

Competitive Advantage of Thai Real Estate Enterprises: an Importance–Performance Analysis of Value Chain Activities*

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Abstract

When Thailand becomes a member of the ASEAN Economic Community in 2015, the subsequent freer trade will increase market competitiveness in South East Asia and Thai enterprises will inevitably face a tough situation. To help enterprises survive in such a competitive domain, the classical concept of competitive advantage is considered herein. In this study, three aspects of competitive advantage are examined, namely cost leadership, differentiation and service quality. A total of 410 respondents that specialized in various real estate value chain activities such as valuation, design and construction, property management, real estate brokering and property development were selected. Data were mainly collected using questionnaires from service recipients

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and analyzed using importance–performance analysis. It is found that all value chain activities have a high level of competitive advantage in terms of both importance and performance. Service quality was the most important and performed aspect. However, although competitive advantage seems to be satisfied overall, property management and real estate development were the businesses that cannot create competitive advantage conform to the level of importance given by customers.

Keywords: Competitive Advantage, Real Estate Enterprises, Value Chain, Important–Performance Analysis, IPA

ความได้เปรียบเชิงการแข่งขันของวิสาหกิจไทยในห่วงโซ่ มูลค่าธุรกิจสังหาริมทรัพย์: เทคนิคการวิเคราะห์ความสำคัญกับผลการดำเนินงาน*

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บทคัดย่อ

ประเทศไทยกำลังก้าวเข้าสู่การเป็นสมาชิกประชาคมเศรษฐกิจอาเซียน (ASEAN Economic Community- AEC) ในปี 2558 ซึ่งหมายถึง ความเสถียรทางการค้าที่จะมีมากขึ้น ตลอดจน สภาพการแข่งขันก็จะเปลี่ยนไป ขยายขอบเขตพื้นที่จากประเทศไทยเป็นประเทศไทย สมาชิกในอาเซียน ด้วยเงื่อนไขดังกล่าวจึงนำมาสู่การศึกษาความได้เปรียบเชิงการแข่งขัน (Competitive Advantage) ที่ประกอบด้วย ความได้เปรียบเชิงการแข่งขันด้านผู้นำต้นทุน (Cost Leadership) ด้านการสร้างความแตกต่าง (Differentiation) และด้านคุณภาพการบริการ (Service Quality) โดยเป็นการศึกษาเชิงปริมาณแบบตัดขวางกับกลุ่มตัวอย่างจำนวน 410 ตัวอย่าง จาก 6 ประเทศธุรกิจสังหาริมทรัพย์อันประกอบด้วย ธุรกิจประเมินมูลค่าทรัพย์สิน ธุรกิจออกแบบ รับเหมา ก่อสร้างและควบคุมงาน ธุรกิจบริหารทรัพย์สิน ธุรกิจนายหน้าและ

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การขาย ธุรกิจพัฒนาอสังหาริมทรัพย์และธุรกิจอื่น ๆ เก็บรวบรวมข้อมูลด้วยแบบสอบถามโดยผู้วิเคราะห์ข้อมูลด้วยเทคนิคการวิเคราะห์ความสำคัญกับผลการดำเนินงาน (Importance Performance Analysis- IPA) ซึ่งพบว่าโดยรวมแล้ว ธุรกิจอสังหาริมทรัพย์ในห่วงโซ่มูลค่าของไทยนั้นมีระดับความได้เปรียบเชิงการแข่งขันในทุกด้านที่ดีและสอดคล้องกับระดับการให้ความสำคัญโดยผู้บริโภค อย่างไรก็ตาม หากพิจารณาในรายละเอียดจำแนกตามประเภทธุรกิจ อสังหาริมทรัพย์จะพบว่า ธุรกิจบริหารทรัพย์สิน ธุรกิจพัฒนาอสังหาริมทรัพย์ เป็นธุรกิจที่ยังไม่สามารถสร้างความได้เปรียบเชิงการแข่งขันในด้านหนึ่งด้านใดที่สอดคล้องกับระดับการให้ความสำคัญของลูกค้า

