

Competitive advantage of a construction company



Assume that you manage a company - ABC Construction, which your company has the scale similar to YTL. By using 5 forces model (and any other analysis tools), assess your competitive advantage in the property development industry.

For this question, assumptions are made to ABC Construction which has similar scale to YTL. However, to increase the competitiveness advantage of the company, I would also like to include other assumptions to ABC Construction.

The assumption will be made based on the following:

1. ABC Construction have other subsidiaries companies such as Cement Company and hotels.
2. About the same historical years involving in the construction industry.
3. Has been involved in overseas property development projects.
4. Listed company in Bursa Malaysia and Tokyo Stock Exchange.
5. Involve in the SoHo property development.

For property development industry, the threat of new entrants to ABC Construction is low because the barriers to entry property industry is high. As it required huge capital to enter this industry to purchase land, machineries, tools, plants, other business and marketing activities. At this point, since ABC construction has about 60 years of experience in these industry, the threat of new entrants is relatively a minor problem which does not cause any competitive disadvantages to the company. The working capital for the company is already strong enough and very liquidity.

Benefit from economies of scale in financial economies and economies of scope, as a big construction player with long history in the industry, ABC construction has increment efficiency, more trustworthy and can take these advantages by borrowing funds from bank at a lower interest rates compared to the other competitors. Lower interest rates, eventually provides bigger cash flow and generate greater profit return. This allow capital expansion such as can build more units of houses or properties with less input costs compare to smaller scale competitors which gets high interest rates in borrowing.

Apart from that, ABC construction also able to provide product differentiation. Since the company has been involved in different types of businesses, the company able to apply its unique skills and resources to achieve better utilization of land, human capitals, more appealing design in development and innovation which then generate higher revenues and return in profit. Different design theme and concepts can be applied to produce differentiation such as branded luxury residential (8 Conlay-KSK LAND), private gates park concepts (Sentul Park- Sentul Raya Sdn Bhd), and natural elements to provide therapeutic lifestyles (Ecoworld- Eco World Development Sdn Bhd) with its strong working capital. ABC Construction able to spend a large sum of money in creating something new to attract their potential buyers. ABC construction able to convenience its potential customer by spending a great deal of money on advertising in the newspaper, radio, websites and television programmes. For example, ECOWORLD has successful transform their company to a brand which attract customers to

value their product and thus new entrance need more resource to overcome loyalties and leads to less profit or even losses.

With its globally population and reputation, ABC Construction has an addition competitive advantages. The company can launch and sold their properties through distribution network either locally or internationally. The distribution channel for ABC construction will be high as it does not only involve actively in Malaysia, its subsidiaries company also involve actively in oversea projects in Singapore, Indonesia, England, Australia and China. This make the company has larger distribution channel compared to other competitors.

In terms of bargaining power of suppliers, the main materials for construction are steel bars, formworks, concrete. The suppliers are not concentrated or differentiated. On the other hand, ABC Construction will have greater advantages compared to its competitors because the company has its own cement company and internet company. The company do not need to worry about the increase in price for the cement and the fluctuation of the supplies. The control of cement and concrete material is under its own supervision while on the other hand, other competitors has to worry about the bargaining power towards suppliers. Thus, the bargaining power of suppliers tend to be low, less threat to forward integration. Besides that, the company has been involved in other business sectors as well, thus they have greater bargaining power to the suppliers for the supplies of materials. Bank is also one of the important suppliers in the property industry, as they will decide whether to fund your project or at what interest is charged to the company. However, with the strong background of the company, this also would not be a big problem.

Due to the buoyant economic growth of Malaysia and relatively low property values compared to other Asian country, the bargaining power of buyers in property industry tend to be low. Apart from that buyers for properties are mostly individual thus the pressure tend to be low. However, the increasing number of property in the industry, customer now do possess a threat of integrating backward. According to The Star Online on 16 August 2014, Malaysian property market is consolidating because of the slower growth and the oversupply of high-rise condominium units (Toh & Then, 2015). The property of transaction in Klang Valley for 2014 appear to be drop by 36.24% compared to 2013 (Thean, 2015). Besides that, with the implementation of GST, buyers are now tend to be more careful in their spending. Even though the new implemented GST is not included in the residential properties but a comparison done by loan street shows there is a 3.41% increase in price for new residential properties post-GST implementation (Loan street, 2015).

As these scenario happened, the buyers now tend to have more bargaining power. The second rules of thumb for demand and supply stated that if demand decreases supply remains unchanged, leads to a lower price. Buyer now will look for higher quality, greater services at better price. However, property developers are always smart, to secure their profit margin, lower the property's price tactic will not be used. They will either decrease the size of the property to meet the affordable price of the buyers and also input much more supplementary benefit to increase the sales during down time, ABC Construction can input much more other supplementary benefit to push the sales such as exclude or lower the payment for sell and purchase

agreement, offered other services such free installation of wireless broadband services for a certain period for the buyers.

Threat of substitute products will be Small Office Home Office (SOHO), Small Office Flexible Office (SOFO) and Small Office Versatile Office (SOVO). This type of property trend had been growing lately but still not so favourable in Malaysia due to issues like it is commercial property where housing loan interest rate, utilities, maintenance and others will be based on commercial rate. Thus, the threat of substitute are low. Besides that, ABC construction also involve in the SoHo property development other than residential and commercial property development which means ABC Construction has diverse its development into different fields which not only one of the competitive advantages also minimise the threat of substitute.

The competitive rivalry among existing firms will be high. As there are a lot of big players in the property industries such as Sunway Bhd, SP Setia Bhd Group, Sime Darby Property Bhd, Mah Sing Group Bhd, IOI Properties Group Bhd and many others developers. However, due to the diverse investment in different fields other than construction industry, ABC construction has lower exit barriers compared to other competitors in the property industry which make them at competitive advantages. It can diversify its resources to other related fields such as hotel industry, manufacturing industry and infrastructure industry given that the company cannot cope with the high competitive pressure scenario in property industry.