

**A STUDY OF THE BUILDING INDUSTRY:
THE DOMINANT INFLUENCING FACTORS OF
CONSUMER CHOICE TOWARDS STRATEGY**

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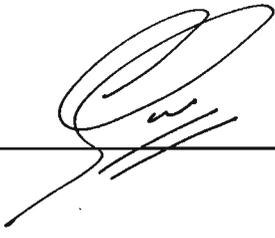
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August 2003

DECLARATION

The work contained in this study has not been previously accepted for any degree and is not being currently submitted in candidature for any degree.

Signed:



A handwritten signature in black ink is written over a horizontal line. The signature is stylized and cursive, starting with a large loop and ending with a long, sweeping tail that extends below the line.

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Date: 31 August 2003

CONFIDENTIALITY

The information contained in this study is sensitive to the company and the contents, at the request of the company, are required to be kept strictly confidential and not circulated for a period of at least five years from the date of this paper:

31 August 2003

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The past two years have been relatively difficult years for my family as during that time both study and work commitments have caused me to spend little time with them. However, through this all, their support and help has been unwavering and for this I wish to express my sincere appreciation. I could not have managed without your support and encouragement.

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ABSTRACT

The South African Building Industry or sector is a difficult one in which to operate. At the lower value competition is fierce and at the top value, whilst competition is fierce, so to is the capital and resource requirements to run such a project. To be successful in this market requires that management understand each aspect of the business and has at its disposal the important key success factors such as management, capital and reputation.

There is, however, ample opportunity available to the company that is able to deliver to the consumer a value added product that not only includes the building itself, but all the services that accompany the process. The focus of this study is to identify the important influencing factors on a consumer's choice of a building company in the residential alterations and renovations market.

Once identified, the object is to use that information to develop a strategic plan that could help provide direction and help gain competitive advantage. The formulation of the strategic plan forms part of this study but is not meant to be so comprehensive as to be a study in strategy. Various important strategic tasks are identified and are used to provide a framework around which to work but the important information and the reason for the study is to identify that which is important to the consumer and to then use that information to build core competencies.

To succeed against the competition, SGC will need to develop and train staff, expand quality control mechanisms, ensure tidiness of site and staff, and focus upon being professional. If all of these factors are focused upon and introduced into SGC's product offering, competitive advantage will be gained and profitability improved.

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CHAPTER ONE - INTRODUCTION

1.1 INTRODUCTION

The building industry is a competitive environment in which to operate with numerous and difficult obstacles around which to navigate. The industry is both lucrative and valuable hence the vast array of competitive forces that converge in the industry. There are forces such as the economic environment, rivalry, size and limitation of the market, supplier pressure, buyer pressure, customer service, product quality, training and availability of staff, financial and capital requirements, geographical spread, equipment and inventory systems, logistical and supply chains, regulatory requirements and many other such considerations that make the building industry complex.

To be successful in this market requires that management understand each aspect of the business and has at its disposal the important key success factors such as management, capital and reputation. There are essentially two markets within the residential construction industry and these are: A: New houses and buildings and, B: Alterations and renovations to existing houses. Both markets are of reasonable size with the new houses market in SA worth approximately R 3.5 billion in 2002 and the alterations and renovations market worth approximately R 1,3 billion in 2002 (Source – The South African Construction Statistical Yearbook 2001/2002). Given the size, there is ample opportunity for the well managed and resource strong company to do well. Traditionally, few companies own the market with much of the business spread between hundreds of smaller companies. It is a fact that there are some significant market leaders but even they own very little of the market and herein lies the opportunity.

SGC is in a relatively strong position relative to its competitors and it is therefore the objective of SGC to capture market share and improve growth and earnings prospects over the next five years. To do this, however, will require a strengthening of the management team that is underway and much deeper understanding of the consumers' needs and requirements. Very little research is available on the industry that will show what is important to consumers and how this information could be used to develop a strategic plan

for the company. The intention of this paper is to fulfil some of that information requirement. By having at its disposal such information, SGC could use it to its advantage to address directly the consumers' requirements and needs and thus gain competitive advantage.

Due to the limited research available in this field, SGC has developed, as the first stage in its strategic plan, a questionnaire that has been sent to respondents who have undertaken building work in the past twelve months. This questionnaire has been analysed and is contained in Chapter Four of this paper.

To better understand the process, it is first necessary to investigate the nature of research that is contained in Chapter One of this paper. The purpose of the investigation into the nature of research is to ensure that the research undertaken conform to the norms and standards expected in a research paper.

Chapter Two of this paper reviews the theoretical aspects of the study which is primarily about strategic management.

Chapter Three of the paper looks at the SGC case and whilst limited for strategic and confidentiality reasons, it provides an overview of the company from inception to the future aspirations and goals.

Chapter Four of the paper provides an analysis of the collected data, and

Chapter Five lists recommendations.

1.2 MOTIVATION FOR THE RESEARCH

Due to the limited availability of research into consumer needs within the residential building industry, and because SGC wishes to develop a sound and structured strategic plan to gain market share and establish competitive advantage, it was thought reasonable to gain some first hand knowledge of the requirements of the consumer. To do this, a questionnaire was developed and sent by post to 1400 respondents. The aim was to elicit

information from those consumers that had undertaken building work to try to determine what influenced them to decide upon a particular building company. The thought is that if SGC can establish what is important to the consumer and what factors influence their choice of a building company, then that knowledge can be put to good use to help SGC address directly those needs and requirements. In addition to this, SGC can use the information to develop a strategic plan for the next five years and also a marketing plan that uses the information gained to reach the consumer more effectively. The motivation for the research is therefore strategic and market related and will be used by the company on an ongoing basis.

1.3 OBJECTIVES OF THE STUDY

The principle objective of the study is to determine what factors play a dominant influencing role in a consumer's choice a building company. Essentially, SGC is motivated to find out why consumers' choose a particular builder and if there are common factors that contribute to this choice. If SGC can find common influencing factors and rank them, then SGC can use this information both at a strategic and operational level to gain competitive advantage. The underlying objective of the study is to help SGC gain market share and improve profitability, a goal that all companies aspire to.

1.4 LIMITATIONS OF THE RESEARCH

The research was limited by:

- The confidential nature of the company,
- The limited available research into this topic
- The response rates to postal questionnaires
- The researchers inexperience in research studies

1.5 PROBLEM STATEMENT

Due to the relatively easy barriers to entry within the residential construction industry and the subsequent competition that arises due to this, there is a specific need to know and understand the dominant influencing factors on a consumer's choice of a building company in order to develop a corporate strategy to gain competitive advantage. The questions that require answering are:

- **What are the dominant influencing (importance) factors on a consumer's choice of a building company?**
- **How can knowledge and understanding of the dominant influencing factors be used to develop a corporate strategy to gain competitive advantage?**

1.6 THE RESEARCH DESIGN AND METHODOLOGY

1.6.1 Introduction

As noted earlier, because of the limited information available about this particular topic, an investigation into the nature of research has been undertaken. The reason for this is to ensure that the research undertaken conforms to the norms and standards expected in a research paper.

1.6.2 Exploratory Nature of Research

Mouton and Marais (1990:43) propose that exploratory studies fulfil certain aims summarise as follows:

- They gain new insights into research the research area
- They undertake a preliminary investigation before a more structured study of the research area
- They explain the central construct and concepts

- They determine priorities for future research
- They develop new hypotheses about existing research areas

This research fulfils the aims mentioned above. It attempts to gain new insight into the dominant factors that influence a consumer's choice of a building company. This research attempts to discover what influences the consumer to choose a particular building company and how that information can be used by the company to gain competitive advantage.

1.6.3 The Survey Method

Arwick and Linger (1975:7-8) suggest that six criteria be applied when selecting a research design. The criteria are:

- The appropriateness of the research design to the objectives of the study. This implies that the method should produce the kinds of data needed to answer the questions posed by the study. The study calls for the examination of the dominant factors that influence a consumer to choose a particular building company.
- The accuracy of measurement. By using an appropriate research instrument and sampling technique, the reliability and validity of the research design are able to be established
- The generality of results. By selecting consumers who have recently undertaken building work, the conclusion drawn from the samples can be generalised to the rest of the population.
- Explanatory power. The results provide insight into why consumers choose a particular builder.
- Administrative convenience. A method was required that was cost effective and could be completed quickly whilst remaining accurate, generalisable and explanatory.
- Avoidance of ethical and political problems. The survey method used maintains the anonymity of the respondents and there was no political or any other interference in the research.

The survey method fulfilled the criteria mentioned above.

1.6.4 The Research Instrument

The data collection took the form of a structured questionnaires. The questionnaire with a covering letter was sent via post to respondents who have undertaken building work within the past twelve months. The respondents' information was extracted from the Northern Local Entity records and the Ethekwini Municipality records. The study was cross-sectional and an *ex post facto* design was used. There was consequently no manipulation of the variables by the researcher.

1.6.5 The Advantages and Disadvantages of Postal Questionnaires

The most obvious advantage that a postal questionnaire has over data collection techniques is its cost-effectiveness as the researcher is not part of the data collection process and costs associated with interviews are minimised. In addition to this, respondents have time to consider the questionnaire and react to the questions in their own time. Speed and safety are other advantages.

The greatest disadvantage of a postal questionnaire is the possibility of a low response rate. To ensure that there was meaningful response, SGC created a lucky draw with a prize of R15,000. This had the effect of motivating people to send in their responses. Other disadvantages include the length of the questionnaire and participants answer only that which is require of them and offer no other information.

1.6.6 Developing the Questionnaires

As the sample group was relatively large and geographically diverse, the most effective survey method was thought to be the dispatching of a postal questionnaire. To keep the questionnaire simple, a technique of providing multiple answers to a question was used. A rating scale method was also used where the respondent would on a scale of 1 (least important) to 5 (extremely important) answer. The questionnaire was sent to Professor Elsa

Thomson for comment after which it was posted to the respondents. The questionnaire is presented in Appendix A.

1.6.7 Validity and Reliability of the Research Instrument

Bless and Higson-Smith (1995:140), regard it as essential to use a research instrument that is valid and reliable in order for the research to be deemed significant. To be valid the research instrument needed to measure what it was supposed to measure and for it to be reliable, it needed to produce equivalent results for repeated trials. This appears to have been achieved with the questions posed.

1.6.8 The Sampling Technique

The sample was a stratified random sample as the names and addresses of the respondents was drawn from the Northern Operational Entity and the Ethekewini Municipality records. From this, random names were drawn to whom questionnaires were posted.

1.6.9 Sampling Size

1400 questionnaires were sent out to respondents. The total number of records drawn of consumers who had undertaken alterations and additions in the past twelve months from the Northern Entity and the Ethekewini Municipality for the purpose of the study was 2350 and the sample size after selection was 1400 and therefore represents 60% of the population of the Durban Metro area.

1.6.10 Response Rates

Activity Undertaken	No Sent Out	No of Responses	Response Rate as a percent of the entire sample N=1400
1. Questionnaires sent by post	1400	108	7.7%

Table 1.1: Response Rates

As shown in the above table, 1400 questionnaires were posted to respondents and 108 responses were received back. Whilst the response rate was relatively low at 7.7% it is submitted that this figure provides an accurate representation of the consumer population who have recently undertaken building work in the greater Durban area.

1.6.11 Conclusion

This Chapter has outlined the research techniques used in gaining knowledge about the consumers in the field of study concerned. It is acknowledged that the researcher could have used other methods to extract the required information but the researcher chose these methods as they were considered the most appropriate at the time.

The most obvious limitation imposed by the research methodology is that of postal questionnaires to gather information. Postal questionnaires render a lower response rate than other data collection methods and even though a price draw of R 15,000 was offered, only a 7.7% response rate was achieved. Notwithstanding this, the response rates achieved in this research is considered well within the acceptable parameters for significant representation

1.7 DATA ANALYSIS TECHNIQUES

The design was a cross-sectional, descriptive research design. There was no control group and all variables were measured at the same time via a questionnaire. The research technique was qualitative and included the collection of data through the use of postal questionnaires sent to respondents who recently undertook building work.

1.8 STATISTICAL ANALYSIS

The manner in which the questionnaire was structured and the number of responses allowed for the answers to be coded. This means that the answers could be processed into numerical form so that they could be entered into a computer. A Microsoft database, Access, was used to capture the responses and these were then analysed using Microsoft spreadsheet software, Excel. By using the software, the results were able to be interpreted in a qualitative manner.

1.9 BENEFITS OF THE STUDY

In the Alterations and Renovations market, competition is fierce due to the low barriers to entry but it is a large and lucrative market if approached correctly. SGC has identified various shortfalls in the market and for this reason, a customer survey was undertaken to determine what is important to consumers who undertake alterations and renovations. SGC developed a questionnaire that was sent via post to 1400 respondents. The responses have been captured and the information is contained in Chapter 4 of this document.

SGC intends using the data obtained from the questionnaire to determine what is important to the consumer and to develop a strategic plan, taking into account company resource requirements to deliver that which is important to consumers, which will enable SGC to capture market share.

1.10 SUMMARY

The study undertaken in this paper is an attempt to determine the dominant influencing factors on a consumer's choice of a building company and once determined to use that data to help develop a corporate strategy to gain competitive advantage.

It is recognised that further research will be required, however, for the purposes of this study, a postal questionnaire was sent to 1400 respondents of who 108 responded. Whilst the percentage response was relatively low, it is submitted that this figure provides an accurate representation of the consumer population who have recently undertaken building work in the greater Durban area.

The sample was a stratified random sample and the design was a cross-sectional, descriptive research design. There was no control group and all variables were measured at the same time via a questionnaire. The research technique was qualitative and included the collection of data through the use of postal questionnaires sent to respondents who recently undertook building work.

The benefits of the study include the use of the data obtained from the questionnaire to determine what is important to the consumer and to help SGC develop a strategic plan.

CHAPTER TWO – THE STRATEGIC FRAMEWORK

2.1 INTRODUCTION

This chapter provides a brief look at the building industry in South Africa and also looks at the current strategic decision making framework that can be applied by SGC to make it more competitive. The strategic framework provided under this study does not look at how to implement the strategy but rather at some of the available models and important considerations that a company must take note of when crafting a strategy. Many books that elaborate on the formulation of a strategy are available and this study has no intention of attempting to reproduce the entire framework that in any event evolves on a continuous basis.

2.2 THE SOUTH AFRICAN BUILDING INDUSTRY

According to recent articles, South Africa is experiencing a mini-residential boom. This can be attributed to the fact that the economy is doing fairly well, confidence in the country is growing, a stable government is present and fiscal and monetary policies are well managed.

The province of KwaZulu Natal is following this trend and experience shows that business is growing especially in the areas north of the Umgeni River where large scale retail and office developments have created a demand for housing that cannot be met. The scarcity of vacant and available land is contributing towards this shortage, the consequence of which is that consumers are buying houses in older established areas and are spending money to renovate or add to these houses. Research house, BMI, in a recent article said that “residential investment would be an important driver of building activity in the future in SA, with home improvement expected to be a major growth area” and “individuals would drive the property market...”

According to ABSA’s latest housing index, house prices continued their upward momentum recording a year-on-year increase of 19.3% and in the past five years more than

doubled. Data released by independent property research company Prop Data, reflects a surge in average prices for properties. According to the research, Berea house prices increased by 36.3%, Umhlanga by 31.4%, Pinetown by 15.4% and Upper Highway by 27.4%. Given this return on investment, consumers are recognising that property is at present a sound investment and with world insecurity and volatile earnings growth in stocks and shares, more money is being spent on residential property investments.

2.3 STRATEGIC FRAMEWORK

This section seeks to identify a strategic framework model that SGC can use to develop a strategic plan that will help provide direction to the company and at the same time give a unified vision.

In today's highly competitive business environment, budget-oriented planning or forecast-based planning methods are insufficient for a large corporation to survive and prosper. The firm must engage in strategic planning that clearly defines objectives and assesses both the internal and external situation to formulate strategy, implement the strategy, evaluate the progress, and make adjustments as necessary to stay on track.

A simplified view of the strategic planning process is shown by the following diagram:



FIGURE 2.1: STRATEGIC PLANNING PROCESS

- **Mission and Objectives**

The mission statement describes the company's business vision, including the unchanging values and purpose of the firm and forward-looking visionary goals that guide the pursuit of future opportunities.

Guided by the business vision, the firm's leaders can define measurable financial and strategic objectives. Financial objectives involve measures such as sales targets and

earnings growth. Strategic objectives are related to the firm's business position, and may include measures such as market share and reputation.

▪ **Environmental Scan**

The environmental scan includes the following components:

- Internal analysis of the firm
- Analysis of the firm's industry (task environment)
- External microenvironment (PEST analysis)

The internal analysis can identify the firm's strengths and weaknesses and the external analysis reveals opportunities and threats. A profile of the strengths, weaknesses, opportunities, and threats is generated by means of a SWOT analysis.

An industry analysis can be performed using a framework developed by Michael Porter known as Porter's five forces. This framework evaluates entry barriers, suppliers, customers, substitute products, and industry rivalry.

▪ **Strategy Formulation**

Given the information from the environmental scan, the firm should match its strengths to the opportunities that it has identified, while addressing its weaknesses and external threats.

To attain superior profitability, the firm seeks to develop a competitive advantage over its rivals. A competitive advantage can be based on cost or differentiation. Michael Porter identified three industry-independent generic strategies from which the firm can choose.