คำสำคัญ: ความได้เปรียบเชิงการแข่งขัน อุปกรณ์อัจฉริยะ ห่วงโซ่อุปทาน เทคโนโลยีการวิเคราะห์ความสำคัญกับผลการดำเนินงาน

Introduction

In 2015, Thailand will become a member of the ASEAN Economic Community (AEC), which aims to create a single market and single production base, thereby increasing the competitive advantage of the South East Asian region and leading to equitable economic development as well as integration into the global economy (ASEAN, 2009). The concept of the AEC should allow Thailand and other small countries to gain higher bargaining power compared with larger nations. On the other hand, at a country level, the freer flow of skilled labor, services and financial capital will increase competition in the market, which will be a major challenge for AEC members. Therefore, Thai enterprises must be prepared for the coming changes. For example, joining the AEC might lead more foreign real estate enterprises (REEs) to invest in the real estate market in Thailand, with their competitive resources in terms of finance, human capital and experience inevitably influencing Thai REEs. As a result, to evaluate performance is crucial for supporting change in Thai REEs. REEs are multidisciplinary, comprising many value chain activities such as design and construction, development, financial institutions and valuation. Therefore, to study any single business in REEs might not enough, this study focuses on the value chain in order to examine the competitive advantage of Thai REEs and to understand their differences, which can be useful for customizing specific strategies. Private REEs can thus use the presented results to adjust their strategies to suit their strengths and weaknesses in order to protect their shares in the domestic market as well as penetrate overseas markets.

Value Chains in REEs

Value chain activities comprise producing goods and services from the first step of operations until the last step of meeting customer demand. A value chain shows the linkages among activities that can create value-added, resulting in gaining competitive advantage. Porter (1985) classified organizational activities into (i) primary activities such as manufacturing that directly relate to the operating process of creating value-added for both goods and services and (ii) supporting activities such as procurement, human resources, accounting and finance. Analyzing each activity in the value chain can build competitive advantage by helping

executive management formulate suitable strategies as well as functional plans for firms (e.g., cost leadership, differentiation). Value chain analysis will thus help REEs understand their situations and allocate suitable resources to each function. Similar to Porter (1985), Yao and Xin (2009) categorized value chain activities in REEs into (i) basic activities such as preliminary work, design, construction, marketing and property management and (ii) ancillary activities such as enterprise management, technological development and innovation and information management. Similarly, the value chain in REEs in the United States can categorized into development, finance, valuation, property sales, leasing and management, construction and tenant use (Jacobus, 2010). In this study, the US value chain concept is applied as it is clear and comparable to the Thai real estate sector.

Competitive Advantage in REEs

Competitive advantage is a change strategy that originates from organizational competences that respond to the dynamic environment (Preble and Hoffman, 1994). According to Barney (2007), competitive advantage is the process of adding value for the organization and customer. Similarly, Nayyar (1993) and Porter (1985) stated that competitive advantage is the process of creating a competitive strategy in terms of cost, differentiation and market segmenting in order to maintain and build up superior performance. Porter's concepts aim to maximize profit by minimizing production cost or responding to niche markets with non-imitable products. However, competitive advantage also depends on different organizational structures, markets and environments (Barovick and Steele, 2001; Karakaya and Canel, 1998; Kryvobokov, 2006). Indeed, any advantages that meet a customer's expectations over competitors' efforts are considered to be "competitive advantages" (e.g. speed, learning or service).

Competitive advantage in different kinds of firms can be various. In supply chain business, competitive advantage can be represented via cost leadership, quality, delivery dependability, product innovation and time to market (Li, et al., 2004). The study of competitive advantage in 500 big firms in USA shown that competitive advantage can be categorized as cost leadership, differentiation and focus whereas it is found no difference in competitive advantage among firms (Nayyar, 1993).

