represent "effective demand". On the other hand, households living in over-crowded, ill-equipped housing units represent a "housing need". But if they do not have the money to pay for better housing, they do not represent 'effective demand".

To a growing extent, the housing is then created by those who are already accommodated but wish to improve their housing standard. This type of demand called standard demand. Standard demand has considerable income elasticity; with rising real incomes, expenditures for housing increase due to demand for better dwellings. Hence, housing situation can be used in expressing standard of living of the nation.

In conclusion, the housing demand which can absorb the housing supply in the market is those who have purchasing power. The below formula is a qualitative formula to find housing demand:

Housing Demand = Want + Purchasing Power

For example.

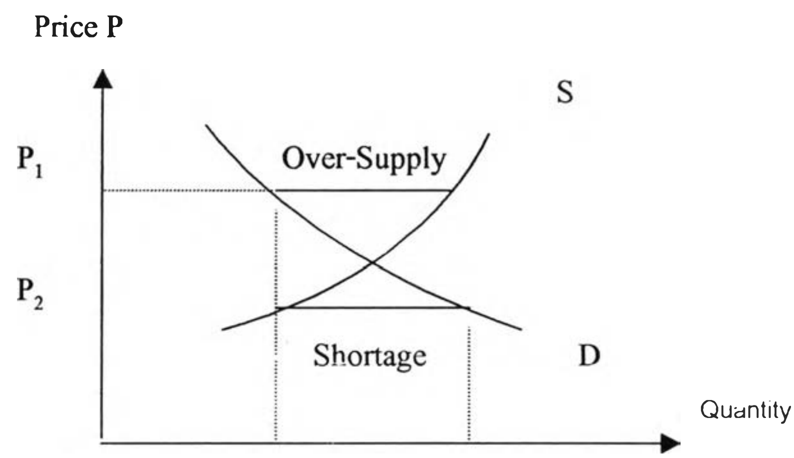
1. Not want + No Purchasing Power → Developers have no chance to sell
2. Want + No Purchasing Power → Developers have some chances to sell by using construction and financial strategies. For example, pay small amount of down-payments but longer.
3. Not Want + Have Purchasing Power → Developers have chances to sell by using marketing strategies to stimulate their wants.
4. Want + Purchasing Power + Willing to buy → Developers can definitely sell houses

2.2.2 Law of Demand and Supply of Houses (see Figure 2-1)

The boom and bust cycle for real estate business in Thailand can be shorten and lengthy depending on each case. In general, each cycle would last between 5 to 10 years. Where the real estate business is going to be in the future, it importantly depends on the ***demand*** and ***supply*** in the market. For example, if the demand is greater than the supply, it may lead to house shortage, P_2. Hence the price increases, the manufacturers / developers will produce more house units to meet the increased demand. Hence the housing market is expanding, houses are easy to be sold and bought. This is called "Market Boom".

However, if the manufacturers are still continue to produce more houses until the market is over-supply. Then the price, P_1, will begin to stabilize, or even worse reduce. There is a low number of buying or selling in the market. This is called "Market Weak". When this really happens, the production of houses reduces, and finally leads to shortage of house units in the market. At the same time, the demand increases, the house market is again back to the Booming phase.

Figure 2-1: The Law of Supply and Demand



2.3 ENVIRONMENTAL ANALYSIS

2.3.1 The Concept of Environment

To derive a strategic plan, external environment and internal environment must be investigated and understood. Wheelen (1987) has defined the ***external variables*** that exist outside the organization and are not typically within the short-run control of top management as having two parts: **task environment and social environment** (Figure 2-2).

The task environments includes those elements in the world that surround organization and which have a direct and continuos impact on the organization's ability to carry out this task. This part of world consists of competitors, customers, labours, materials' suppliers, and so on.

The social environment includes those elements that do not directly influence the short-run activities, but often, do influence its long-run activities. These are as follows:

- Political-Legal forces that allocate power and provide constraining and protecting laws and regulations.
- Economic forces that regulate the exchange of materials, money, energy and information.
- Socio-cultural forces that regulates the values, mores, customs of society.
- Technological forces that generate problem-solving inventions.