▪ **Strategy Implementation**

The selected strategy is implemented by means of programs, budgets, and procedures. Implementation involves organisation of the firm's resources and motivation of the staff to achieve objectives.

The way in which the strategy is implemented can have a significant impact on whether it will be successful. In a large company, those who implement the strategy likely will be different people from those who formulated it. For this reason, care must be taken to communicate the strategy and the reasoning behind it. Otherwise, the implementation might not succeed if the strategy is misunderstood or if lower-level managers resist its implementation because they do not understand why the particular strategy was selected.

▪ **Evaluation & Control**

The implementation of the strategy must be monitored and adjustments made as needed.

Evaluation and control consists of the following steps:

1. Define parameters to be measured
2. Define target values for those parameters
3. Perform measurements
4. Compare measured results to the pre-defined standard
5. Make necessary changes

2.3.1 Mission

According to Thompson and Strickland (2003: 34-39), “A strategically revealing mission statement incorporates three elements:

- Customer needs, or what is being satisfied
- Customer groups, or who is being satisfied
- The company’s activities, technologies and competencies

And

“Choosing a company’s path is a daunting task that requires reasoned answers to the following questions:

- What changes are occurring in the market arenas?
- What new or different consumer needs should we be pursuing?
- What new or different buyer segments should we be concentrating on?
- What new geographic or product markets should we be pursuing?
- What should the company’s business makeup look like in five-year time?
- What kind of company should we be trying to become?

The mission statement essentially guides the company in its progress forward and should thus be well thought through and considered. The mission statement also provides the starting point for the strategic vision that is then communicated to the company as a whole.

2.3.2 Company’s Objectives

To convert the strategic vision into specific performance targets, objectives both short and long term need to be set as this forces management to commit to achieving specific outcomes and results. Thompson and Strickland (2003:42), state that “two types of key result areas stand out: those relating to financial performance and those relating to strategic performance”.

There is sometimes conflict between the two types of objectives as financial performance is imperative yet so is strategic performance as without this, there can be no progress. Theory suggests that the two types have to be balanced against each other so that both are applied and used.

Theory further suggests that there is a need for both long term and short-term objectives but in the end, these two should converge to become the same. Short-term objectives are simply stepping-stones to achieving the long-term objectives and should be considered as such.

Objectives essentially indicate what strategic managers want but provide few insights into how to get there and strategies indicate what type of actions need to be taken but do not define what end will be pursued nor what criteria will serve as constraints in refining the strategic plan.

2.3.3 Company's Circumstances

To identify the company's circumstances, various models can be used and from use of these models, a clear understanding of where the company is relative to its competitors, or where it fits in the market place, or what factors contribute towards making the firm effective will emerge.

2.3.3.1 SWOT Analysis

By performing the popular SWOT analysis, the company can understand the changing environment "in such a way that it will help them to identify opportunities, or to recognise threats" Abrosisini (1998: 126).

Ambrosini (1998: 126), recommends using the impact analysis or weighted SWOT analysis that essentially involves applying a scoring mechanism to the basic SWOT analysis model. By so doing, "...is used as an aid to provide clarity to the analysis". The scoring system as recommended is simple:

- A positive (+) score denotes a strength....
- A negative (-) score denotes a weakness
- A zero (0) indicates that current strength or weakness would not be affected by environmental change

2.3.3.2 Porter's Five Forces Model

The model of pure competition implies that risk-adjusted rates of return should be constant across firms and industries. However, numerous economic studies have affirmed that different industries can sustain different levels of profitability; part of this difference is explained by industry structure.

Michael Porter provided a framework that models an industry as being influenced by five forces. The strategic business manager seeking to develop an edge over rival firms can use this model to better understand the industry context in which the firm operates.

The five forces are:

- **Rivalry**

In the traditional economic model, competition among rival firms drives profits to zero. But competition is not perfect and firms are not unsophisticated passive price takers. Rather, firms strive for a competitive advantage over their rivals. The intensity of rivalry among firms varies across industries, and strategic analysts are interested in these differences.

If rivalry among firms in an industry is low, the industry is considered to be disciplined. This discipline may result from the industry's history of competition, the role of a leading firm, or informal compliance with a generally understood code of conduct. Explicit *collusion* generally is illegal and not an option; in low-rivalry industries competitive moves must be constrained informally. However, a maverick firm seeking a competitive advantage can displace the otherwise disciplined market.

When a rival acts in a way that elicits a counter-response by other firms, rivalry intensifies. The intensity of rivalry commonly is referred to as being cutthroat, intense, moderate, or weak, based on the firms' aggressiveness in attempting to gain an advantage.

In pursuing an advantage over its rivals, a firm can choose from several competitive moves:

- Changing prices - raising or lowering prices to gain a temporary advantage.
- Improving product differentiation - improving features, implementing innovations in the manufacturing process and in the product itself.
- Creatively using channels of distribution - using vertical integration or using a distribution channel that is novel to the industry.
- Exploiting relationships with suppliers.

The intensity of rivalry is influenced by the following industry characteristics:

1. A larger number of firms increase rivalry because more firms must compete for the same customers and resources. The rivalry intensifies if the firms have similar market share, leading to a struggle for market leadership.
2. Slow market growth causes firms to fight for market share. In a growing market, firms are able to improve revenues simply because of the expanding market.
3. High fixed costs result in an economy of scale effect that increases rivalry. When total costs are mostly fixed costs, the firm must produce near capacity to attain the lowest unit costs. Since the firm must sell this large quantity of product, high levels of production lead to a fight for market share and results in increased rivalry.
4. High storage costs or highly perishable products cause a producer to sell goods as soon as possible. If other producers are attempting to unload at the same time, competition for customers intensifies.
5. Low switching costs increases rivalry. When a customer can freely switch from one product to another there is a greater struggle to capture customers.

6. A low level of product differentiation is associated with higher levels of rivalry. Brand identification, on the other hand, tends to constrain rivalry.
7. Strategic stakes are high when a firm is losing market position or has potential for great gains. This intensifies rivalry.
8. High exit barriers place a high cost on abandoning the product. The firm must compete. High exit barriers cause a firm to remain in an industry, even when the venture is not profitable. A common exit barrier is asset specificity. When the plant and equipment required for manufacturing a product is highly specialised, these assets cannot easily be sold to other buyers in another industry.
9. A diversity of rivals with different cultures, histories, and philosophies make an industry unstable. There is greater possibility for mavericks and for misjudging rival's moves. Rivalry is volatile and can be intense.

BCG founder Bruce Henderson generalised this observation as the Rule of Three and Four: a stable market will not have more than three significant competitors, and the largest competitor will have no more than four times the market share of the smallest. If this rule is true, it implies that:

- If there is a larger number of competitors, a shakeout is inevitable
- Surviving rivals will have to grow faster than the market
- Eventual losers will have a negative cash flow if they attempt to grow
- All except the two largest rivals will be losers
- The definition of what constitutes the "market" is strategically important.

Whatever the merits of this rule for stable markets, it is clear that market stability and changes in supply and demand affect rivalry. Cyclical demand tends to create cutthroat competition.

This is generally the strongest of the competitive forces and in the building industry in South Africa and indeed globally, it is fierce. This is due to the amount of competitors in the market place and the low barrier to entry. Rivalry increases pressure on margins and to win against the competition, some form of differentiation needs to be applied hence the study which seeks to identify the important factors that influence a consumer to choose a particular builder.

▪ **Supplier power**

A producing industry requires raw materials - labour, components, and other supplies. This requirement leads to buyer-supplier relationships between the industry and the firms that provide it the raw materials used to create products. Suppliers, if powerful, can exert an influence on the producing industry, such as selling raw materials at a high price to capture some of the industry's profits. The following tables outline some factors that determine supplier power.

Suppliers are Powerful if:	Suppliers are Weak if:
Credible forward integration threat by suppliers	Many competitive suppliers - product is standardised
Suppliers concentrated	Purchase commodity products
Significant cost to switch suppliers	Credible backward integration threat by purchasers
Customers Powerful	Concentrated purchasers

Table 2.1: Supplier Power

In South Africa, certainly amongst the more important items to buy such as cement, concrete, steel etc. there is very little that the company can do to influence prices as these suppliers are generally monopolistic by nature. However, as the company grows and becomes more powerful, certain price discounts can be obtained but there is not much competitive advantage to be gained from this.

- **Buyer power**

The power of buyers is the impact that customers have on a producing industry. In general, when buyer power is strong, the relationship to the producing industry is near to what an economist terms a **monopsony** - a market in which there are many suppliers and one buyer. Under such market conditions, the buyer sets the price. In reality few pure monopsonies exist, but frequently there is some asymmetry between a producing industry and buyers. The following tables outline some factors that determine buyer power.

Buyers are Powerful if:	Buyers are Weak if:
Buyers are concentrated - there are a few buyers with significant market share	Producers threaten forward integration - producer can take over own distribution/retailing
Buyers purchase a significant proportion of output - distribution of purchases or if the product is standardised	Significant buyer switching costs - products not standardised and buyer cannot easily switch to another product
Buyers possess a credible backward integration threat - can threaten to buy producing firm or rival	Buyers are fragmented (many, different) - no buyer has any particular influence on product or price

Table 2.2: Buyer Power

In the building industry there are no large wholesale buyers that could affect the prices being charged. The end user essentially holds the power but buys infrequently and thus hold less power than may be imagined. Obviously competition is fierce but if all the builders charge similar rates, which they do, then the power is diminished somewhat. Current economic circumstances allow the builder to charge a little more than they typically would but when and if the economy turns, then the power would again shift to the buyer. This is an area that shifts regularly from builder to buyer and back again. Good economic times mean that builders are able to get more work and

can thus afford to lose the odd job but when times are hard, then the buyer hold the power as less people build, work becomes scares and prices are dropped to gain the work.

- **Barriers to entry**

It is not only incumbent rivals that pose a threat to firms in an industry; the possibility that new firms may enter the industry also affects competition. In theory, any firm should be able to enter and exit a market, and if free entry and exit exists, then profits always should be nominal. In reality, however, industries possess characteristics that protect the high profit levels of firms in the market and inhibit additional rivals from entering the market. These are *barriers to entry*.

Barriers to entry are more than the normal equilibrium adjustments that markets typically make. For example, when industry profits increase, we would expect additional firms to enter the market to take advantage of the high profit levels, over time driving down profits for all firms in the industry.

When profits decrease, we would expect some firms to exit the market thus restoring a market equilibrium. Falling prices, or the expectation that future prices will fall, deters rivals from entering a market. Firms also may be reluctant to enter markets that are extremely uncertain, especially if entering involves expensive start-up costs. These are normal accommodations to market conditions. But if firms individually (collective action would be illegal collusion) keep prices artificially low as a strategy to prevent potential entrants from entering the market, such entry-detering pricing establishes a barrier.

Barriers to entry are unique industry characteristics that define the industry. Barriers reduce the rate of entry of new firms, thus maintaining a level of profits for those already in the industry. From a strategic perspective, barriers can be created or exploited to enhance a firm's competitive advantage.

Barriers to entry arise from several sources:

1. Government creates barriers. Although the principal role of the government in a market is to preserve competition through anti-trust actions, government also restricts competition through the granting of monopolies and through regulation. Industries such as utilities are considered natural monopolies because it has been more efficient to have one electric company provide power to a locality than to permit many electric companies to compete in a local market. To restrain utilities from exploiting this advantage, government permits a monopoly, but regulates the industry.

2. Patents and proprietary knowledge serve to restrict entry into an industry. Ideas and knowledge that provide competitive advantages are treated as private property when patented, preventing others from using the knowledge and thus creating a barrier to entry.

3. Asset specificity inhibits entry into an industry. Asset specificity is the extent to which the firm's assets can be utilised to produce a different product. When an industry requires highly specialised technology or plants and equipment, potential entrants are reluctant to commit to acquiring specialised assets that cannot be sold or converted into other uses if the venture fails. Asset specificity provides a barrier to entry for two reasons: First, when firms already hold specialised assets they fiercely resist efforts by others from taking their market share. New entrants can anticipate aggressive rivalry. The second reason is that potential entrants are reluctant to make investments in highly specialised assets.

4. Organisational (Internal) Economies of Scale. The most cost efficient level of production is termed Minimum Efficient Scale (MES). This is the point at which unit costs for production are at minimum - i.e., the most cost efficient level of production. If MES for firms in an industry is known, then we can determine the amount of market share necessary for low cost entry or cost parity with rivals.

The existence of such an economy of scale creates a barrier to entry. The greater the difference between industry MES and entry unit costs, the greater the barrier to entry. So industries with high MES deter entry of small, start-up businesses. To operate at

less than MES there must be a consideration that permits the firm to sell at a premium price - such as product differentiation or local monopoly.

Barriers to exit work similarly to barriers to entry. Exit barriers limit the ability of a firm to leave the market and can exacerbate rivalry - unable to leave the industry, a firm must compete. Some of an industry's entry and exit barriers can be summarised as follows:

<p>Easy to Enter if there is:</p> <ul style="list-style-type: none"> • Common technology • Little brand franchise • Access to distribution channels • Low scale threshold 	<p>Difficult to Enter if there is:</p> <ul style="list-style-type: none"> • Patented or proprietary know-how • Difficulty in brand switching • Restricted distribution channels • High scale threshold
<p>Easy to Exit if there are:</p> <ul style="list-style-type: none"> • Saleable assets • Low exit costs • Independent businesses 	<p>Difficult to Exit if there are:</p> <ul style="list-style-type: none"> • Specialised assets • High exit costs • Interrelated businesses

Table 2.3: Barriers to Entry

In the building industry this is a strong competitive force especially in the alterations and additions market where the value of work being undertaken is typically not all that high. As the value of work increases so the potential threat of new entrants diminishes as the higher the value is the more capital and expertise is required to manage and run the project. In the lower markets however, the value of the work being undertaken is lower and thus affordable to many smaller firms. The possibility of making a reasonable living and the sheer size in value terms of the industry attract many new entrant yearly to the market hence the bad reputation that the building industry has.

▪ Threats of Substitutes

In Porter's model, substitute products refer to products in other industries. To the economist, a threat of substitutes exists when a product's demand is affected by the price change of a substitute product. A product's price elasticity is affected by substitute products - as more substitutes become available, the demand becomes more elastic since customers have more alternatives. A close substitute product constrains the ability of firms in an industry to raise prices.

The competition engendered by a Threat of Substitute comes from products outside the industry. The price of aluminium beverage cans is constrained by the price of glass bottles, steel cans, and plastic containers. These containers are substitutes, yet they are not rivals in the aluminium can industry.

While the threat of substitutes typically impacts an industry through price competition, there can be other concerns in assessing the threat of substitutes. There are not many substitute products available to the South African consumer and even those that could pose a threat are not well received by the public at large. Given this circumstance, the industry is well positioned with few substitute products available.

2.3.3.3 Bowman's Clock

Another model used to identify the company's circumstances is Bowman's clock.

According to Faulkner and Bowman's Strategy Clock, competitive advantage in relation to cost advantage or differentiation advantage is compared. There are essentially eight core strategic directions that comprise:

- Low Price/Low Added Value
- Low Price
- Hybrid: Low cost base allowing low price and differentiation
- Differentiation (with or without price premium)

- Focused differentiation
- Increased Price/Standard Value
- Increased Price/Low Value
- Low Value/Standard Price

The model can be used to identify in which segment the company at present resides and then use that to determine where the company wants to be in the future. By so doing, a graphical representation is shown and can be visualised which has a greater impact on management and employees alike.

2.3.3.4 Key Success Factors

The elements that influence a particular firm's ability to prosper in the market place are known as Key success factors (KSFs). “Key success factors concern the product attributes, competencies, competitive capabilities and market achievement with the greatest direct bearing on company profitability” (Strickland: 2002: 106).

Typical or common KSF's are:

- Technology related – how can technology be used in the building industry to gain competitive advantage? There are many areas that could make use of technology such as procurement, client liaison, costing and pricing of projects, project management and work orders. The Internet can be used to view and control multiple projects across broad geographic areas by enabling communication between the builder and professionals as well as the client. Such systems exist and are being used on a regular basis by the larger building groups to improve efficiencies and drive production. The costs of implementing such systems prohibit the use by these smaller companies but as technology advances it is expected that the costs will come down so that even the smaller companies can afford to use technology more frequently.

- Marketing related – this is a particularly important factor for the smaller building company as it goes directly to service and can be the deciding factor in winning or losing work. The purpose of the study is to determine what is important to the consumer and what influences the consumer to choose a particular builder and by understanding this, the product offering can be tailored to reach the consumer directly.
- Skills related – An essential area in the building industry but one that is difficult to manage for the smaller company. To do the work correctly requires that certain skills are brought to bear on the project and given the shortage or high cost of skilled workers in SA, this is one of the more difficult tasks to accomplish. It is vital to have the right people doing the right job but it is difficult in the first instance to find those people and in the second, to afford them. This is, however, an area that can make the difference between profit and loss and between winning or losing the work so it is vital for any company to implement an on-going training programme to upgrade employees to be able to complete the required tasks in a more efficient manner.

According to Thompson and Strickland (2002: 108), “the purpose of identifying KSF’s is to make judgements about what things are more important to competitive success and what things are less important”.