The study of competitive advantage in garment industry shown the competitive advantage's drivers are composed of marketing, location, customer service, supplier, research and development and product efficiency while the most three important factors are customer service, product efficiency and marketing consequently (Berdine et al., 2008)

Real Estate Business has its own uniqueness that different from common business. For example, buyers have very less knowledge and experience about real estate, people experience buying process only once or twice in their lives due to high cost of real estate. Real estate is categorized as both intangible and tangible assets as it involves not only product but also the rights of ownership. Real estate business is also much involved in regulation and various from area to area and is explicitly multidisciplinary that related in many activities from pre construction stage to post construction stage such as feasibility study, architectural design, building construction, asset management. Therefore, competitive advantage of REEs is likely to be unique and different from general firms (Christensen, 2001). In the studies of competitive advantage in REEs such as sustainable event management by Handerson, 2011 shown that cost leadership is not applicable. While competitive advantage of differentiation and focus are important in the long run because nature of event management is involved in sustainable growth therefore immediately focusing in cost leadership yielding no advantage. Differentiation is also more important than cost leadership in playground business. Differences from general playground in better safety standard and activities effect better performance (Douglas, Douglas and Davies, 2010). On the other hands, competitive strategy in 167 small-sized businesses is of focusing in differentiation (Box and Miller, 2011). To develop the sustainable competitive advantage model for corporate real estate -CRE in term of cost, innovation and differentiation must be depending on location/ site selection, IT purposes, workplace styles, holding practices and CRE Finance. For example, right selection of site leads to cost leadership as less distances to suppliers or customers, innovation development as closeness to research and development center and long-term differentiation as scarcity of land (Heywood and Kenley, 2008).

Even though competitive advantage has long been studied, it is still vague and difficult for practitioners to measure, particularly in terms of non-financial aspects

(Barney, 2007) that affect policy formation. Day and Wensley (1988: 1-20) evaluated competitive advantage in two ways namely self-assessment/management judgment and competitor-centered assessments, whereas Narver and Slater (1990) preferred customer-centered assessments indicating satisfaction from the customer's perspective that make firms know the real value received by customers whilst in contrast to competitor-centered assessments that make firms know their positions in the market. For measuring cost leadership, Kumar and Subramanian (1997) pointed out significant aspects such as reducing the cost of services compared with competitors, making services/procedures more cost-efficient, improving the cost of coordinating various services and improving the utilization of the available equipment, services and facilities whereas differentiation can be assessed by such factors as the frequency of new product launches, product/service novelty and firm innovativeness (Prajogo, 2006: 69-83) as well as offering a broader range of services than competitors and customizing services to customer needs (Kumar and Subramanian, 1997).

Not only service firms to emphasize in competitive advantage in service; service is also important in industrial firms. Several studies reveal that competitive advantage in service can be categorized to explicit service quality (Clow and Vorhies, 1993; Berry, Parasuraman and Zeithaml, 1994; Desombre and Eccles, 1998; Mercer and Kleiner, 1997), proactive/ total solution and innovation that impact to the value for customer (Matthyssens and Vandenbempt, 1998). However, service quality is more important than service innovation. In the long run, sustainability of service quality is the key factor to build up innovation (Beal and Lockamy, 1999; Mercer and Kleiner, 1997). REEs are not only about production but also services; therefore, service quality is also significant in this study. Beal and Lockamy (1999) stated that service quality is much more important than service innovation because the consistency of service quality is an important source of innovation (Mercer and Kleiner, 1997). Service quality assessment models compare customers' expectations with actual performance (Brignall et al., 1991; Cronin and Taylor, 1992; Gronroos, 2000; Hoque et al., 2001; Parazuraman et al., 1985; Zeithaml et al., 1990). An another well-known concept about service quality is SERVQUAL (Parazuraman et al., 1988), which is the measurement instrument created by focus group discussions that

reflects the five dimensions of tangibles, reliability, responsiveness, assurance and empathy.