The ***internal environment*** consists of variables within the organization itself that is also not usually within the short-run control of top management. This includes the corporate structure, culture, and resources. Such social, task and internal environment must be monitored so that strategic factors that are likely to have a strong impact on corporate or industry success can be detected.

Commonly organizations analyze their situations and future potentials (Newcombe et.al.,1990; Wheelen,1987), in terms of:

(strengths and weaknesses) Internal environmental

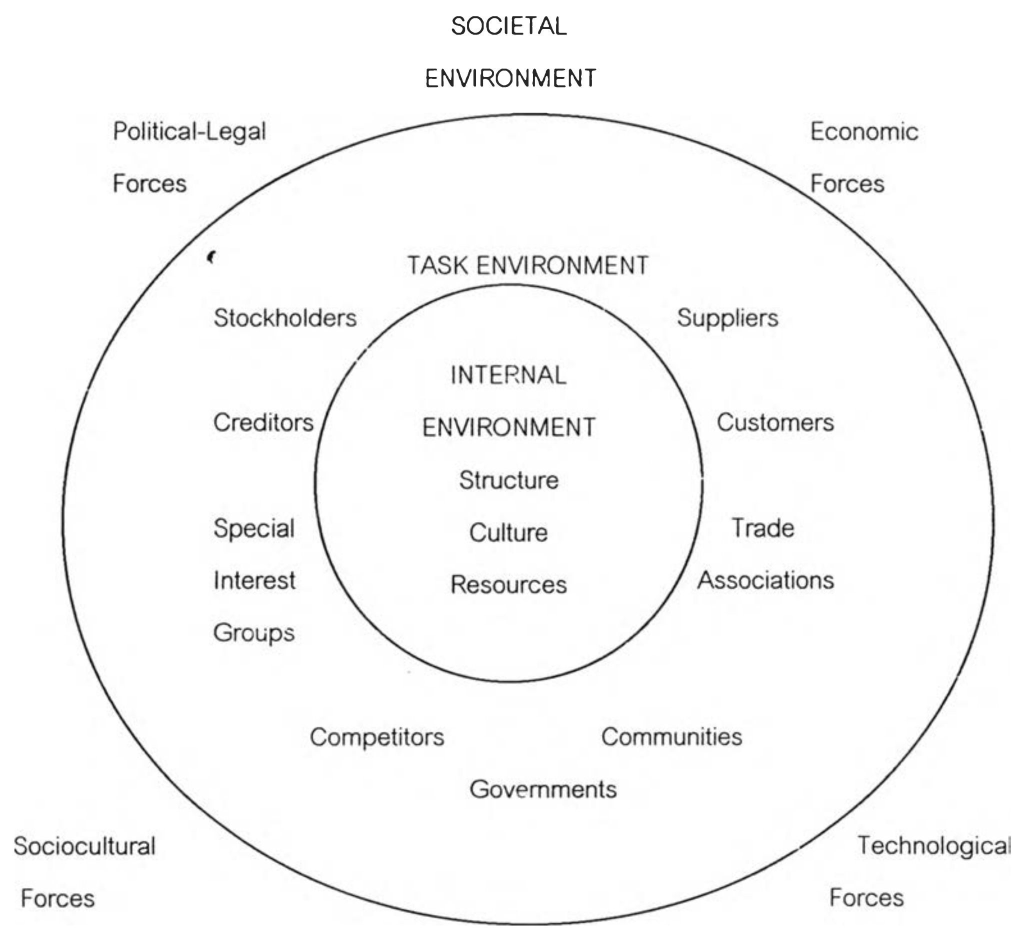
SWOT analysis

(opportunities and threats) External environmental

Strengths and weaknesses are internal - they are determined by the organization. Opportunities and threats are external - they are outside the control of the organization, and they are the factors to which the organization must respond.