2.3.4 Industry and Competitor Analysis

The purpose of an industry analysis is to determine if the industry in which the company operates is indeed a worthwhile industry in which to be. If there is no growth, much competition, no profit and the buyer has all the power, then how to be successful in such an industry poses a serious challenge. The big and powerful firm operating in that market can and generally does have monopolistic positioning which makes it difficult for the smaller company. If, however, the market being serviced by the industry is growing or is very large and profitable, then it is probably a market worth entering as opportunities will be available to the company to grow and become profitable. The building industry in SA has had many tough years but over the past two years, things are beginning to look better.

Confidence in the country is growing according to the latest consumer confidence index and more and more consumers are electing to spend money on improvements. In addition to this, sound monetary and fiscal policies are enabling a stable economy and interest rates are at present declining. Inflation is under control and is expected to fall to between 3.5% and 6% in 2004. Infrastructure spending is increasing and foreign direct investment in property has grown substantially over the past five years.

Most of this investment has taken place in the Cape but recent surveys show that more and more foreign investors are beginning to buy property in KwaZulu-Natal due primarily to its position as a major port, attractive scenery, excellent weather and close proximity to the game parks. Overall, the industry in Natal is only now beginning to reap the benefits of increased spending in this sector and this trend is expected to continue unabated for the next three to five years.

Thompson and Strickland (2002: 111) highlight the following as factors to consider in the industry analysis:

- Market size and growth rate
- Geographical scope
- Number of buyers and sellers
- Pace of technology change and innovation
- Capital requirements

For any company to succeed it must first understand the market in which it operates and then it needs to have at least some idea of whom the competition is and what they are doing. To do this some research into the competitor is required and should serve as a guide to the company on how to position itself. By knowing the competition, the company can copy the successful policies and discard those that are not. The company can also determine who is a threat and how to overcome that threat.

Questions to consider are:

- Which companies are in the strongest or weakest positions?
- What strategic moves are rivals likely to make?

The importance of an industry and competitor analysis cannot be underestimated as without knowledge of this, the company cannot hope to produce a winning strategy.

2.3.5 Strategic Options

The principles underpinning the selection of strategic options, (Corporate Strategy 2001 Lecture Notes) are:

- The process of strategic choice involves matching resources to the objectives the company wishes to pursue
- A mix of strategies is necessary to ensure all elements of the value chain are both planned and co-ordinated
- A common thread should run through all activities
- Each strategic choice must aim to enhance competitive advantage or neutralise competitive weakness

2.3.5.1 Categories of Strategic Choice

Once a strategic option has been selected, a strategic choice can be made and these include:

- **Competitive strategies** – According to Porter, there are three main generic strategies that can be pursued. These are:
 - Cost leadership. The following criteria apply to attaining a cost leadership position:
 - There must be the capacity to obtain economies of scale
 - Technology will have to be more advanced than competitors
 - Productivity objectives are paramount
 - Overhead cost need to be low
 - Sources of supply needs to be favourable

- Price war losses may be a necessary cost of implementing a cost-leadership strategy
 - Product or service differentiation
 - Advantage is gained through exploitation of product or service characteristics
 - Differentiation will typically be tangible or augmented product levels
 - Differentiation strategies attempt to build customer loyalty
 - The strategy relies on unique selling points that requires constant innovation
 - Narrow target market focus
 - The basis for this strategy is that the company's market becomes narrowly focused
 - Within this narrow market, the company will pursue either a cost-focus or differentiation-focus strategy
- **Product-market strategies**

There are two dimensions to this, one of the company's products and one of its markets. Products can be isolated as being in existence or under development and markets can be isolated as being those currently being serviced by the company and those not yet serviced. This gives rise to analysis by the "Ansoff matrix" which states: "The market matrix represents products and market choices open to the organisation. The distinction is drawn between markets, which are defined as customers, and products, which are defined as items sold to customers" and "...the market options matrix not only considers the possibility of launching new products and moving into new markets but explores the possibility of withdrawing from markets into unrelated markets" Lynch (2000:576)

To portray alternative corporate growth strategies, Igor Ansoff presented a matrix that focused on the firm's present and potential products and markets (customers). By considering ways to grow via existing products and new products, and in existing

markets and new markets, there are four possible product-market combinations. Ansoff's matrix is shown below:

Ansoff's Matrix

	Existing Products	New Products
Existing Markets	<p>Market Penetration</p> <p>SGC Now </p>	<p>Product Development</p>
New Markets	<p>SGC Future </p> <p>Market Development</p>	<p>Diversification</p>

FIGURE 2.2: ANSOFF'S MATRIX

Ansoff's matrix provides four different growth strategies:

- Market Penetration - the firm seeks to achieve growth with existing products in their current market segments, aiming to increase its market share. The market penetration strategy is the least risky since it leverages many of the firm's existing resources and capabilities. In a growing market, simply maintaining market share will result in growth, and there may exist opportunities to increase market share if competitors reach capacity limits. However, market penetration has limits, and once the market approaches saturation another strategy must be pursued if the firm is to continue to grow.
- Market Development - the firm seeks growth by targeting its existing products to new market segments. Market development options include the pursuit of additional market segments or geographical regions. The development of new

markets for the product may be a good strategy if the firm's core competencies related more to the specific product than to its experience with a specific market segment. Because the firm is expanding into a new market, a market development strategy typically has more risk than a market penetration strategy.

- Product Development - the firm develops new products targeted to its existing market segments. A product development strategy may be appropriate if the firm's strengths are related to its specific customers rather than to the specific product itself. In this situation, it can leverage its strengths by developing a new product targeted to its existing customers. Similar to the case of new market development, new product development carries more risk than simply attempting to increase market share.
- Diversification - the firm grows by diversifying into new businesses by developing new products for new markets. Diversification is the most risky of the four growth strategies since it requires both product and market development and may be outside the core competencies of the firm. In fact, this quadrant of the matrix has been referred to by some as the "suicide cell". However, diversification may be a reasonable choice if the high risk is compensated by the chance of a high rate of return. Other advantages of diversification include the potential to gain a foothold in an attractive industry and the reduction of overall business portfolio risk.

Source - <http://www.quickmba.com/strategy/matrix/ansoff/>

- **Institutional strategies**

Institutional strategy is about choosing a mechanism for adopting a strategic position and there are three main alternatives available to the company:

- It can develop a strategic platform from a zero base
- It can develop a strategic platform by acquisition or merger
- It can co-operate with other firms

When considering any of the above three alternatives, the company will in addition have to consider the following factors:

- Resources
- Synergy
- Speed
- Control
- Organisation and culture
- Risk

Each of the three alternatives has its own risks and rewards and only by considering all the elements that make possible such a strategy can the company gain advantage.

2.3.6 Building a Capable Company

In their 1990 article entitled, *The Core Competence of the Corporation*, C.K. Prahalad and Gary Hamel coined the term core competencies, or the collective learning and coordination skills behind the firm's product lines. They made the case that core competencies are the source of competitive advantage and enable the firm to introduce an array of new products and services.

According to Prahalad and Hamel, core competencies lead to the development of core products. Core products are not directly sold to end-users; rather, they are used to build a larger number of end-user products. For example, motors are a core product that can be used in wide array of end products. The business units of the corporation each tap into the relatively few core products to develop a larger number of end user products based on the core product technology. This flow from core competencies to end products is shown in the following diagram:

Core Competencies to End Products

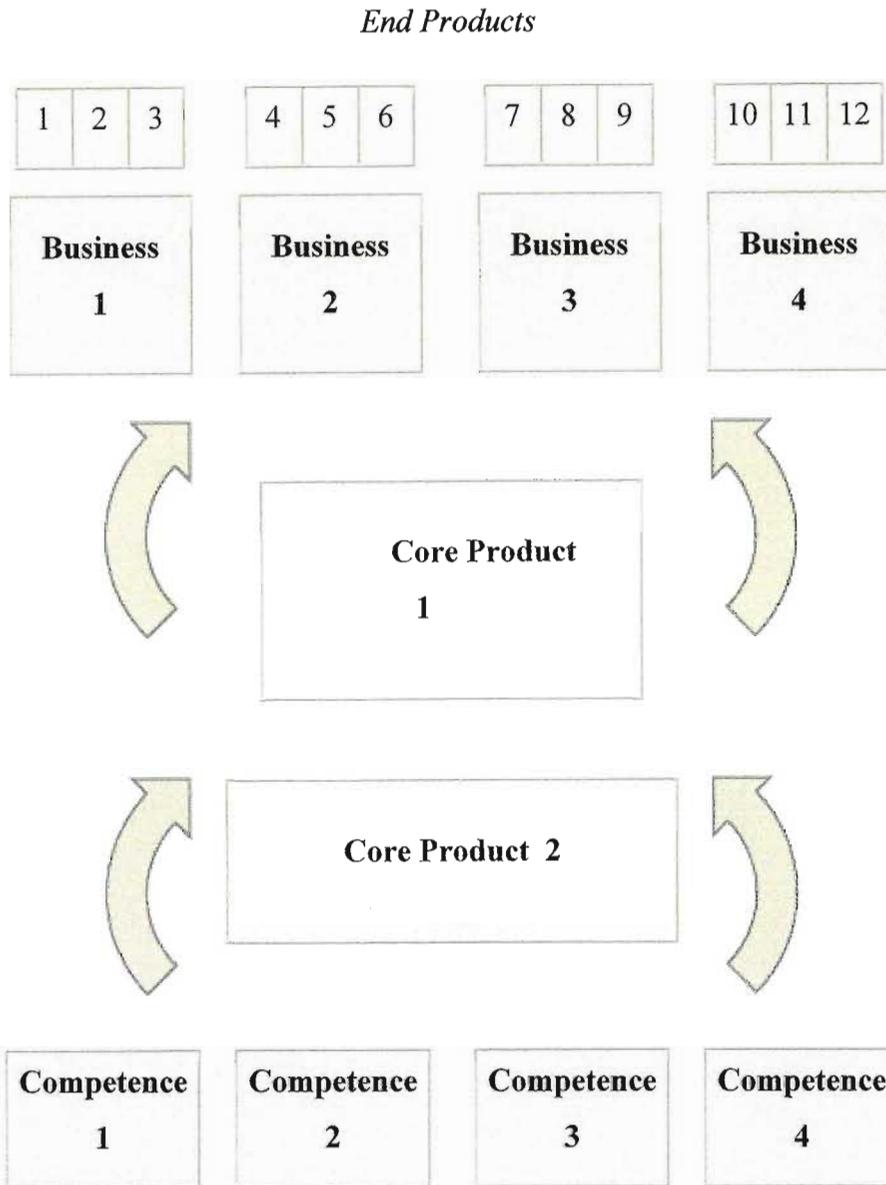


FIGURE 2.3: CORE COMPETENCIES TO END PRODUCTS

The intersection of market opportunities with core competencies forms the basis for launching new businesses. By combining a set of core competencies in different ways and matching them to market opportunities, a corporation can launch a vast array of businesses. Without core competencies, a large corporation is just a collection of discrete businesses. Core competencies serve as the glue that bonds the business units together into a coherent portfolio.

Developing Core Competencies

According to Prahalad and Hamel, core competencies arise from the integration of multiple technologies and the coordination of diverse production skills.

There are three tests useful for identifying a core competence. A core competence should:

1. provide access to a wide variety of markets, and
2. contribute significantly to the end-product benefits, and
3. be difficult for competitors to imitate.

Core competencies tend to be rooted in the ability to integrate and coordinate various groups in the organisation. While a company may be able to hire a team of brilliant scientists in a particular technology, in doing so it does not automatically gain a core competence in that technology. It is the effective co-ordination among all the groups involved in bringing a product to market that results in a core competence.

It is not necessarily an expensive undertaking to develop core competencies. The missing pieces of a core competency often can be acquired at a low cost through alliances and licensing agreements. In many cases an organisational design that facilitates sharing of competencies can result in much more effective utilisation of those competencies for little or no additional cost.

To better understand how to develop core competencies, it is worthwhile to understand what they do not entail. According to Prahalad and Hamel, core competencies are not necessarily about:

- outspending rivals on R&D
- sharing costs among business units
- integrating vertically

While the building of core competencies may be facilitated by some of these actions, by themselves they are insufficient.

The Loss of Core Competencies

Cost-cutting moves sometimes destroy the ability to build core competencies. For example, decentralisation makes it more difficult to build core competencies because autonomous groups rely on outsourcing of critical tasks, and this outsourcing prevents the firm from developing core competencies in those tasks since it no longer consolidates the know-how that is spread throughout the company.

Failure to recognise core competencies may lead to decisions that result in their loss. By recognising its core competencies and understanding the time required to build them or regain them, a company can make better divestment decisions.

Core Products

- Core competencies manifest themselves in core products that serve as a link between the competencies and end products. Core products enable value creation in the end products.

The core products are used to launch a variety of end products. Because firms may sell their core products to other firms that use them as the basis for end user products, traditional measures of brand market share are insufficient for evaluating the success of core competencies. Prahalad and Hamel suggest that *core product share* is the appropriate metric. While a company may have a low brand share, it may have high core product share and it is this share that is important from a core competency standpoint.

Once a firm has successful core products, it can expand the number of uses in order to gain a cost advantage via economies of scale and economies of scope.

Implications for Corporate Management

Prahalad and Hamel suggest that a corporation should be organised into a portfolio of core competencies rather than a portfolio of independent business units. Business unit managers tend to focus on getting immediate end products to market rapidly and usually do not feel

responsible for developing company-wide core competencies. Consequently, without the incentive and direction from corporate management to do otherwise, strategic business units are inclined to underinvest in the building of core competencies.

If a business unit does manage to develop its own core competencies over time, due to its autonomy it may not share them with other business units. As a solution to this problem, Prahalad and Hamel suggest that corporate managers should have the ability to allocate not only cash but also core competencies among business units. Business units that lose key employees for the sake of a corporate core competency should be recognised for their contribution. (Source- www.quickmba.com/strategy)

2.3.7 Implementation

According to theory, implementation of strategy can take place in three ways:

- Comprehensive – where change is fundamental
- Incremental – where there are conditions of great uncertainty
- Selective – where compromise is required, i.e. where dramatic change is required but where great uncertainty is likely to occur

2.4 CONCLUSION

The formulation of a strategy to capture market share and gain competitive advantage is a long and focused procedure. As the above chapter highlights, there are many areas to consider when developing a strategy and within each area, there are many other factors to take into consideration. The chapter has provided a limited view on what is required and whilst not comprehensive in the context of a strategic plan, shows where the most important considerations lie.

Chapter Three that follows will seek to understand SGC's current strategy and provide some insight into where SGC expects to be within the future.

CHAPTER THREE – THE CASE FOR SPENCER GORE CONSTRUCTION

3.1 INTRODUCTION

This chapter provides a brief into SGC, however, for the purposes of this study, the case has been kept deliberately short at SGC's request. Due to the sensitive nature of the information contained within the study, SGC considers it appropriate that the information supplied be kept vague so that no strategic or important information is available to competing firms. The case study is sufficient to gain some insight into the history and future of the company but is vague enough not to provide financial or geographical information which could be used by a competing firm.

3.2 BACKGROUND

Spencer Gore Construction (Pty) Ltd, hereinafter referred to as SGC was started in 1992 in Harding. Approximately 150 serviced vacant sites were lying idle and were not being developed by the Harding Town Board (HTB), who owned the land. Negotiations were entered into and agreement was reached whereby SGC was given a sole mandate to market and develop the sites on behalf of the HTB.

Significant demand for houses in the area was forthcoming and this demand came primarily from civil servants living in the Harding and in the Transkei.

To ensure that the development took place, SGC agreed to stand surety for the buyers, as the banks would not accept the Transkei Government Guarantees. A 10% deposit was required which SGC funded and because of this, finance was made available by the Banks and building commenced in the second half of 1992.

As the cost of operations was low, large profits were made. Approximately 8 houses were built per month. In 1993 the same building continued and by 1994 SGC started looking at

other opportunities. These were found in Margate and an office was opened there. A project manager was hired and work commenced at roughly the same volumes as in Harding. A further site was opened in Newlands East and in 1995 +- 70 houses were built in Newlands East.

In 1996, the lending criteria for civil servants changed and this affected operations as the amount that they could borrow was reduced substantially and this cut into profits. SGC decided to look at alternative building markets and began tendering on government jobs. A number of tenders were won but they were won at a price that barely covered costs. The decision to take on the work was made so as to provide a track record of larger jobs and a few clinics, a community hall and a communications building were completed providing the required credibility. At the same time, tender processes changed and only companies with black empowerment credentials were awarded government tenders. SGC withdrew from this market, as the profits being made did not justify an increase in overheads.

In 1997, SGC looked to Cape Town to launch developments and acquired from the largest property developer in the Cape a large piece of land in Bloubergstrand for a townhouse development. Architects were appointed and plans drawn up. Negotiations with financiers took place and the development was launched. Large scale advertising and marketing took place and 34 out of 64 units were sold and building operations were planned to begin. The original bank that had offered the finance then altered the lending criteria to SGC and this caused problems. The development was halted and a new bank for finance was found. The terms of the finance were, however, not very favourable and after much consideration, it was decided to withdraw from the development at a loss.

Harding was closed down in the same year due to land shortages and the cost of developing new land. Sales were also becoming increasingly difficult. SGC consequently decided to concentrate only in KZN as it was difficult to monitor operations in Cape Town. In 1998, new markets were sought and SGC started building exclusive houses of plus R 1 million on the South coast. This was relatively successful for SGC but as the building industry collapsed, prices were driven lower by competition and profit margins were eroded. SGC subsequently closed down the Margate operation at the end of 1999, to concentrate on the Durban area only.