From the above, three points can be concluded. First, each individual firm needs customized and suitable competitive advantage. Second, customer- assessment, which is used in this study, aims to know the real earned value for the end customer. Finally, competitive advantage indicators in this study, constructed based on Kumar and Subramanian (1997), Narver and Slater (1990) and Nayyar (1993), focus on "ends" more than "means" and are applicable to assess by end customers. Moreover, as real estate is a sector that focuses on service, service quality is taken into account herein, based on the concepts of Parazuraman et al. (1988).

Research Methodology

Data were collected through four- point scale questionnaires in order to evaluate competitive advantage in the value chains of REEs. The sample comprised 410 respondents from REEs customers involved in valuation, design and construction, real estate brokering, property management and property development. Focus groups discussion and professional public hearing were also conducted in order to gather in-depth information. The research was conducted from December 2012 to September 2013. Data were analyzed using the ANOVA statistical technique and importance–performance analysis (IPA) to suggest how REEs can allocate resources efficiently and formulate effective organizational plans. Each aspect of competitive advantage from the questionnaire was found to be reliable based on the Cronbach's alpha values (all over 0.70) and the questionnaire was pretested with a group of 20 people representative of but not included in the sample.

Results

The results can be divided into three important parts: 1) general information on the sample; 2) importance and performance levels of value chain activities in REEs, and 3) differences in the mean level of each value chain activity based on ANOVA.

Sample information

Of the 410 respondents from REEs customers, 56.9% were men and about 60% were between 25 and 40 years. In total, 90.0% held a bachelor's or higher degree. More than 65% worked in private firms and, interestingly, more than 25% were entrepreneurs and 10% worked for international firms.

In terms of value chain activities, respondents were categorized as follows: 37.8% were in real estate development, 18.8% design and construction, 18.0% valuation, 14.6% property management, 6.8% real estate brokering and 3.9% other (e.g. hotels and banks). Although 410 respondents were sufficient to analyze the overall scores, analyzing each activity might not seem to be perfect therefore; this study's main limitation was a lack of access through REEs' information.

Importance and performance levels categorized by competitive advantage

As shown in Table 1, overall, the importance of the three competitive advantage categories was high (3.03), with service quality having the highest score of 3.48 compared with cost leadership (3.14) and differentiation (3.12). Overall, the real estate value chain has high performance. However, with less deviation, it leads to the complication of activities comparison. In addition, service quality in this study can be stipulated into four aspects (reliability, responsiveness, assurance and empathy), which all scored similar levels (between 3.44 and 3.54), while assurance had the highest score for both importance and performance (3.30 to 3.54).

Table 1: Importance and Performance Levels Categorized by Competitive Advantage

Competitive Advantage Category	Importance	SD	Performance	SD
Cost Leadership	3.14	.504	2.99	.541
Differentiation	3.12	.546	2.96	.569
Service Quality	3.48	.453	3.14	.516
Total	3.25	.389	3.03	.468

The importance and performance levels presented in Table 2 indicate no significant differences among each value chain activity, with similar scores for both importance and performance. Therefore, it can be concluded that all value chain

activities have rather high competitive advantage for differentiation, cost leadership and service quality however; details of each value chain activity are taken into account.

Table 2: Importance and Performance of Real Estate Value Cchain Activities (ANOVA)

Real Estate Value Chain Activity							
Valuation	Design and Brokering	Real Estate Brokering	Property Management	Real Estate	Others (Bank and Development Hotel)	F test	
Construction				Development			
Importance							
Mean	3.18	3.25	3.35	3.30	3.25	3.10	F = 1.046
SD	.424	.351	.317	.444	.363	.573	Sig. = .395
Performance							
Mean	3.00	3.24	3.09	2.98	3.00	3.20	F = .879
SD	.390	.429	.365	.687	.448	.385	Sig. = .510

Competitive Advantage based on IPA

IPA is a management tool that shows the sufficiency of resources as well as the efficiency and effectiveness of allocation. The IPA data presented in Table 3 is translated into four quadrants divided by the mean scores of importance and performance (see Figures 1–3). Each quadrant illustrates its own meaning of competitive advantage for each REE.