Figure 2-2: Environmental Variables

Source: Wheelen (1987)



2.3.2. Industry analysis

An industry is a group of firms producing similar products or services that are close substitutes or each other (Hax, A.C. and Majluf, N.S.,1984).

An industry is also a group of producers and sellers of close substitute outputs who supply a common group of buyers (Digman, 1986).

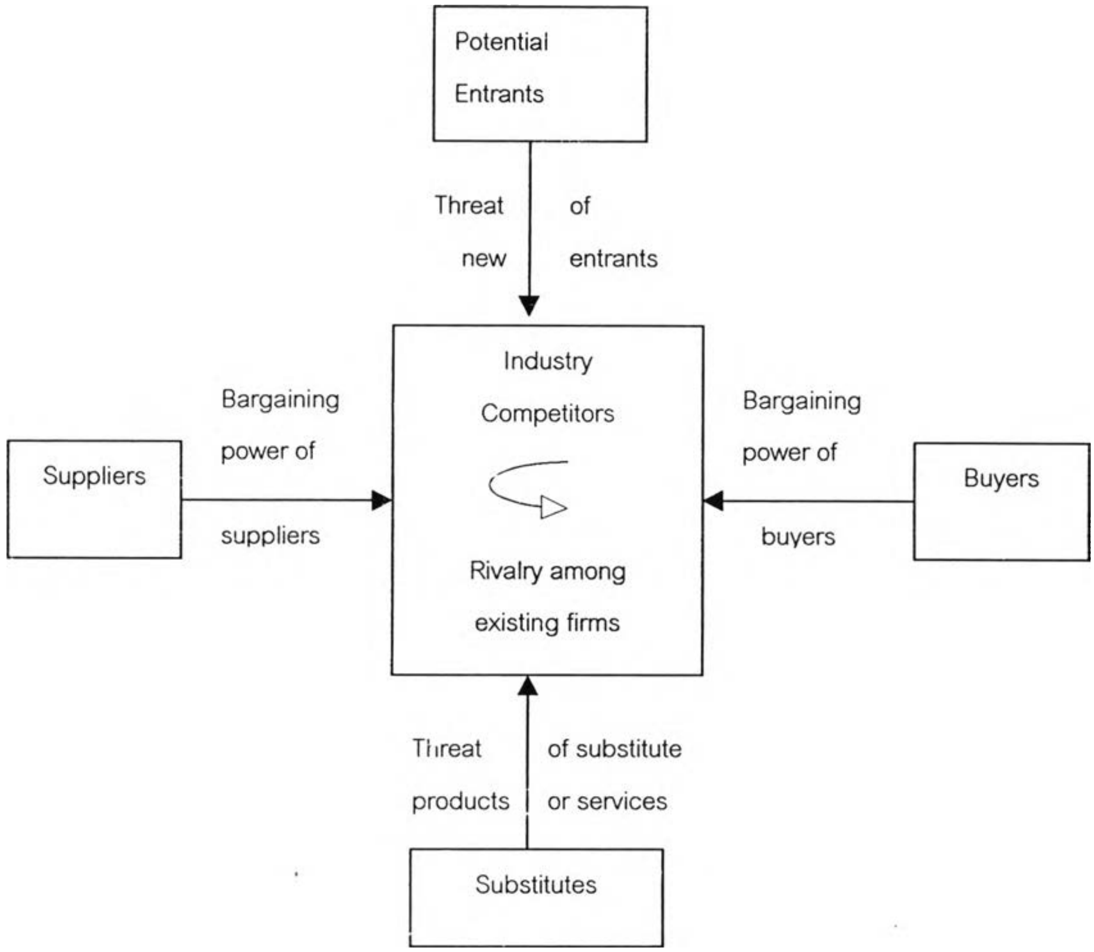
In analyzing industry structure, Porter (1980) contends that industry structures represent the underlying economic and technical characteristics of an industry, and the intensity of competition within it, depends upon the interplay of five competitive forces.

- the threats of new entrants,
- the threats of substitute products and services,
- the bargaining power of suppliers,
- the bargaining power of buyers, and
- the rivalry among existing competitors

The Porter's five forces model (Figure 2-3) can be used for positioning an organization in relation to market forces particularly through exploiting industry change.