In 1998, alternatives to the building industry were sought and SGC turned its attention to the development of a marketplace e-commerce site for the construction industry. A partnership was formed with the largest US company in the same field but an unforeseen merger in the USA complicated the agreement and SGC withdrew from the venture. As all initial costs were borne by SGC, a large amount of money was lost on the venture.

In 2000, SGC re-entered the building market to concentrate on the building of new houses and sought new markets in the alterations and renovations market, especially in Durban North/Umhlanga.

3.3 THE PRESENT

Over the past 18 months, SGC has made steady progress in the alterations and renovations market. A large amount of work is being awarded to the company and a number of projects are at present being undertaken. Financial goals set 24 months ago are being achieved and capacity is being built. There remains, however, a large market still to capture and SGC is evaluating the responses to the questionnaire that was sent out as part of the market research drive, which research is contained in this document.

SGC is at present working on many projects ranging in value from R 200,000 to R 5 million. SGC expects to start and finish another 4 – 5 projects in addition to the ones underway. Turnover is expected to grow by + 100% over 2002 and SGC is on target to achieve that goal.

3.4 THE FUTURE

SGC intends using the data obtained from the questionnaire to deliver a service to consumers that is both important and required. SGC intends using the data to restructure the organisation taking into account all the factors that influence the consumer's choice of a building company. By ensuring that all the factors that are important to a consumer are offered, SGC hopes to capture market share and introduce a premium charge thus improving profitability. The goal for the next 24 months is to put in place all the required

systems and processes that will allow SGC to deliver the important services to the consumer thus becoming the “builder of choice”. Value creation is the main goal of the company going forward and this can only be achieved by understanding the consumers needs and wants.

A large opportunity exists in the market for a leader who delivers on product and service and if SGC can accomplish this, real value can be created over the long term, both in terms of profitability and brand equity.

3.5 SPENCER GORE CONSTRUCTION (PTY) LTD

The purpose of the study is to determine what are the dominant influencing factors that make a consumer chose a particular building company and how, with this knowledge, SGC can improve upon its strategic plan to capture market share from competitors whilst ensuring that the important issues are addressed and focused upon. There is little merit in developing a strategic plan without full knowledge of the market and the research undertaken has, whilst not being completely comprehensive, provided a starting point from which to move forward. Additional research will be required on an ongoing basis to improve upon the strategic direction of the company but the research has allowed SGC to determine the important influencing factors and to act upon those in the meanwhile.

This chapter seeks to address the theoretical nature of the strategic plan and at the same time, place SGC in the relevant positions that it at present occupies. With this knowledge SGC can refine and change the plan to suit the market conditions and company position more appropriately. In addition to this, the plan will be used to develop new and sustainable direction for the company that should ultimately result in much improved profitability and wealth creation in a competitive industry.

3.6 STRATEGIC FRAMEWORK FOR SGC

The first section of this text chapter consists of a concise evaluation of the current Strategy of SGC. A Porter's Five Forces model is used to analysis the external environment and a Life Cycle Portfolio analysis is also used. The framework is as follows:



FIGURE 3.1: STRATEGIC FRAMEWORK FOR SGC

For the purposes of this study, not all the framework has been applied but by recognising the other important factors that need to be addressed when formulating a strategy, SGC can move forward with confidence.

Specifically, no financial strategy or analysis about the company has been provide for confidentiality reasons. As the company is a private and on-going concern, this information remains privileged and cannot be disclosed suffice to acknowledge that the financial analysis does and will continue to form part of SGC’s strategy going forward.

3.7 PORTERS FIVE FORCES MODEL FOR SGC

Substitute products for SGC
Weak Competitive Force
 • *Apartments, Renting*

Substitute products for builders exercise a weak competitive force due to the limited availability of substitute products in the industry.

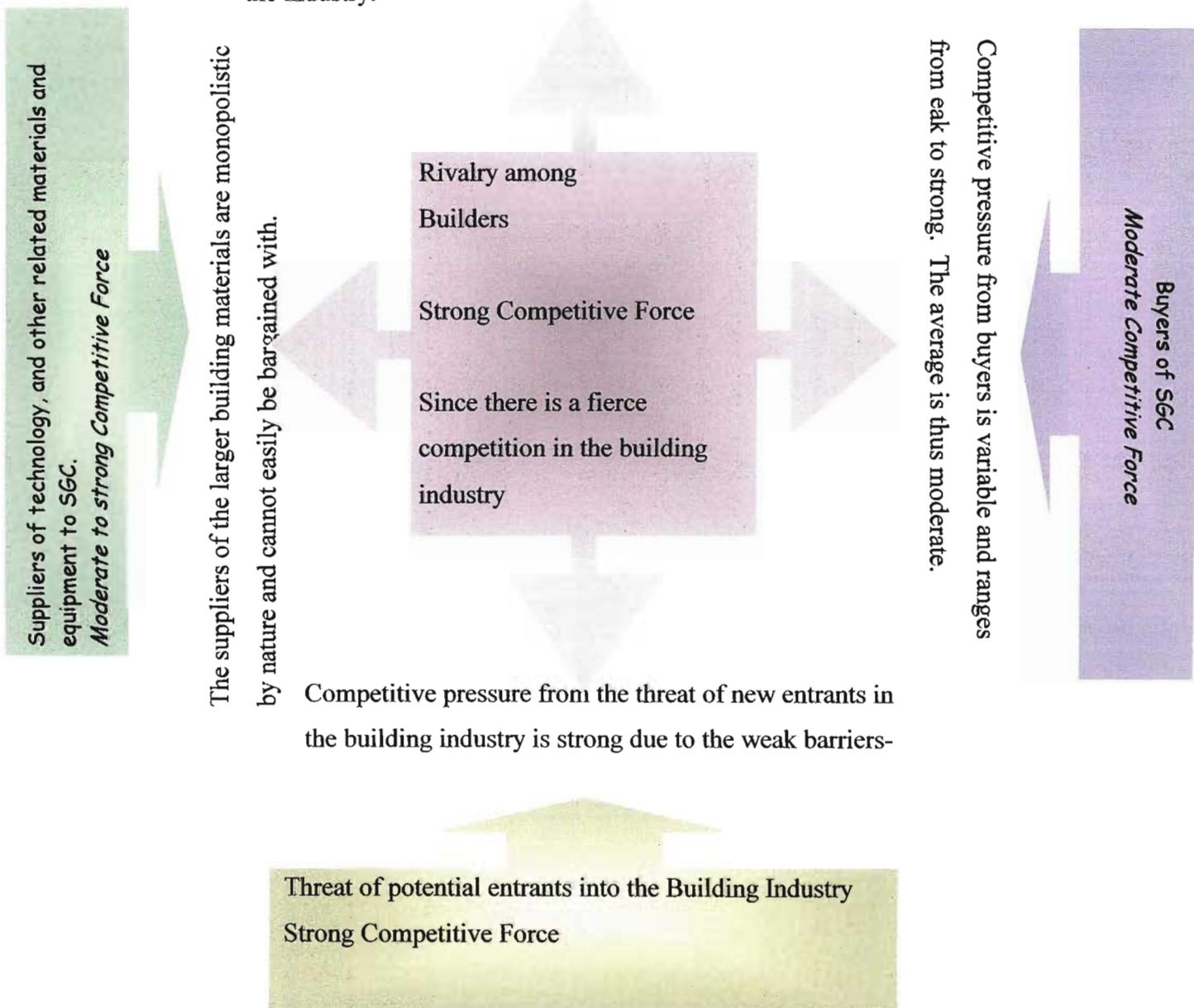


FIGURE 3.2: PORTER'S FIVE FORCES MODEL FOR SGC

Even though Porter's five forces model is only valid in a stable environment, it is an acceptable tool to analyse the macro economic environment of an industry. Figure 3.2 illustrates the competitive forces on SGC. Substitute products and buyers exercise a moderate to weak competitive force as there are limited substitute products, and there are a limited number of buyers except for the end consumer. Professionals and estate agents do help find buyers but they are not, in general, buyers of the product themselves.

Competitive forces amongst rivals, suppliers and potential new entrants are strong as the industry is fiercely competitive, suppliers hold monopolistic positions and barriers to entry are relatively low below a certain value of work undertaken. Once this value is crossed, the threat from new entrants subsides due to the requirement for significant capital and expertise.

3.8 ANALYSIS OF THE STRATEGIC PLAN

3.8.1 Mission

SGC's mission is to: "Provide our clients with a first class selection of products and services that are both required and desired. A well-managed company operating in niche markets and being the most profitable company in those markets. A company that provides its employees with personal development opportunities and growth prospects". Based on this mission, SGC will need to develop first class products and services that are both required and desired and part of the purpose of the research undertaken is to determine what is important to consumers. To be well managed, SGC has recently strengthened its management team and will continue to do so as the opportunity arises. The niche markets in which it operates have yet to be fully determined but it is expected that these markets will become apparent in the short term as more focus is given to finding them.

SGC at present operates in a broad market but progress is being made with regard to geographical areas and building types. SGC has recently entered the Plettenburg Bay market and has already established a reputation for getting the job done. Current clients include some of the most influential businessmen in South Africa and this is the first step to gaining more lucrative work on a sustainable basis.

To be profitable in the markets in which it operates, SGC will have to take care of its cost base to ensure that operating and overheads do not grow too rapidly. In addition to this, better terms will be negotiated with suppliers and labour will be trained to be more productive. This poses a difficulty due to the geographical spread of the operation but with the correct management in place, after a learning period, this should be brought under control.

SGC also needs to develop its people to be both more efficient and more productive. This can be achieved by making use of the Skill Development Levy contributions and by in-house training. Tougher negotiations are also taking place with sub-contractors and better incentives will be devised to ensure staff participation in the growth of the company. This matter is under consideration at present and will be developed more fully as the year progresses.

3.9 KEY SUCCESS FACTORS FOR SGC

The elements that influence a particular firm's ability to prosper in the market place are known as Key success factors (KSFs). "Key success factors concern the product attributes, competencies, competitive capabilities and market achievement with the greatest direct bearing on company profitability" (Strickland: 2002: 106). The following questions need to be addressed in order to identify the KSFs for SGC: -

- What do the consumers want and what do they choose? On what basis does a consumer choose a building company, and what are the crucial product attributes?
- What resources and competitive capabilities does SGC need to possess in order to be successful? What does it take for SGC to achieve sustainable competitive advantage?

3.9.1 Identifying KSFs for SGC:

The model illustrates general key success factors for the building industry. The second part of the model depicts the key factors responsible for SGC's success.

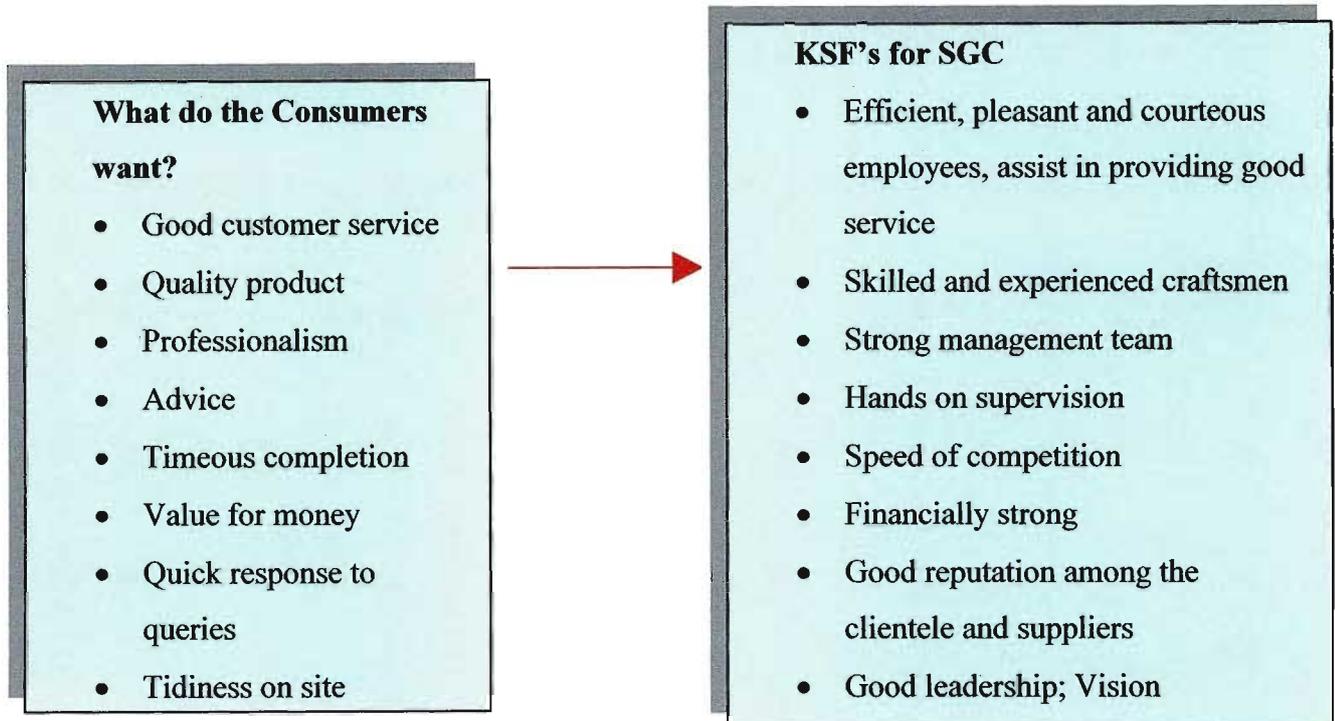


FIGURE 3.3: KEY SUCCESS FACTORS FOR SGC

3.10 COMPETITOR ANALYSIS

A recent competitor analysis survey undertaken by SGC is shown in the table below. All data was extracted from the National Home Builders Registration Council database and shows new homes registered with the NHBRC since 1997. The database comprises homebuilders that operate in the new homes market and does not show those that operate in the alterations and renovations market as in this market, homebuilders are not required to register the house as this is not a regulatory requirement. As noted from the table below, SGC is one of the largest home builders by volume but as SGC has now exited the medium cost market, the number of houses registered each year by SGC will fall substantially in the short term. It is a goal of SGC to maintain its new home built numbers but to increase the value of the units built to improve profitability.

There are many competitors operating in the markets in which SGC operates and the purpose of the analysis was to determine just how many there are. Within the alterations and renovations market, many more could be added. A point to note that is even though there are many competitors, no single competitor owns the market. For SGC, this is where the opportunity lies. To become a brand leader and market leader, SGC will need to make itself more visible, deliver a better product at a fair price and provide excellent client services.

SGC is now putting in place a strategy that will help realise this goal and part of the reason for the research contained within this paper is to determine what the consumers wants and thinks important. Having knowledge of this will enable SGC to implement a strategy that will allow it to gain competitive advantage.

3.10.1 Competitor Identification

Reg. No	Description	Total	Area
8424	Afroprop Natal	65	Pinetown
6316	Azcon Projects	8	Overport
1829	Benrite Property	8	Verulum
7688	Carrie	8	
4225	Chapfield Construction	16	Glenwood
10506	Coastal Housing	63	Bluff
879	Comhousing	33	Mayville
9215	Conservatech	36	Ballito
4520	Corporate Homes Trust	170	Pinetown
9307	Crocker Property	39	Mt Edgecombe
9371	EAC Lilford	20	New Germany
10700	Elangeni Projects	80	Hillcrest
1768	Fayers Construct	8	Dawn Park
6769	Gillward Projects	24	Mt Edge
7223	Ihlenfeldt	7	Amanzimtoti

1245	Kenstan	11	Westville
1067	Kersam	9	Umhlanga
5477	Landsend	73	Everton
42	Locoh	720	New Germany
9853	KMC Construction	51	Westville
4072	Manuel Gouveira	58	Mayville
2135	Meverick Construction	53	Red hill
7601	Mccarruch and Swart	25	Kloof
10788	Multilayer Trading	21	Berea
851	Parvins Builders	7	Phoenix
765	Plan and Build	73	Kloof
9375	Pulbo	44	Umhlanga
6902	Rayden	28	Bellvue Road
3354	Riccon Building	41	Forest hills
2762	Robert Emanuel	28	La Lucia
4478	Rodbou	14	Sarnia
7379	Kelburn	31	Dbn North
9208	Sanhill	11	Umhlanga
399	Sarge	9	Newlands
7247	Slingshot	156	Kloof
54	Spencer Gore Construction	284	La Lucia
1253	Strongshore	71	Northway
7632	Thames	13	Glen Ashley
7275	Stella Grove Trust	30	Old mill way
6250	Thokomala	94	Town
193	Vision Homes	911	Pinetown
10682	Grid	9	
11080	Delta	8	La Lucia
10744	Sawubona	22	
7289	Stefcon	14	

Table 3.1: Competitor Identification

3.11 LIFECYCLE PORTFOLIO MATRIX

SGC occupies the position on the matrix as shown below that leads it to adopt the competitive strategy of differentiation coupled with fast growth, focus and attainment of cost leadership. It is important to note that cost leadership in this respect does not necessarily imply low cost but rather profitability leadership which is a prime objective of SGC going forward. This concurs with SGC's stated corporate strategy of focusing on the customer, product and service rather than the price that should take care of itself if SGC can deliver on those factors that are deemed to be important by the owner.