Table 3: Importance and Performance Categorized by Value Chain Activities

Real Estate Value Chain Activity	Importance	Performance
Valuation		
Cost Leadership	3.07	2.99
Differentiation	3.01	2.90
Service Quality	3.45	3.14
Total	3.18	3.00
Design and Construction		
Cost Leadership	3.09	3.02
Differentiation	3.16	3.03
Service Quality	3.50	3.24
Total	3.25	3.09
Real Estate Brokering		
Cost Leadership	3.18	3.18
Differentiation	3.32	2.94
Service Quality	3.63	3.20
Total	3.35	3.09
Property Management		
Cost Leadership	3.24	2.95
Differentiation	3.20	2.93
Service Quality	3.48	3.09
Total	3.30	2.98
Real Estate Development		
Cost Leadership	3.15	2.94
Differentiation	3.10	2.96
Service Quality	3.46	3.07
Total	3.25	3.00
Others such as Bank, Hotel, etc.		
Cost Leadership	3.05	3.18
Differentiation	3.05	3.01
Service Quality	3.24	3.33
Total	3.10	3.20
Overall		
Cost Leadership	3.14	2.99
Differentiation	3.12	2.96
Service Quality	3.46	3.17
Total	3.14	2.99

As seen in Figures 1–3, the quadrant of high importance/high performance was indicated as “KEEP UP THE GOOD WORK”. The REEs in this quadrant are doing the right things to meet the needs of customers. These firms have been able to perform well to satisfy the most important points of customers.

The quadrant of high importance/low performance can be indicated as “CONCENTRATE HERE”. The REEs in this quadrant are not meeting the needs of customers. These firms have put less effort into the points to which customers pay high attention.

The quadrant of low importance/high performance can be indicated as “POSSIBLE OVERKILL”. The REEs in this quadrant are investing in the points that customers do not pay attention to; therefore, spending on these resources is not creating any value.

The quadrant of low importance/low performance can be indicated as “LOW PRIORITY”. The REEs in this quadrant are doing the right things to meet the needs of customers. These firms have not performed well for the lower importance points; in other words, resources have been allocated wisely.

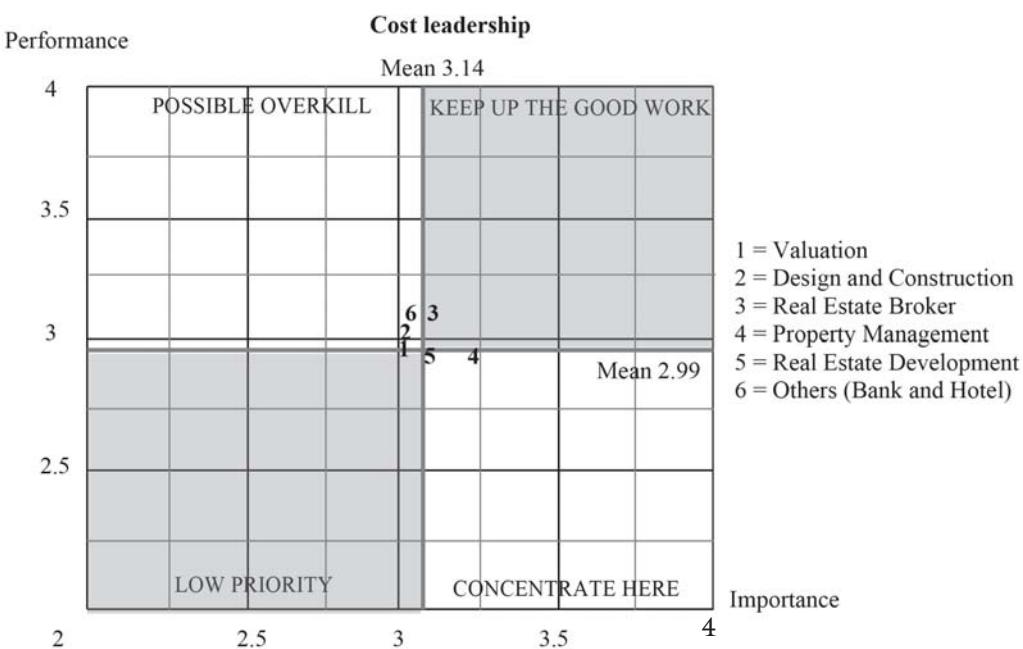


Figure 1: Cost Leadership (not to scale)