Figure 2-3: Porter's industry structure framework

Source: Porter (1980), "Competitive Strategy"



2.4 STRATEGIC PLANNING

2.4.1 Definition of Strategy

Before examining any approaches, it is worth clarifying what is meant by strategy. Dr. Dan Park, of the Mass consulting Group and Associate Fellow with Warwick Manufacturing Group, provides following definition:

"Strategy is a coherent set of programmes, projects and policies defining the path to be pursued by the organization. It is concerned with concentration of corporate resources to gaining and/or sustaining/enhancing advantage over time, and it addresses all the functions of a business".

The essence is to identify the desired change in a competitive position and provide a framework for reconciling possibly conflicting measures (e.g. growth versus short-term profits). In a complex organization one would expect the following levels of strategy; Corporate, Business Unit and Functional strategy.

2.4.2 The Concept of Strategic Planning

Many writers develop and apply strategic planning in the level of parts of an enterprise's operation, at the general corporate level and at the nation level.

Betts and Ofori (1994) mentioned that strategic planning at any level in real estate appears to lag behind other sectors because the complexity of the construction sector of many economies is greater than most other sectors. It is due to its structure, the nature of its historical evolution and the nature of its process and product.

As Ansoff (1965) says "*The end product of strategic decisions is deceptively simple; a combination is arrived at by addition of new product-markets, divestment from some old ones, and expansion of the present position*".

Therefore, strategic planning seems mainly to be applied on expansion, diversification and penetration of overseas markets by large enterprises.

2.4.3 The Approaches to Strategy Formulation

2.4.3.1 Scenario Planning

Organizations recognizing that the future is now subjected to some degree of uncertainty feel that the best approach is to plan for many outcomes or scenarios. Peter Drucker (1942) sums up this approach by saying:

"We cannot rest content with developing plans for the events which we either foresee or want to foresee. We must prepare for all possible and a good many impossible contingencies. We must have a workable solution or at least the approach to it- for anything that ,may come up."

However, organizations will concentrate their efforts on the external appraisal employing macroeconomic and industrial sector analysis. Computers will be used to both gather data and create models to predict possible future outcomes. The emphasis is on planning appropriate responses to various combinations of external conditions. The approach is readily understood and very logical but depends on a high level of data collection and analysis.

2.4.3.2 Portfolio Planning

There is a very close link between portfolio selection theory for financial investment and portfolio planning for conglomerates. The Boston Consultant Group (BCG) created the well known matrix where both products and companies can be classified as either cash cow, star, question mark/problem child, or dog.

An organization concentrating on portfolio planning may again use any of the strategy formulation models, it may plan a few different scenarios but in the main strategy will be formulated around achieving a balanced portfolio of businesses and efforts will be concentrated on identifying opportunities for acquisition or divestment. Hence the end product is likely to be a plan which concentrates on exploiting these opportunities as opposed to planning for internal growth via new products/new markets.

2.4.3.3 TOWS matrix

Wheelen and Hunger (1992) suggested an TOWS Matrix, provided in Figure 2-4 and illustrates how the external opportunities and threats facing a particular corporation can be matched with the corporation's internal strengths and weakness to result in four sets of possible strategic alternatives. It can effectively define the gap among the four key issues and analyze the current situation at any level.

Figure 2.4: TOWS Matrix

INTERNAL Factors / EXTERNAL Factors	**Strengths (S)** Use 5-10 internal strengths here	**Weaknesses (W)** Use 5-10 internal weaknesses here
Opportunities (O) Use 5-10 external opportunities here	**SO Strategies** Generate strategies here that use strengths to take advantage of opportunities	**WO Strategies** Generate strategies here that take advantage of opportunities by overcoming weaknesses
Threats (T) Use 5-10 external threats here	**ST Strategies** Generate strategies here that use strengths to avoid threats	**WT Strategies** Generate strategies here that minimize weaknesses and avoid threats