Competitive Position	Embryonic	Growth	Mature	Ageing
Dominant	Fast grow Start up	Fast grow Attain cost leadership Renew Defend position SGC FUTURE	Defend position Attain cost leadership Renew Fast grow	Defend position Focus Renew Grow with industry
Strong	Start up Differentiate Fast grow	Fast grow Catch up Attain cost leadership Differentiate SGC PRESENT	Attain cost leadership Renew, focus Differentiate Grow with industry Focus	Find niche Hold niche Hang in Grow with industry Focus
Favourable	Start up Differentiate Focus Fast grow	Differentiate, focus Grow with industry Focus	Harvest, hang in Find niche, hold niche Renew, turnaround Differentiate Grow with industry	Retrench Turnaround
Tenable	Start up Grow with industry Focus	Catch up Grow with industry Focus	Harvest Retrench Turnaround Find niche	Divest Retrench
Weak	Find niche Catch up Grow industry	Turnaround Retrench	Withdraw Divest	Withdraw

FIGURE 3.4: LIFECYCLE/PORTFOLIO MATRIX OF SGC

3.12 COMPETITIVE STRATEGY

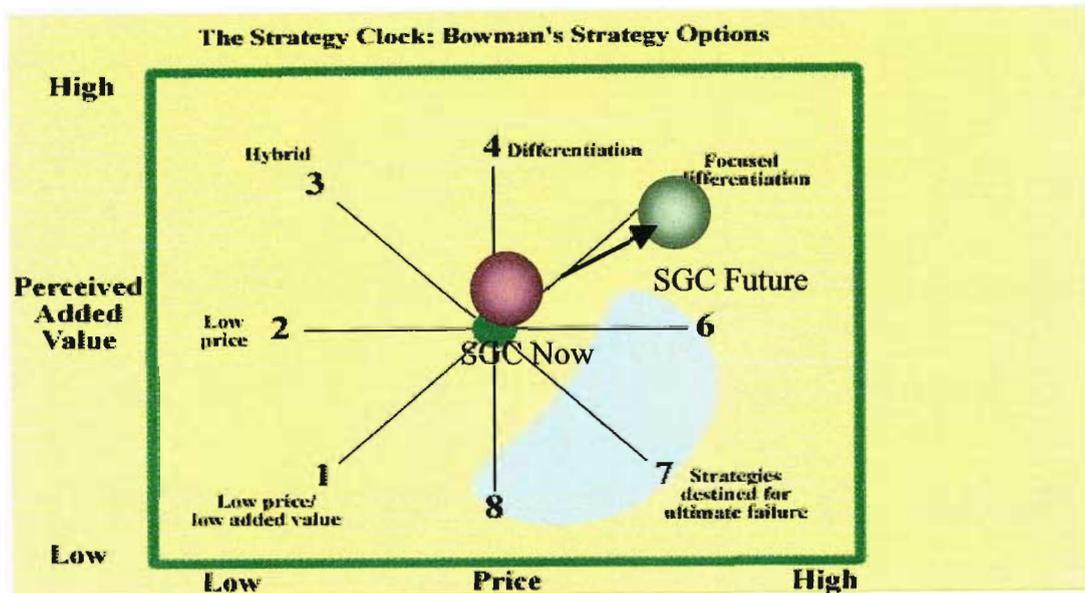


FIGURE 3.5: BOWMAN'S STRATEGY CLOCK

According to Faulkner and Bowman's Strategy Clock, competitive advantage in relation to cost advantage or differentiation advantage is compared. There are essentially eight core strategic directions that comprise:

- Low Price/Low Added Value
- Low Price
- Hybrid: Low cost base allowing low price and differentiation
- Differentiation (with or without price premium)
- Focused differentiation
- Increased Price/Standard Value
- Increased Price/Low Value
- Low Value/Standard Price

SGC is well perceived in the market as adding value. It is the opinion therefore that SGC will at present be placed on the 4th segment of the clock. SGC's goal, however, is to move its position to between the 4th and 5th segment of the clock with a higher price and better perceived value structure. To do this, SGC will focus on the consumer, the product and the service offered. At present SGC has established the groundwork for such a move in position but the move will require effort and focus on the part of all SGC staff.

SGC's STRATEGIC VISION
<ul style="list-style-type: none"> • Reliability • Value for money • Tidy and clean • Quick response to queries • Professional • Well managed • Superior service • Quality work • Values • Put people first by: <ul style="list-style-type: none"> ○ Offering advice ○ Offering a warranty on work done ○ Regular communication

FIGURE 3.6: STRATEGIC VISION

As noted from the table above, SGC has adopted a strategy that believes in the adage that the “customer comes first” even though this strategy has cost implications. To determine the best long term strategy is difficult but if SGC can improve upon its customer satisfaction index, then it is doing well. Theory suggests that as SGC is not a low cost operator, it should concentrate on differentiation to produce sustainable competitive advantage. Theory further suggests that SGC should “avoid being stuck in the middle” i.e. strategies that represent compromises between lower costs and greater differentiation and between broad and narrow market appeal. (Thompson, Stickland, *Strategic Management Concepts and Cases, Thirteenth Edition*, McGraw-Hill (2003))

3.12.1 Implementation of the Plan

"Strategies are intellectually simple; their execution is not". (Lawrence A. Bossidy, Former CEO Allied-Signal). "Experienced managers, savvy in strategy making and strategy

implementing, are emphatic in declaring that it is a whole lot easier to develop a sound strategic plan than to execute the plan and achieve the planned outcomes." (Thompson, Strickland p 355)

For any manager attempting to introduce strategic change, the unknown entity is the human being. People have emotions, attitudes, preconceived ideas and varying personal goals. The task of bringing about strategic change is easier planned than executed when these intangible entities have to be taken into account. In addition to managing the people and culture of the organisation, management also has to ensure the organisation had the necessary core competences, capabilities and that the internal processes are in place to support the strategic change.

3.12.2 Organisational Culture and Leadership

"Corporate culture refers to a company's values, beliefs, business principles, traditions, ways of operating and internal work environment". (Thompson, Strickland p420). Johnson and Scholes propose the "mapping of the cultural web", to facilitate the understanding of the existing culture, and thereby identifying areas that need to be changed to deliver the new strategy. This is listed as follows:

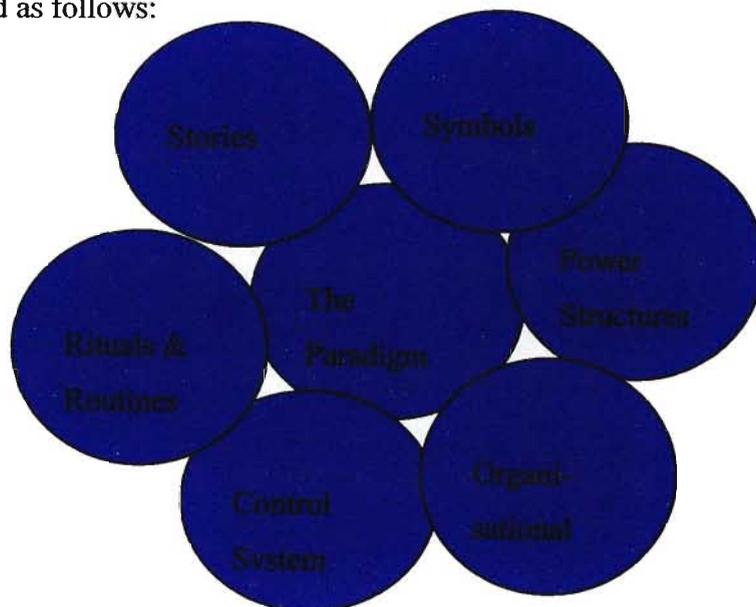


FIGURE 3.7: THE CULTURAL WEB OF AN ORGANISATION (ADAPTED FROM EXPLORING CORPORATE STRATEGY, JOHNSON, SCHOLES, FIFTH EDITION)

The task that SGC management has is to create an efficient environment in which a strong culture will accept strategic changes. "A culture built around such business principles as listening to customers, encouraging employees to take pride in their work, and giving employees a high degree of decision making responsibility is very conducive to successful execution of a strategy delivering superior customer service." (Thompson, Strickland, 2003, pg 423)

The other task pertinent to evolving the corporate culture relates to the building of a spirit of high performance into the organisation. Strickland and Thompson state that a results-orientated culture is best for superior strategy execution. To be successful, SGC will need to reward employees for high-level performance which will then create a culture of work ethics and which will have the effect of motivating staff to perform at the optimal level.

3.12.3 Leadership

A key factor in SGC's strategy going forward will be leadership. Robbins and Decenzo state that the essence of leadership is building trust and this is an area in which SGC will need to be successful. The five dimensions of trust are listed as integrity, competence, consistency, loyalty and openness. SGC has recently strengthened its management team and each manager will have to find their own manner in which to deliver these aspects.

Different people act differently but if the overall company culture is one of trust, integrity, loyalty, competence and consistency, then that will be the path that all employees will follow. This is a key requirement for SGC management and care will be taken to strengthen the management team with only those managers who possess the necessary skills and ability to maintain the company culture and indeed, improve upon it.

3.12.4 Core Competencies and Capabilities

In addition to an appropriate corporate culture and leadership, an internal organisation with competencies, capabilities and resource strengths is important for the successful execution of strategy. "Core competencies rarely consist of narrow skills or the work efforts of a

single department. More often, they are bundles of skills and know-how growing out of the combined efforts of cross functional work groups and departments performing complementary activities at different locations in the firm's value chain" (Thompson and Strickland, 2003, pg 366). When considering all the elements of the value chain, it is apparent that SGC has limited core competencies. As noted above, a core competence can be related to the interaction of the various elements of the value chain. A competitor can easily copy a skill or function of a department, and the competitive advantage in that would be short-lived. A core competence, can for instance, be related to the manner in which SGC schedules the maintenance of work to reduce time on site or it can be described as the manner in which all departments' work together to make sure that the house is delivered to the consumer on time and in budget.

3.12.5 Staffing

Staffing the organisation with the best people can firstly, create a capable organisation. The HR functions of recruiting and training talented employees, remuneration and maintenance are the first steps to building an organisation with core competencies. Performance management is also part of this process. As part of its strategy, SGC will need to implement an appraisal system where all supervisors are rated. Poor performers will be given the chance to improve their performance after which, if they fail to improve, will be dismissed. Only capable and committed employees will be retained as part of the team. SGC has at present no such policy but it will be introduced.

3.13 POLICIES TO SUPPORT NEW STRATEGIC EXECUTION

3.13.1 Budget Reallocation

Changes in strategies and polices practically always necessitate budget reallocations. Execution of a new strategy in SGC will require the shifting resources from one area to another. The research undertaken within this paper, shows that SGC will need to allocate resources to ensuring that the project is completed on time, site is kept tidy, advice is offered and quality control is strictly exercised. Non-viable or non-profitable projects will

be terminated as has already happened and only projects that can deliver a predetermined return will be undertaken. By doing this, resources will be made available to those project to ensure success.

3.13.2 Reviewing Existing Policies and Procedures

It becomes vital to review existing policies and procedures when a company alters its strategies. This could be done by means of deleting or revising policies and procedures that are not in sync with the new strategy, or by implementing new policies and procedures. The new strategy at SGC will empower employees to make decisions and additional training for employees will be provided.

3.13.3 Best Practices for Continuous Improvement

“Competent strategy execution entails visible, unyielding managerial commitment to best practices and continuous improvement”(Strickland: 2003: 414). This includes better product quality and improvement of efficiency and productivity, which will ultimately result in an increasing customer base.

3.13.4 Support Systems

It is not possible to implement a strategy without a number of support systems to facilitate the business operations. “ Well- conceived, state-of-the-art support systems not only facilitate better strategy execution but can also strengthen organisational capabilities enough to provide a competitive edge over rivals” (Strickland: 2003: 414). Communication networks such company intranet and e-mail to provide daily updates, monthly employee newsletters, and the installation of the bulletin boards, will be put in place to facilitate better implementation of the strategy. SGC has no such policy at present.

3.13.5 Motivational Practices and Reward Systems to Support Strategy

Incentives and rewards are the most powerful tools at the disposal of the management in order to win employee commitment to diligent, competent strategy execution. “Decisions on salary increases, incentive compensation, promotion, key assignments and the ways and means of awarding praise and recognition, are potent attention-getting, commitment-generating devices” (Strickland: 2003: 409)

This was an area in which SGC is weak. Incentives are offered to employees but there is no formal structure to this process. SGC will need to change this process to make it all-inclusive and to recognise hard work and loyalty when and as it occurs. If a project is completed on time and in budget, SGC presently rewards the site manager/foreman with a substantial bonus but this process will need to be expanded to include all employees. Regular awards will be made to employees who show initiative or who improve their performance, as this will have the effect of motivating the rest of the staff and thus lead to an improvement in the efficiency and productivity of the company that will then lead to better profits and more work.

3.14 FINANCIAL ANALYSIS

For the purposes of this study no financial analysis has been undertaken as such information is confidential in nature and SGC does not want to disclose this for strategic reasons.

3.15 ANALYSIS OF SGC’S STRATEGY

An analysis of the strategy that SGC needs to follow is listed below. This analysis looks at various aspects that would make the strategy work.

3.15.1 The Market Plan - Builder of Choice

It is SGC's intention and goal to become a market leader in both the new homes market and the alterations and additions market. Fierce competition exists in both markets but with SGC's experience, resources and desire, the markets can be captured and a leader established. To do this however, SGC will need to become efficient, productive, deliver a quality product for the right price, maintain high standards, and keep costs down. A tall order but by understanding the consumers needs and expectations, SGC can capture market share thus creating value and improving profitability. SGC has recently strengthen its management team to drive the process forward and the research contained in Chapter Four of this paper will allow SGC to focus upon and deliver to the consumer that which is important to them. To capture market share requires that SGC do more than their competitors and it is only by knowing what consumers want that SGC can be successful.

3.15.2 The Financial Plan

SGC has recently obtained the financial support of two individual investors and because of this, SGC can now undertake substantial projects without the burden of finding funding. Clearly though, SGC will need to provide superior returns and above average profitability for the investors but with the right management and a focused view to keeping costs down, SGC can succeed in this respect. As the research shows, consumers are less price sensitive than originally thought but experience conflicts with the research. Further and more thorough research will be required to arrive at a suitable conclusion but in the meanwhile, SGC will work hard to ensure that its margins are maintained and improved upon by keeping costs down and by increasing the selling price of the product. This is the most difficult aspect of the process as by increasing the selling price, competitive advantage is lost but as SGC is not a low cost producer, a better product that provides value-for-money will need to be delivered.

3.15.3 The Product Plan

The purpose of the study is to determine what is important to consumers and to then use that information to develop the product. The actual building is the common factor that SGC has with its competitors but the differentiating factors will be the manner in which the project is undertaken and completed. It is a given that the product must be of a reasonable standard and budget but over and above this, SGC will need to ensure that it meets the consumers expectations in terms of what is important to them. By so doing, competitive advantage can be realised.

3.15.4 The People Plan

To ensure competitive advantage, SGC will have to develop its staff and to do this, training will be required. At present SGC has limited training plans or skilled staff but to deliver upon the aspects that research has shown important, the crucial aspect will be to develop its staff and boost morale amongst employees. This is an extremely difficult challenge for SGC as it has no expertise in this regard but as it forms such an important part of getting SGC to where it wants to be, expert advice will be sought and acted upon. A clear policy, (people plan), to promote staff, recognise effort, reward loyalty and good work needs to be developed and implemented as a matter of urgency as it is only with this in place that SGC will be able to deliver to the consumer that which is important and by so doing increase sales and improve profitability.

3.16 CONCLUSION

The identification of SGC's strategy, whilst brief for confidential reasons, has helped show where it is at present and perhaps where it would like to be. To move forward, however, knowledge of what the consumer is influenced by when choosing a builder is required. Chapter Four that follows analyses the data that was collected by way of postal questionnaires.

CHAPTER FOUR – DATA ANALYSIS

4.1 INTRODUCTION

In this Chapter, a closer look at the data obtained from the questionnaire is made and analysed to determine what factors influence a consumer's choice of a particular building company. A copy of the actual questionnaire is contained in Annex A of this document.

The analyses of the questionnaire looks at:

- General Respondent Information,
- General Building Information and,
- Influencing Factors

The data was captured into a Microsoft Access Database package and then analysed using Microsoft Excel spreadsheets. All responses were captured and where a false or no response recorded, this too was taken into account. In addition to this, where two or more fields were completed for the same question, this was recorded as a separate combined entry.

4.2 GENERAL RESPONDENT INFORMATION

This section of the study is broad and attempts to establish the main characteristics of the respondents. The purpose is to discover as much information relevant to the building of a strategy as possible. By having knowledge of the respondents' circumstances, SGC can make use of the acquired knowledge to build a strategic plan that takes into account the relevant information.