Cost Leadership

As presented in Figure 1, compared with the other value chain activities, only real estate brokering has a higher-than-average score for both importance and performance. This finding means that real estate brokering has competitive advantage in terms of cost leadership and is meeting customer requirements (Keep up the good work). By contrast, bank and hotel, design and construction and valuation activities are good at cost leadership even though their customers do not pay attention to cost (Possible overkill). Property management is the value chain activity in which customers focus on cost but it did not yield above average (Concentrate here), whereas real estate development are moderate.

Differentiation

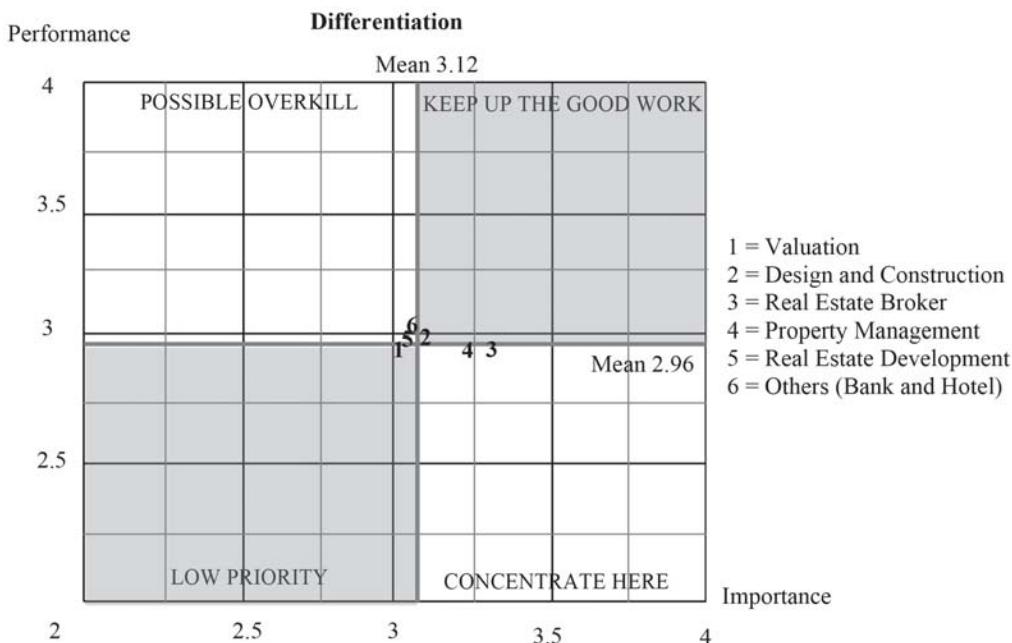


Figure 2: Differentiation (not to scale)

As illustrated in Figure 2, although property management is the activity on which customers focus for differentiation, no significantly perform above average (Concentrate here). Only design and construction perform well and conform to customer's importance (Keep up the good work). In similar, valuation performs effectively and efficiently, as it does not allocate resources to differentiation, which is not significantly important for customers (Low priority). By contrast, bank and hotel categories have placed too much focus on differentiation even though customers do not themselves focus on it (Possible overkill). Whereas, real estate brokering and development are moderate.

