

CHAPTER 8

SENSITIVITY ANALYSIS

In Chapter 7, a strategic plan was developed for Chanakam during economic crisis under the following circumstances: (1) economic decreases, (2) high number of unemployment, (3) strict bank loans policies, (4) high interest rate and (5) housing price increases. However, in this chapter, it will aim to show how the Chanakam's strategies will change to, when those major factors have changed into an opposite direction. This is done by sensitivity analysis, and it is assumed that the situation now is the worst case of those factors. Therefore, those factors will assume to be in the better position, in order to formulate a new strategic plan.

8.1 NEW FINANCIAL STRATEGIES

Due to the economic crisis, it resulted in the closure of Cathay Finance Corp., the credit line for Chanakam was cut, the reduction of purchasing power, etc. Therefore, at this period the financial goals were (1) to find a source of fund, in order to keep the business going, and (2) to cut down the costs as much as possible. The strategic plan was fully established in Chapter 7.

On the other hand, when the economic increases, resulting lower unemployment, an easing of bank facilities loans, lower interest rate, and higher housing price. The financial goal was to maximize profits, as the market now is not a buyer's market anymore. The following strategies were developed (see Table 8-1):

Table 8-1: Summary of Financial Strategies Changes

Financial Strategies During Crisis	New Financial Strategies
1. Increase Economies of Scales	1. Pay Less Concerned on Economies of Scale
2. Encourage the Customers to Transfer Houses earlier	2. Allow Customers to Transfer Houses Whenever They Request or Due Date According to the Agreement of Contract

(1) Pay Less Concerned on Economies of Scale

During the crisis, the competitors in the market used “price-cutting” as a marketing strategy. Therefore, Chanakarn had to reduce the costs as applicable, in order to compete with those competitors and still gain some profits. The detail of strategic plan to increase the economies of scale has already been discussed in Chapter 7.

When the economic increases, instead of increase economies of scale, Chanakarn should concern more on products, such as variety and quality of products, in order to meet customer’s requirements. Providing more variety and quality products will decrease the economies of scales.

(2) Allow Customers to Transfer Houses Whenever They Request or Due Date According to the Agreement of Contract

During the crisis, in order to liquidate the company’s status, encouraging the customers was one way of doing so. However, this could mean very costly as it required an attractive promotion to convince the customers to transfer the houses.

When the economic increases, the company does not urgently require that much liquidity. Therefore, there is no rush for the customers to transfer houses. This will decrease the cost spending on promotions, and hence the company can maximize the profits.

8.2 NEW CONSTRUCTION STRATEGIES

During the economic crisis, the cost of construction material rose due to the devaluation of Thai Baht. Thus, the construction goals were (1) to reduce waste, and (2) to reduce the cost of construction, in order the company to compete in the market.

On the other hand, when economic increases, the construction goal has changed to maximizing the number of housing units constructed as the demand for housing increases. Construction strategies can be summarized in Table 8-2.

Table 8-2: Summary of Construction Strategies Changes

Construction Strategies During Crisis	New Construction Strategies
1. Improve Construction Productivity	1. Emphasize on the Target Quantity
2. Focus on Cost Control	2. Focus on the Pace of Construction Tasks, and Neglect Strict Cost Control

(1) Emphasize on the Target Quantity: As the demand increases, the more housing units supply, the more units sold by the company.

(2) Focus on the Pace of Construction Tasks and Neglect Strict Cost Control: Providing a full scale of resources, both cash and construction materials / labours, will enable the company to complete the project in a shorter period. However, this can be costly to the company.

8.3 NEW MARKETING STRATEGIES

During the economic crisis, the demand was greater than the supply, leading to an over-supply. Hence, the housing market was weakened. The effective marketing strategy used was “price-cutting”, in order to stimulate the purchasing power. The marketing goal was to survive in this weakened market.

On the contrary, when the economic increases, the purchasing power increases due to higher income, lower interest rate and the ease of loans facilities. The marketing goals are to (1) maximize the market share, and (2) maximize the sales volume. The new marketing strategies are shown in Table 8-3.

Table 8-3: Summary of Marketing Strategies Changes

Marketing Strategies During Crisis	New Marketing Strategies
1. Cost Leadership	1. Product Differentiation
2. Focus on Small Housing Segment	2. Focus on Customer's Satisfaction
3. Be Flexible to Meet Customers' Requirements	3. Customers Should Follow the Contract Accordingly
4. Focus on the Project's Location: Cheap	4. Focus on the Project's Location: High Potential

(1) Product Differentiation: As the economic increases, the purchasing power also increases. The company should differentiate itself from the competitors, to get attention from the customers. Although, this may result in higher cost, and hence, selling price. At this stage, price is not a major factor for the customer to make a decision to buy, but styles and sizing become more important.

(2) Focus on Customer's Satisfaction: As the economic increases, people's incomes increase. They will search for a new house which they dream of. Instead of getting the cheaper one as in the past during the crisis, they will find for more elegance house which can provide a self-satisfactory. To capture these clients, the company should work closely with the customers, in order to know exactly what do these customers expect from the company. This is a type of 'make to order", therefore the price can be higher than the standard houses provided by the company.

(3) Customers Should Follow the Contract Accordingly: In the past, the down-payment terms were flexible according to each customer necessity. For example, late payment was acceptable without penalty, the installments of a customer varied from month to month. Everything was negotiable because the marketing goal for such period was just to survive.

When economic increases, the number of customers also increases. The market does not belong to the buyer's anymore. Hence, the developers have more opportunity to choose a qualified customer who can follow the contract accordingly. With this increased number of customers, the company should not spend too much time with those customers who are not qualified.

(4) Focus on the Project's Location: During the economic crisis, the selling price of housing was constrained to be cheap. This resulted the developer to use a cheap land, and invest in housing business. Normally, this cheap land could be found outside town or further away from those important places. The cost of investment in land tended to be low, leading to be competitive in the market on pricing.

On the other hand, when the economy improves, the consumers have stronger purchasing power. The location in or near town, which provides more convenience will be demanded by those whose income increase. This location will have more potential for

housing development, hence the company should invest in a good location in order to launch a new projects. It may be an expensive investment, but it is more likely to be successful with this economic increasing condition.

8.4 THE EFFECT OF INTERNAL FACTORS ON THE SHORT-TERM STRATEGIC PLANNING

The internal factors indicated in this study were marketing research, financial planning, and skill labor availability. These factors were used to test the sensitivity of short-term strategic planning proposed before. Since these factors were all the necessary things for the operation of real estate business to succeed. Therefore, the strategy determined many measures trying to initiate and support the availability of these factors within the organization.

Towards these internal factors, the strategic planning was not meant to change according to the good or bad of the factors. If these internal factors were not existed, the strategic planning was meant to make it exist. On the other hand, if these factors were already existed, the strategic planning was meant to improve it. Both cases were in the same direction.

8.5 SENSITIVITY ANALYSIS ON LONG-TERM STRATEGIC PLANNING

Considering the strategies listed in the long-term planning in section 7.2.2, all of them were aimed for the long-term target of the company. The time-scale for these plans was long and above the condition from those external and internal factors considered in this study. For example, the integration both vertically and horizontally of the business by increasing more cooperation between many parties was aimed for the eternal growth of the business, regardless of the condition from both external and internal. The plans were used as the guideline or backbone of the growth, and would not be changed according to periodical changes.