4.2.1 Respondents Age

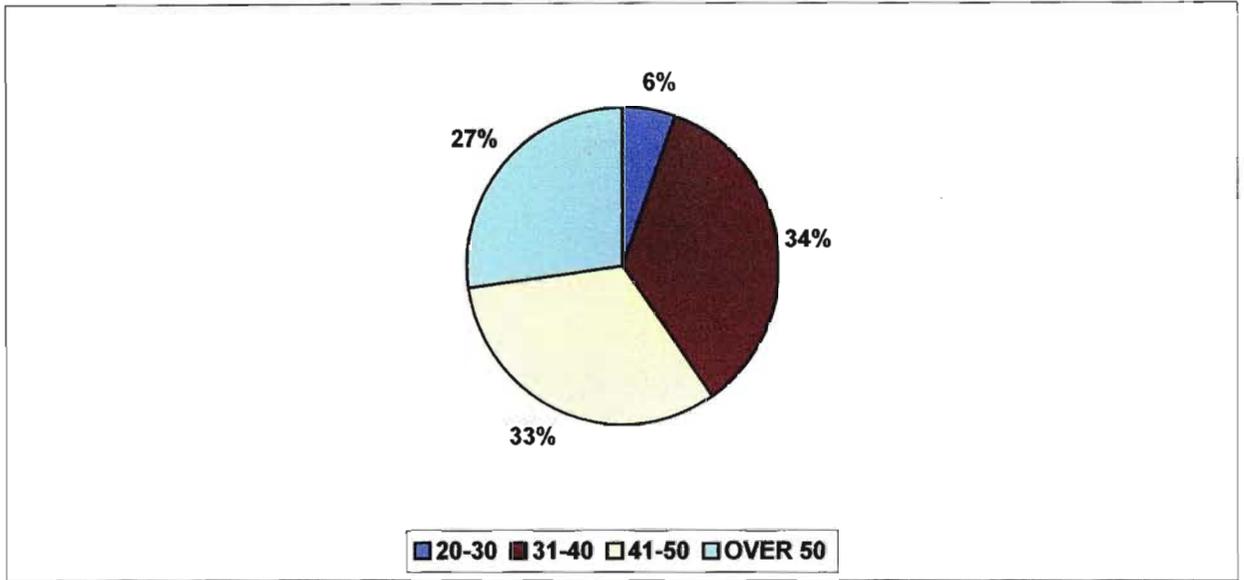


FIGURE 4.1: RESPONDENTS AGE

As noted from Figure 4.1, all ages were represented in the responses. As expected, only 6% of the respondents were aged 20-30 years and this can be attributed to the fact that at that age, few can afford to buy and maintain a household. Generally speaking, those falling into this age category are still furthering their education, are unmarried and are invariably still be living at home or renting their accommodation.

34% of the respondents fell into the 31-40 year old category and was as expected as during this period, ownership of homes takes place.

33% of the respondents fell into the 41-50 year old category and 27% of the respondents were 50 years and older.

The respondents were well represented in all age groups with the latter three groups comprising 94% of the respondents' age group. The target market for SGC is therefore the age category of 30 years and above.

4.2.2 Where the Respondents Live

The questionnaire was sent via post to 1400 respondents but as it was a stratified random sample, the responses were much as expected. Most of the respondents reside in Durban North, Glenwood and Morningside areas. This can be attributed to the fact that these areas contain many of the older houses that require alterations and renovations. They are also more affluent areas meaning that the respondents/residents of those areas are able to afford to undertake alterations and renovations. The Durban North area is particularly buoyant at present due to the large influx of big business to the La Lucia area. The target market for SGC, based on the responses received would be Durban North, Glenwood, Morningside and Berea.

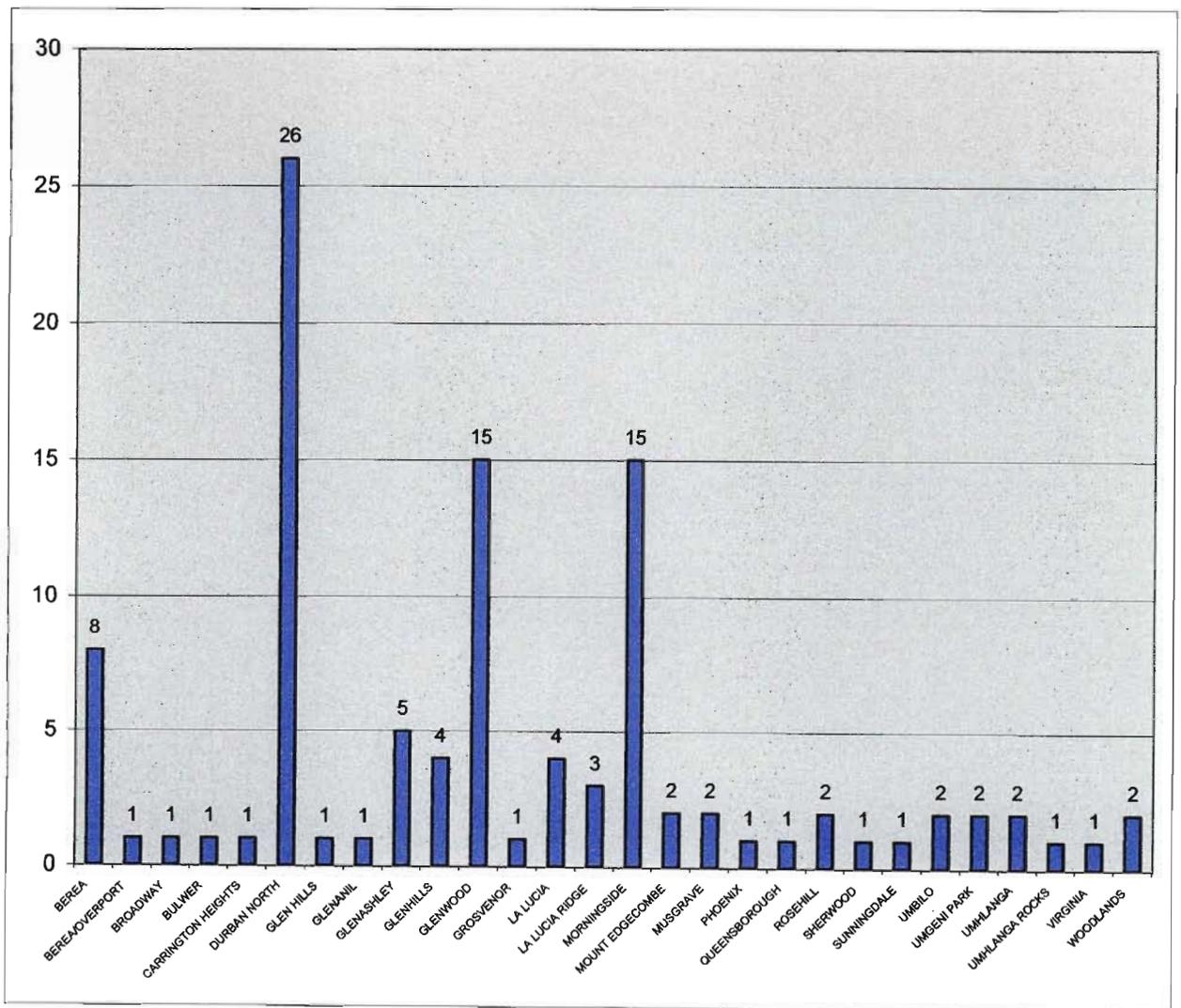


FIGURE 4.2: WHERE THE RESPONDENTS LIVE

4.2.3 Household Monthly Income of Respondents

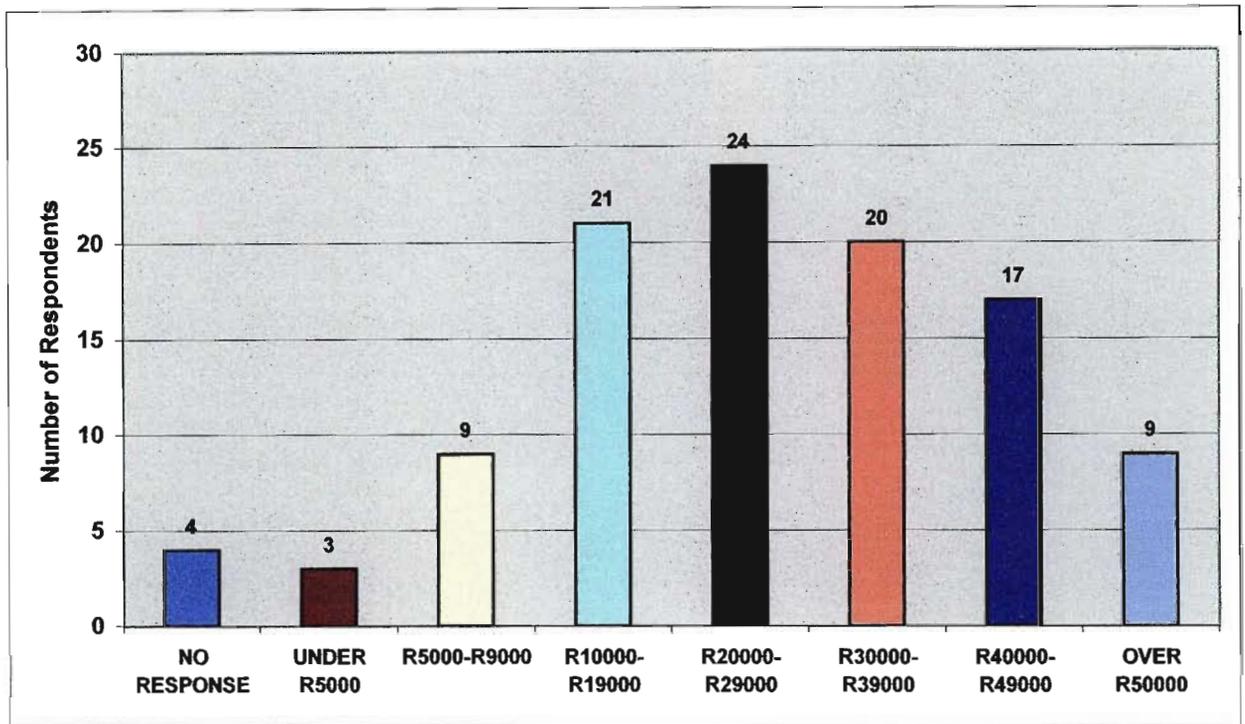


FIGURE 4.3: HOUSEHOLD MONTHLY INCOME

As noted from Figure 4.3:

- 19.6% of the respondents earn between R10,000 and R19,000 per month,
- 22.4% of the respondents earn between R 20,000 and R 29,000 per month
- 18.7% of the respondents earn between R30,000 and R39,000 per month
- 15.9% of the respondents earn between R40,000 and R49,000 per month
- 8.4% of the respondents earn over R50,000 per month

The data received conforms to the responses from the geographical areas which are generally reasonably well off areas with the respondents being able to afford alterations and renovations.

The target market for SGC based on the above would be income earners of between R10,000 per month through to R 50,000 per month. 85% of the respondents fall into this category.

4.2.4 Marital Status

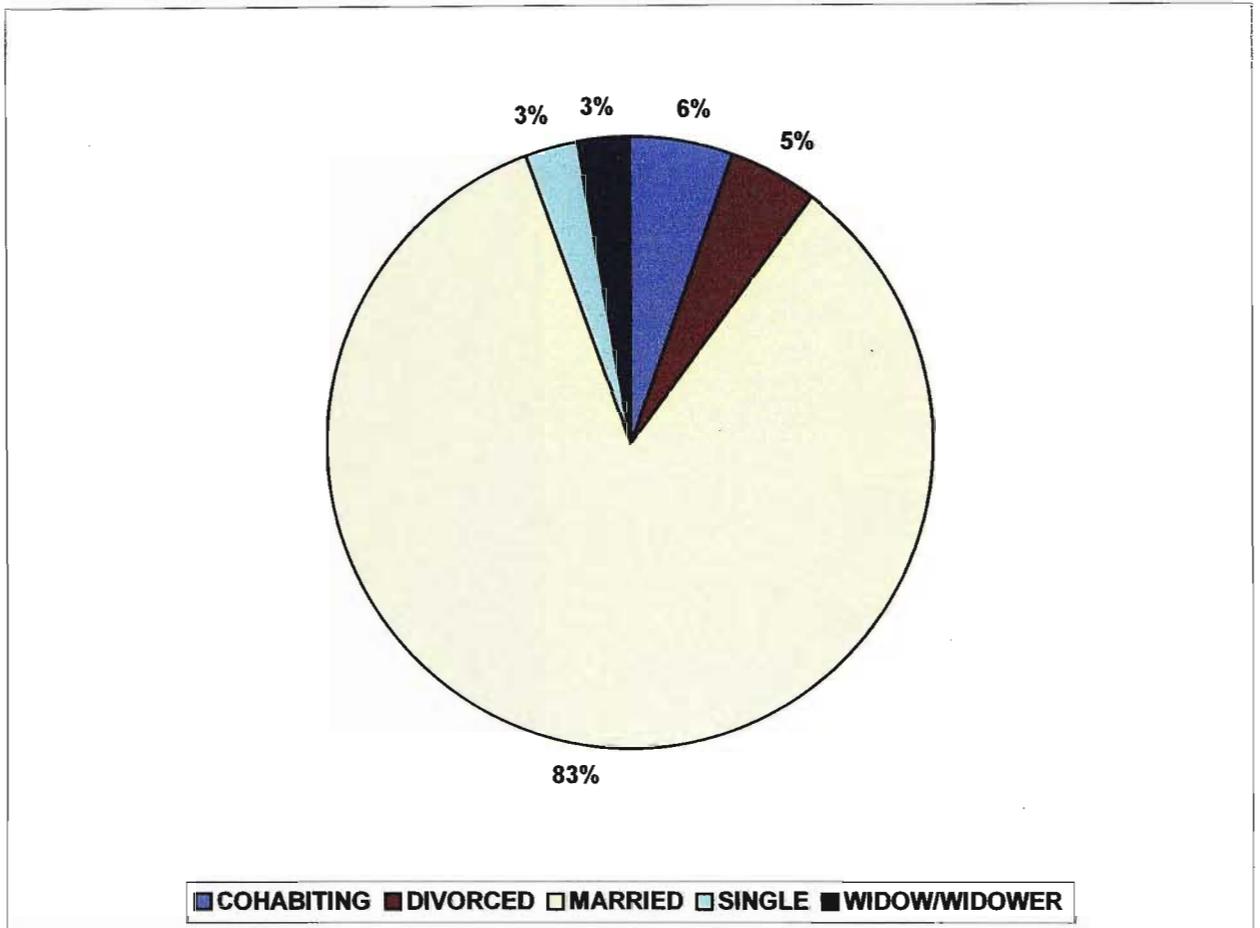


FIGURE 4.4: MARITAL STATUS

As noted from Figure 4.4, 83% of the respondents were married, followed by 6% cohabiting, 5% divorced and 3% for both single and widowed. The target market for SGC is consequently married couples.

4.2.5 How Was the Builder Found?

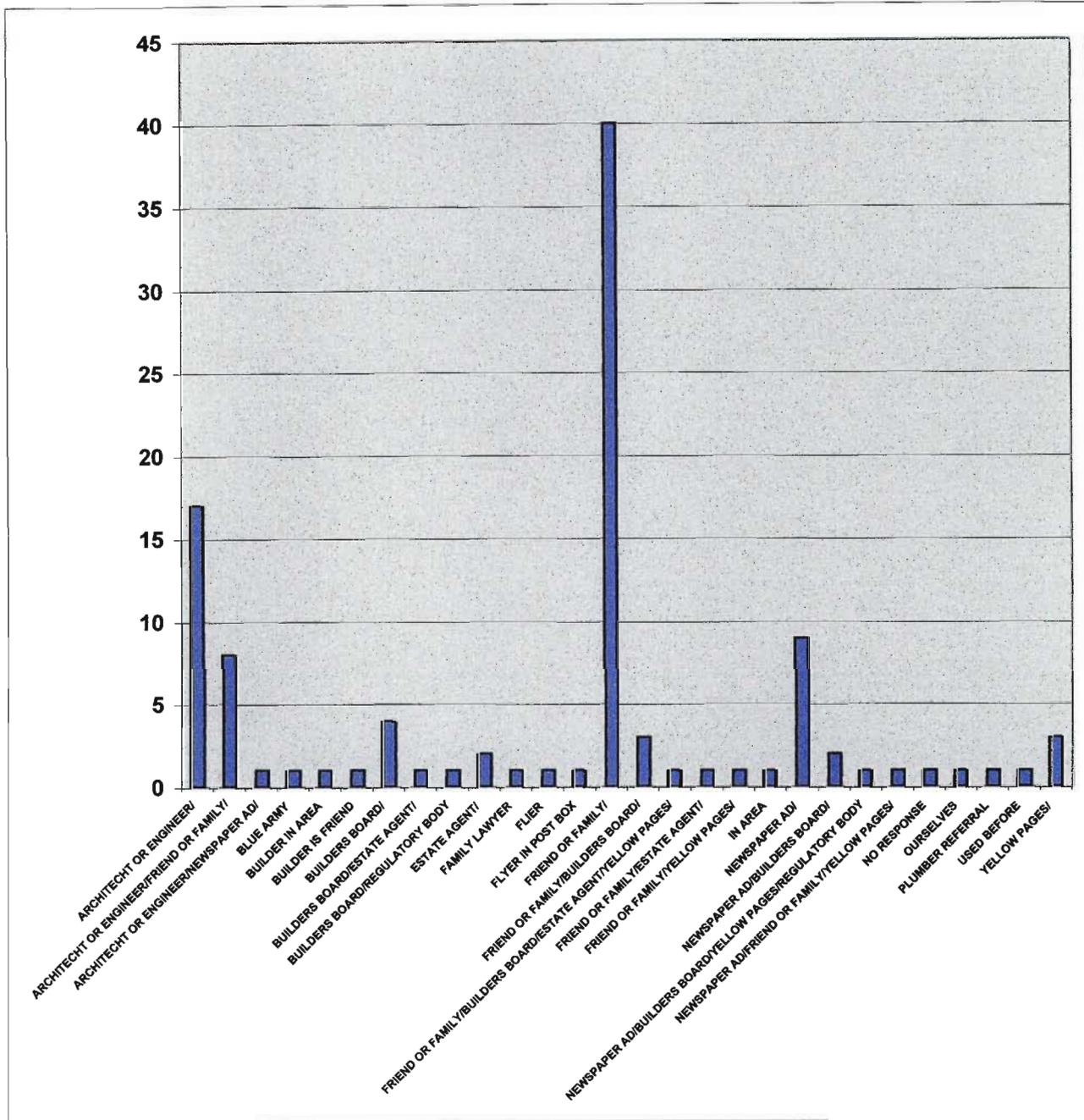


FIGURE 4.5: HOW WAS THE BUILDER FOUND?