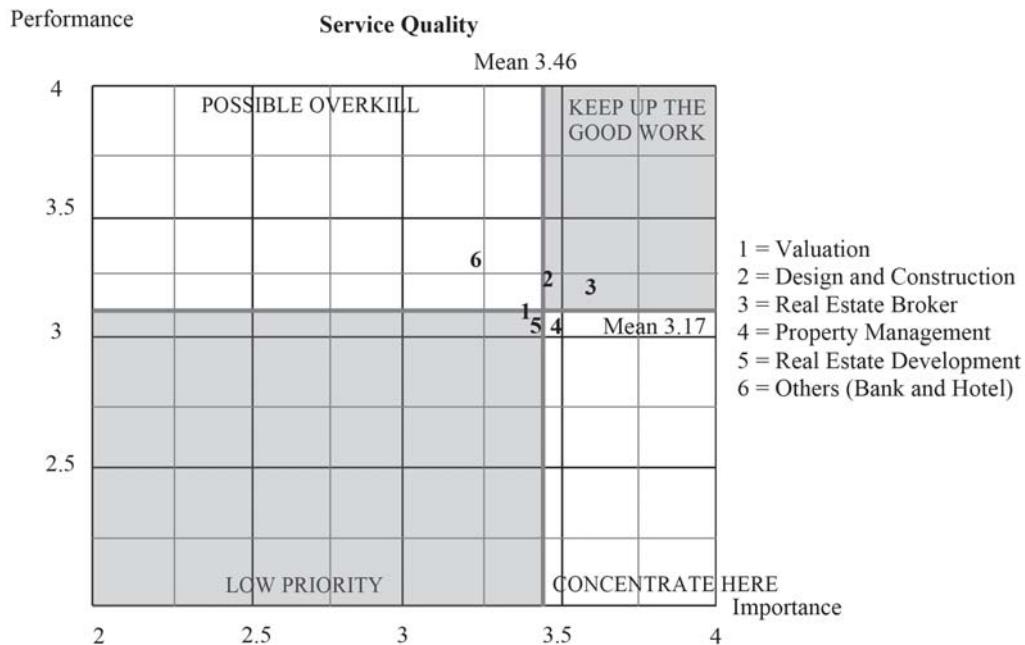


Figure 3: Service Quality (not to scale)

From Figure 3, real estate brokering, real estate development, design and construction and property management are the value chain activities on which customers focus for service quality. Except property management and real estate development, all value chain activities are able to respond to the needs of customers (Keep up the good work). Valuation and Bank and hotel business are the activities on which customers do moderate focus for service quality.

In conclusion, all REEs got high scores for both importance and performance. However, it can be summarized that, first, valuation is performing “Low priority” on differentiation, while focusing on cost, which is less emphasized by customers. Second, design and construction is creating service quality and differentiation, which also meet customer needs. However, cost leadership is the advantage that customers do not need, while design and construction pay too much attention on it.

Third, real estate brokering has higher scores for service quality, cost leadership than the other value chain activities, and complies with customer requirements. Only for differentiation does it score lower than the others. Fourth, the positioning of property management is unclear and cannot create higher advantages than the other value chain activities in any aspects of competitive advantage. Moreover, real estate development and hotel and bank activities are not well positioned in terms of customer needs, as they fall under “Possible overkill” quadrant.

In general, it is recommended that single competitive advantage categories should be applied; however, today’s dynamic environment of customer requirements is pushing organizations to create various advantages. By contrast, some firms are still unable to create competitive advantage and these will not be growing sustainably, especially in the tougher situation of the AEC in 2015. As a result, compared with large firms, small and medium-sized enterprises that have fewer resources and abilities must create their own advantages in order to survive and grow sustainably.

Findings, Discussions and Recommendations

Importance and performance levels of competitive advantage

IPA is a technique for efficiently allocating resources as well as formulating strategy and planning for better firm performance. From the research results, design and construction is the activities that have competitive advantage in differentiation based on customer importance, which may be caused by demanding buyers as well as changing lifestyles. However, property management and real estate development are in need of strategic improvement, especially compared with the other activities that rather have competitive advantage and focus on customer requirements.