From Figure 4.5, family and friend referrals are the main source for finding a builder. This is followed by an architect or engineer referral, by newspapers advertisements and by the builder’s board. Clearly though, referral by friend and family is the dominant method and SGC will take note of this when developing the strategic and marketing plan.

4.3 GENERAL BUILDING INFORMATION

This section of the study, whilst brief, attempts to establish information relevant to the building itself and serves as an indicator of what the likely target market for SGC is in terms of value and structure.

4.3.1 What Was The Value of Work Done?

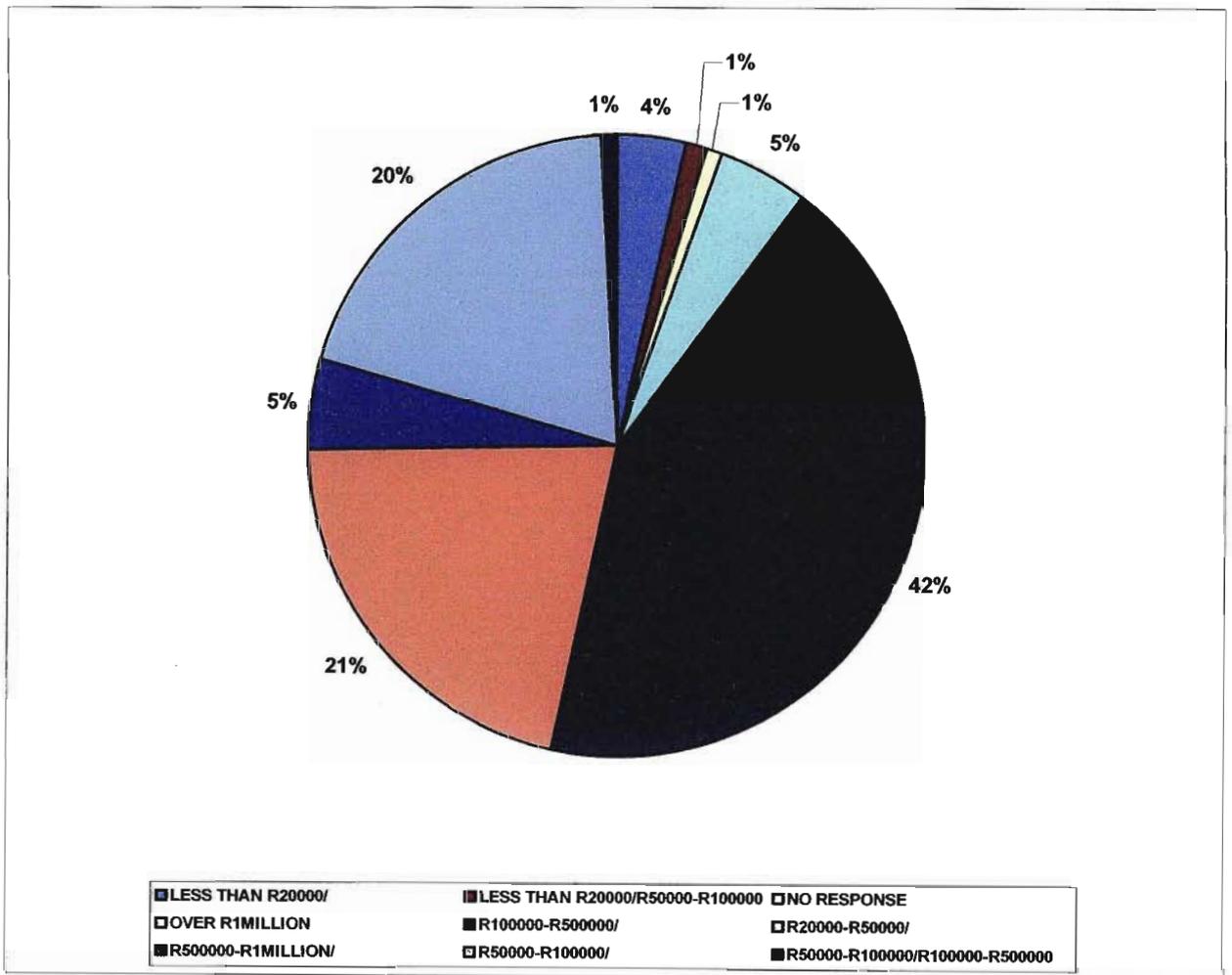


FIGURE 4.6: VALUE OF WORK DONE

As noted from Figure 4.6, 42% of the value of the work done falls in the R 100,000 to R500,000 category. 21% of the value of the work done falls into the R 20,000 to R 50,000 category and 20% of the value of work done falls into the R 50,000 to R 100,000 category. This indicates that 83% of the work done falls between R 20,000 and R 500,000 and should

be the target market for SGC. As SGC is slightly larger than most competitors in the market place, the lower value work of R 20,000 to R100,000 could be left to the smaller builders whilst SGC targets the plus R 100,000 market, a practice that is at present being pursued..

4.3.2 What Have You Built?

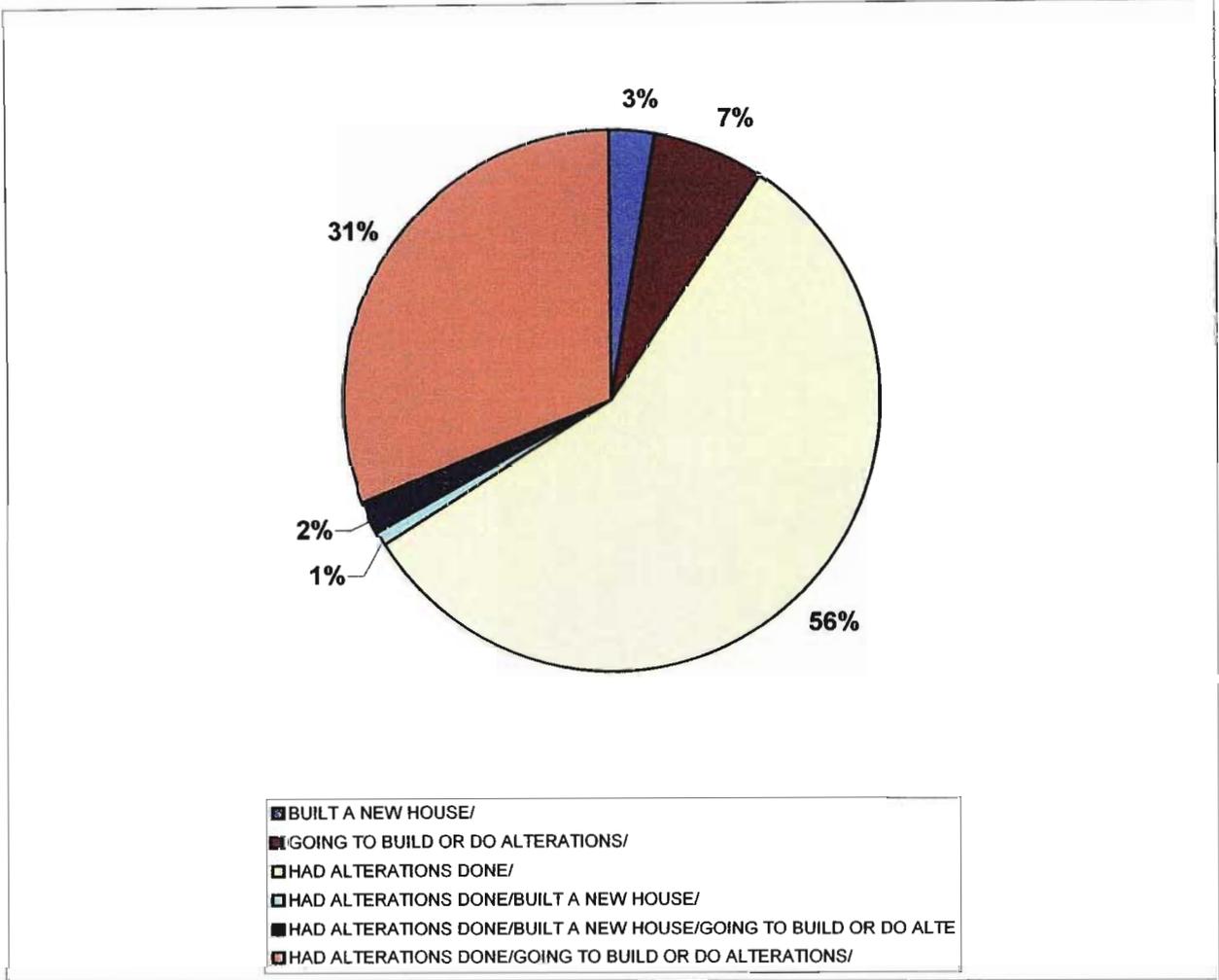


FIGURE 4.7: WHAT HAVE YOU BUILT

As noted from Figure 4.7, 56% of the respondents indicated that they had undertaken alterations with a further 31% indicating that they were going to undertake alterations. Only 3% of the respondents had built a new house which indicates that SGC would need to target the alterations market more vigorously.

4.4 INFLUENCING (IMPORTANCE) FACTORS

This section of the study seeks to discover the factors that influence a consumer to choose a particular builder. By establishing that which is important to the consumer, SGC can make use of the information to help develop a strategic plan and build core competencies

4.4.1 Importance of Time

The importance of time relates to the question of “How important was finishing on time to you?” This question seeks to understand if the finishing of the job on time is an important factor to the consumer. By understanding this, SGC could seek to ensure that the completion of a project on the date specified was achieved thus creating a feeling of goodwill towards the company. The important fact to note here is that the length of time that was acceptable was not requested as this would depend entirely on the size of the job undertaken by the builder but time was important only in that the builder finished when he said he would.

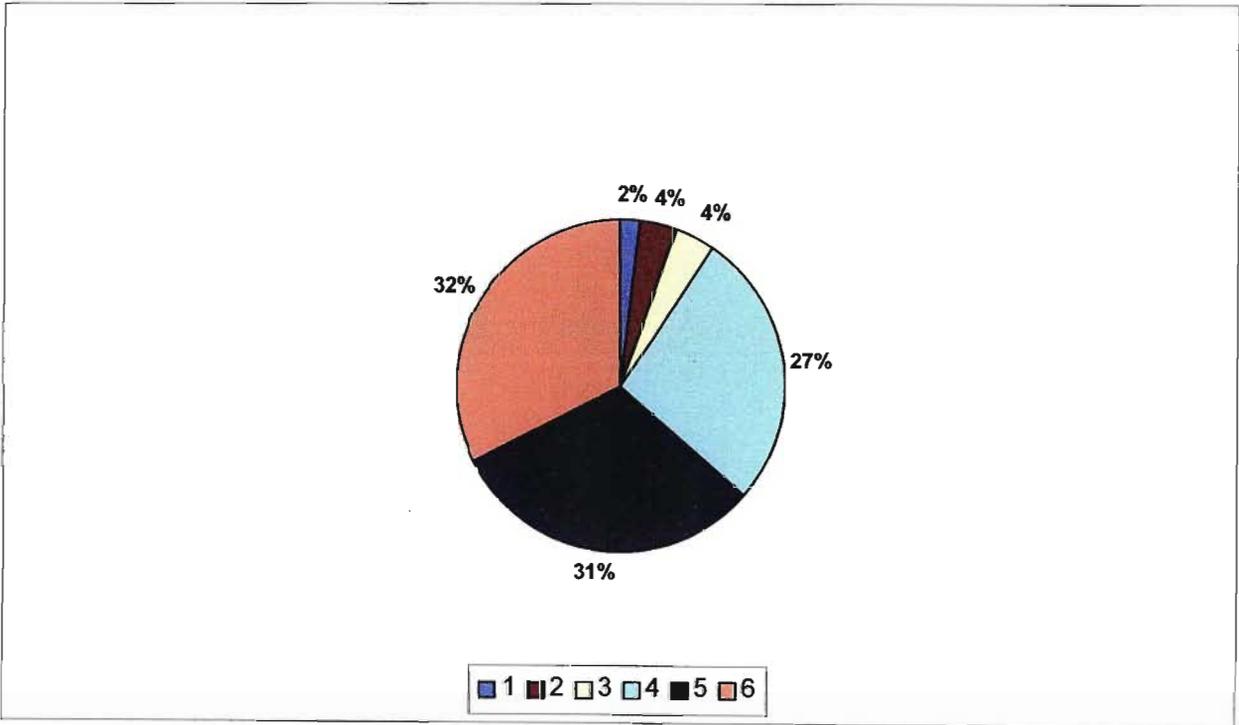


FIGURE 4.8: IMPORTANCE OF TIME

Figure 4.8 indicates that 27% of the respondents thought that time was an important factor with a further 31% believing time to be a very important and a further 32% believing that time was an extremely important factor. As a marketing and strategic tool, SGC will need to ensure that all work is completed within the time frame agree to taking care not to impose unrealistic deadlines on the employees.

4.4.2 Did The Builder Finish on Time?

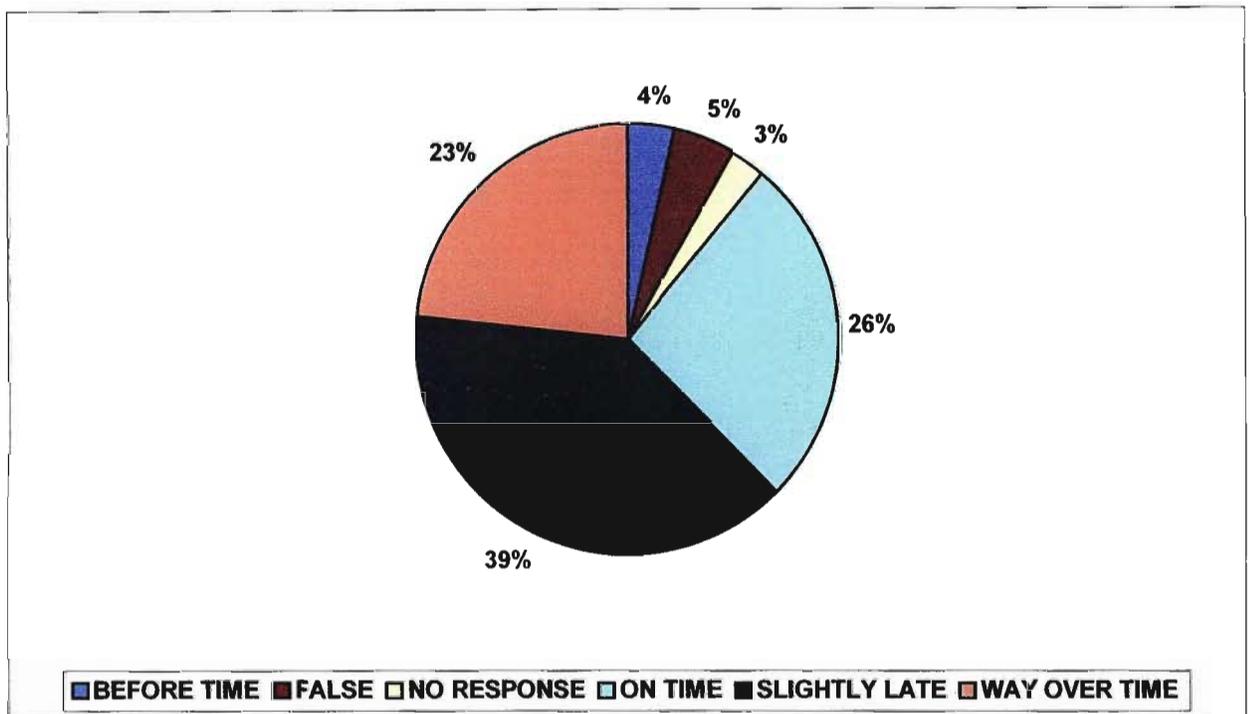


FIGURE 4.9: DID THE BUILDER FINISH ON TIME?

Figure 4.9 indicates that 26% of the respondents felt that the builder had completed the work on time, 39% indicated that the builder had finished slightly late and 23% of the respondents indicated that the builder had taken much longer than agreed to. As noted from Figure 4.8, 90% of the respondents believed that finishing the work on time was important to extremely important and only 26% of the respondents felt that this was achieved. There is thus a large difference between what is important to the consumer and what is being delivered.