For property management, customers care about all the categories of competitive advantage, which might mean that its positioning is unclear. Although the real estate development activity had the highest score in terms of the importance of service quality, it does not perform well. In addition, the performance of differentiation and cost leadership in real estate development and property management are still not competitive, as their scores were not that different than average.

From the data derived from the focus group discussion, all respondents agreed that cost is not the most important factor to make firms succeed. However, in some cases, a high price/high performance strategy can attract and satisfy more customers. In detail, price is sensitive to customer grades; for example, high grade customers are not usually concerned about price but care more about service quality as well as differentiation in contrast to normal grade customers who pay most attention to cost. Differentiation is vital for stimulating customers' cognition and perception of firms, particularly in REEs that need technical staff in order to serve customers (e.g. using fluent English or serving AEC countries with the best understanding of local laws and regulations). For service quality, it is especially important for every REE to have speed, reliability and assurance. The cost of services failure in REEs is usually high (e.g. the valuation in value chain activity is often postponed, causing trouble for employer). Therefore, if service providers can achieve commitment with customers, this would be a great advantage over competitors. Service quality is a competitive advantage that needs to be carefully controlled in order to maintain quality. Therefore, training, learning, work standards and a positive attitude towards service are important factors for developing service quality.

Recommendations for developing the competitive advantage of REEs

The research findings from questionnaire, in depth interview and focus group discussion illustrate the advantages and disadvantages among value chain activities. This leads to make three recommendations for creating competitive advantage: 1) every value chain activity should maintain or develop competitive advantages that conform to the customer focus; 2) the competitive advantage categories that customers do not value should be allocated fewer resources as they are less value adding. Developing competitive advantage means maintaining or

improving the level of competitive advantage or decreasing the level of competitive advantage that is not adding any value to customers. Developing only one competitive advantage category might be enough depending on different contexts (Porter, 1985); and 3) for value chain activities that are still vague in positioning, further study is necessary.

Competitive advantage is important to REEs because real estate is a high investment sector. The following improvement guidelines for each value chain activity can be concluded:

- 1) For the valuation in value chain activity, owing to its well positioning in only differentiation, further study is necessary in order to find the competitive advantage category that matches customers' requirements and to develop its strengths such as speed of service, highly committed staff and reliability. However, cost leadership is not the main concern for this activity.
- 2) For design and construction, it is clear that service quality is important; however, differentiating is also of interest, especially when lifestyle and demand changes. Therefore, the differentiation of building or design techniques or providing new technology might be an advantage. While, cost leadership should not be emphasized as not an important factor of customer.
- 3) Real estate brokering has high importance and performance for both service quality and cost leadership; nevertheless, differentiation might add more value and make the firm different from normal ones. Selling, buying and renting are general processes in brokerage that create little value; therefore, different services such as tenant management and feasibility consultancy are of interest.
- 4) For property management, customers pay attention to every category of competitive advantage because they are close to the daily lives of many people. The most important competitive advantage that involves various expectations of co-owners is service quality. This might be imposed as a general strategy with a work procedure that is clear and standardized.

Interestingly, tenants always focus on the cost of building management, whereas investing in property management will yield higher value in the long-term. Because most tenants cannot see the immediate outcome, focusing on cost might be unsuitable, while focusing on changing co-owners' attitudes toward investing in service quality should be supported.

5) Real estate development cannot create better service quality compared with the other activities. Therefore, improving service quality with research data on satisfaction by forming policy is in need as is using technology for faster, more convenient processes. After sales service is also a concern for development activities. While, cost leadership and differentiation are yet positioned well.

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**Participants of the Professional Public Hearing at the Royal Princess Larnluang Hotel
on April 23rd, 2014**

- Property Management Association
- Thai Real Estate Broker Association
- Real Estate Sales and Marketing Association
- Tourism Authority of Thailand
- Thai Valuer Association
- Appraisal Club, The Thai Banker Association
- Real Estate Development Firms
- Master's degree Students of Thammasat Business School, Thammasat University