SGC will note this and take care to ensure that all projects are completed on the date agreed to as it is not the actual time taken that is all that important but rather that the work is finished on the date agreed to by the builder and the consumer.

4.4.3 Importance of Builder's Advice

The importance of time relates to the question of "How important was the builder's advice to you?" This question seeks to understand what the consumer wants from the builder other than the building work itself. By understanding this question, SGC can structure the consumer relationship in such a way as to incorporate this as part of the service provided. Well thought through advice that helps the consumer save time, money or makes the final product of a higher standard could generate references and thus improve SGC's chance at gaining market share.

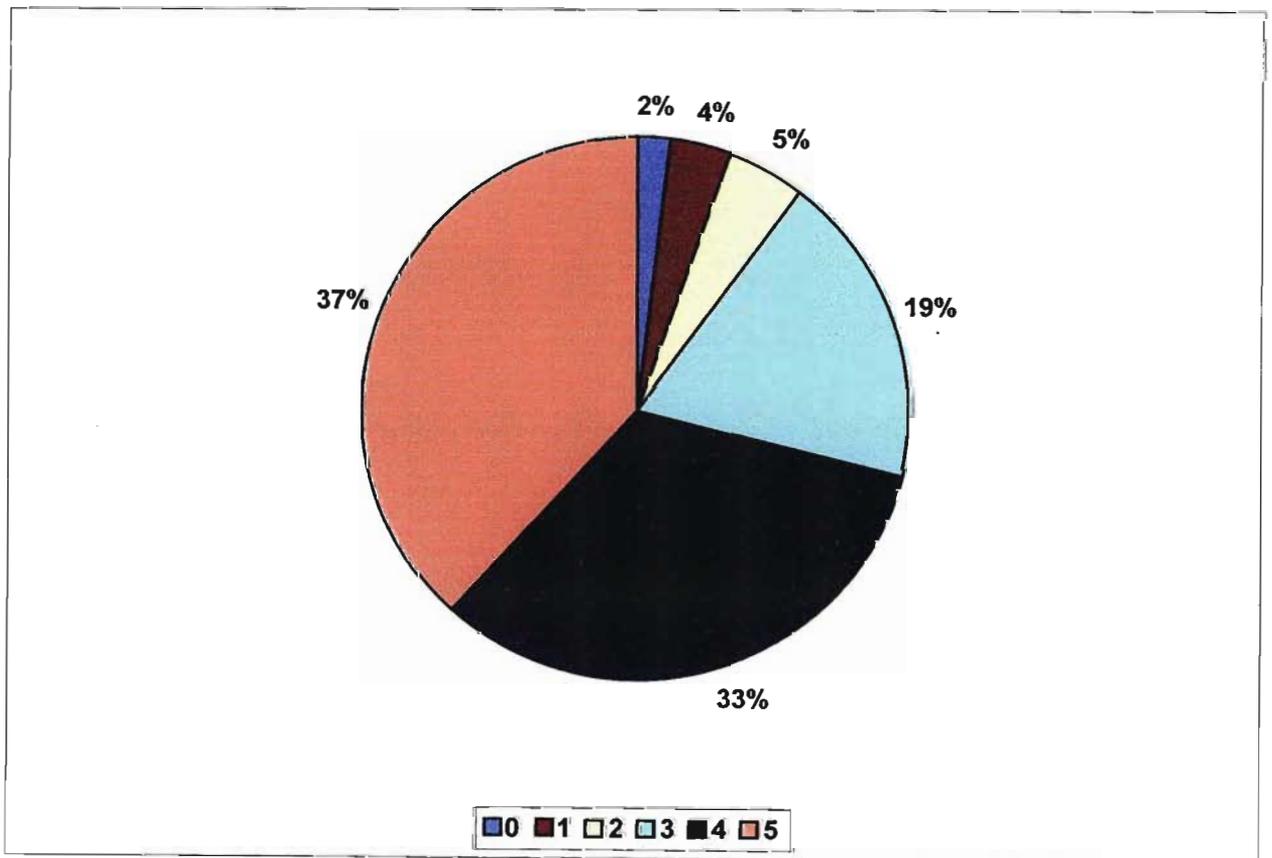


FIGURE 4.10: IMPORTANCE OF BUILDER'S ADVICE

Figure 4.10 indicates that 89% of respondents believed that the builder's advice was an important to extremely important element of the relationship. Only 11% of the respondents believed that the builder's advice was not all that important.

4.4.4 Did The Builder Provide Advice?

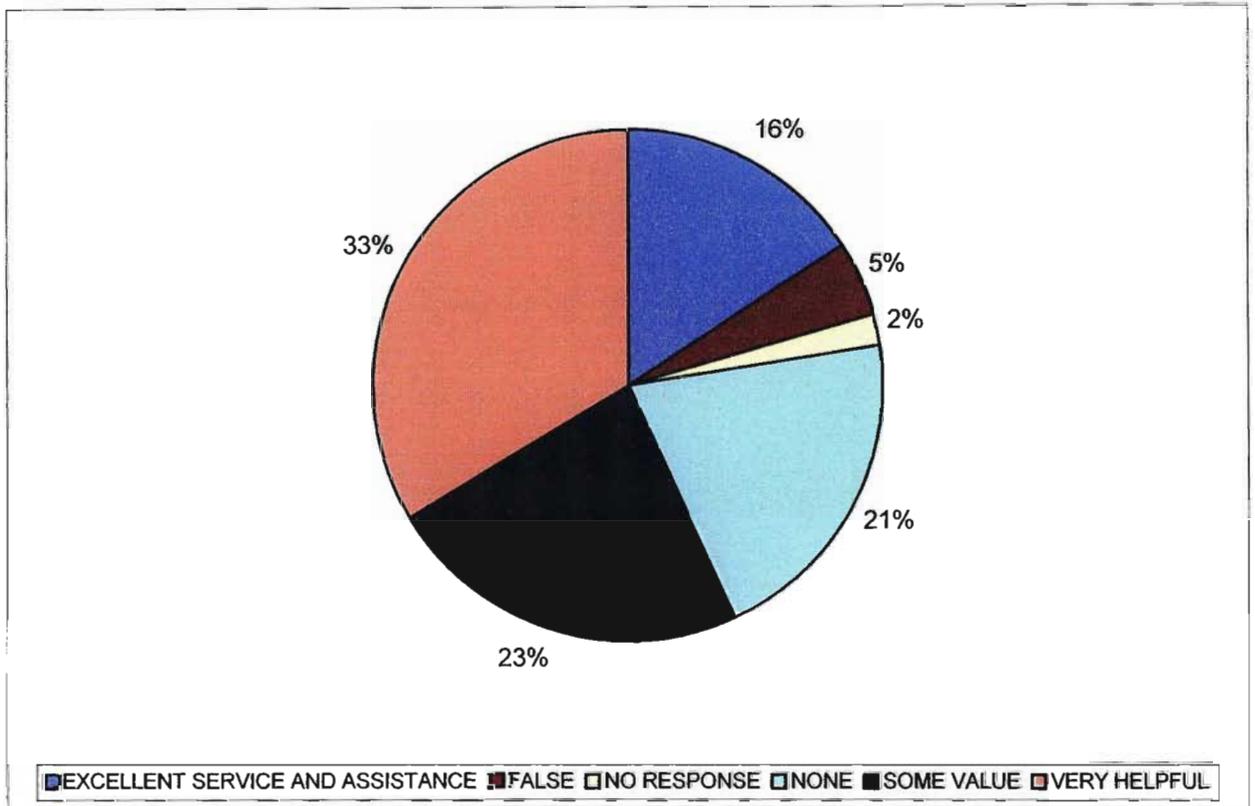


FIGURE 4.11: DID THE BUILDER OFFER ADVICE?

As noted from Figure 4.11, only 16% of the respondents believed that they had received excellent service and advice from the builder. A further 23% believed that the builder had offered some value and 33% believed that the builder had been very helpful. Overall 72% of the respondents thought that at least some value had been offered by the builder with only 21% believing that no value was offered. The gap between what the consumer believes to be important (89%), versus what is actually delivered by the builder (72%) is not all that wide but there is room for improvement. SGC will need to ensure that advice is offered on a constant basis to the consumer and where things can be made easier or better for the consumer, this advice must be provided to the consumer even if the consumer decides not to follow that advice.

4.4.5 Importance of Price

The importance of price relates to the question of “How important was the price of the contract to you?”. The question seeks to understand how important price is a determining factor when selecting a builder. By understanding this question, SGC can position itself in such a way as to gain advantage over competitors by ensuring that the price of the contract is within acceptable levels.

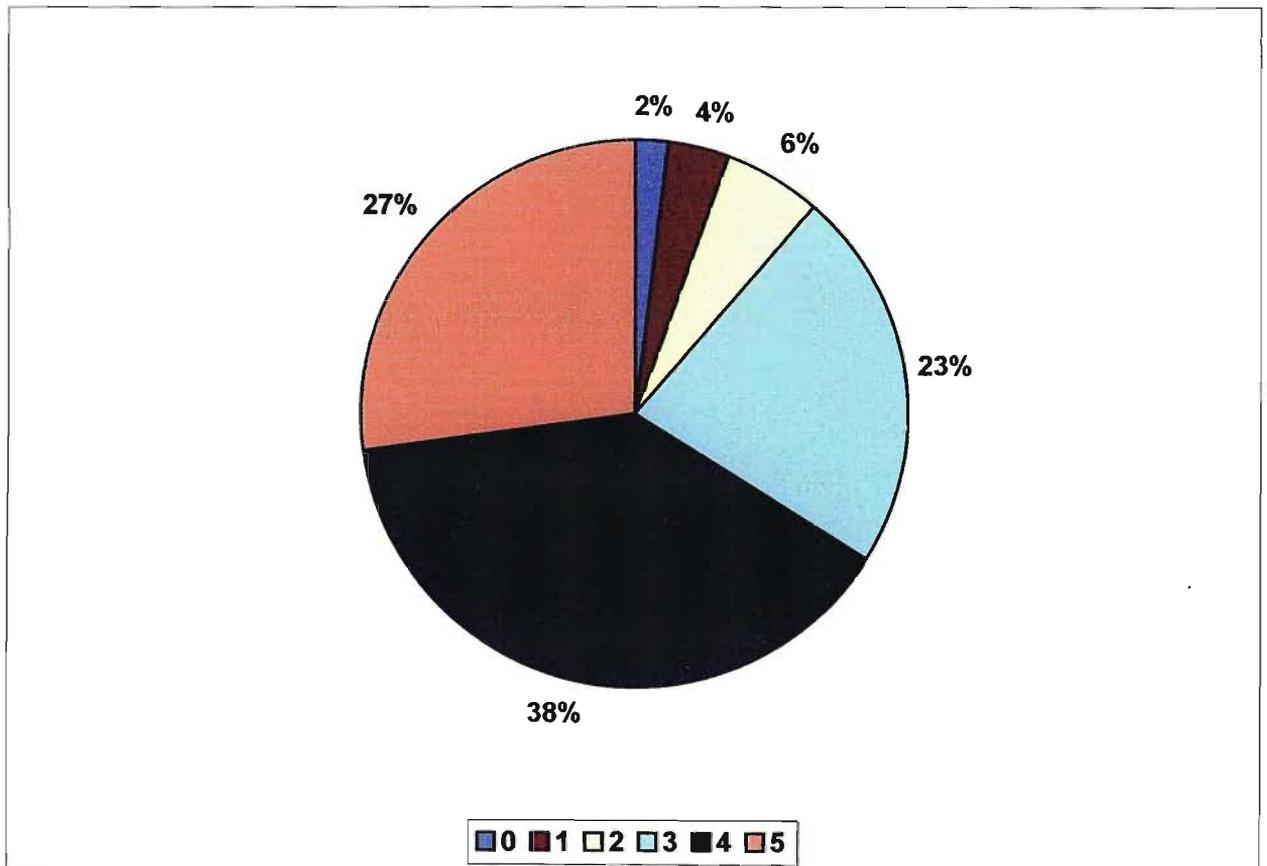


FIGURE 4.12: IMPORTANCE OF PRICE

Figure 4.12 indicates that 88% of respondents believe price to be an important to extremely important factor in their choice of a building company. As noted from the above, 23% of the respondents said that price was important, 38% thought it to be very important and 27% percent thought it to be extremely important.

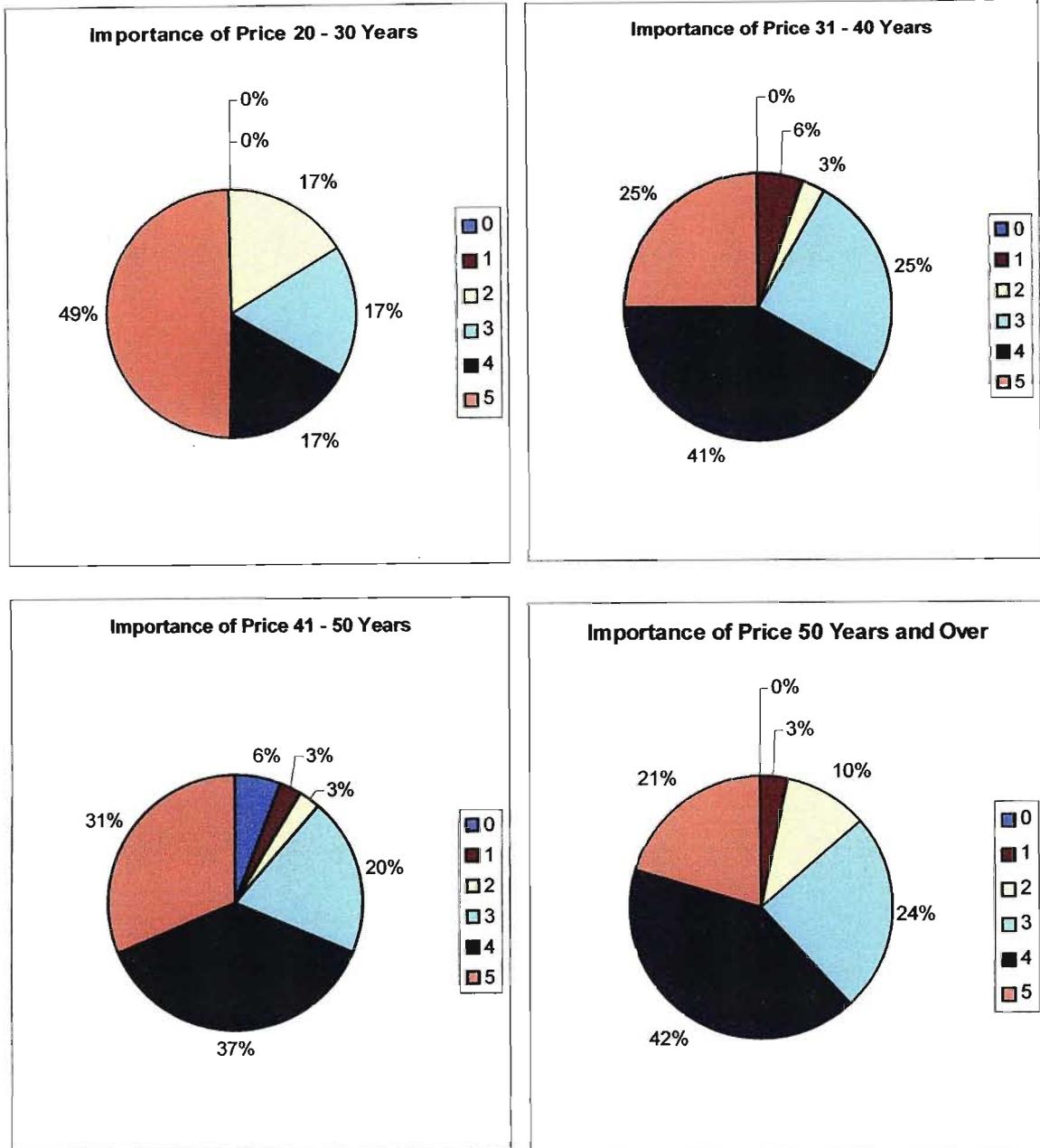


FIGURE 4.13: IMPORTANCE OF PRICE BY AGE

As noted from Figure 4.13, age play a part in determining if price is an important factor. In the age group 20 – 30 years, 49% of the respondents believed price to be extremely important with a further 34% believing it to be either important or very important. Only 17% of the respondents in this age group thought that price was not an important determining factor.

In the age group 31 – 40 years, 91% of the respondent believed price to be important, very important or extremely important. Only 9% of the respondents thought that that price was not all that important.

In the age group 41 – 50 years, 88% of the respondent believed price to be important, very important or extremely important. Only 9% of the respondents thought that that price was not that important as a deciding factor. Interestingly, in this category, 6% of the respondents thought that price was not important at all, the only category that had this.

In the age group 50 years and older, 87% of the respondent believed price to be important, very important or extremely important. Only 13% of the respondents thought that that price was not that important as a deciding factor with no respondent believing that price was not at all important.

In all the categories, price as a determining factor when choosing a builder is both relevant and important. The consistency of the message across all the age categories indicates that price will always play an important part on the consumers' decision to choose a particular builder.

4.4.6 Importance of Client Referrals

The importance of price relates to the question of “How important was the builder’s previous client referrals to you?”. The question seeks to understand how important referrals are as a determining factor when selecting a builder. By understanding this, SGC can ensure that with good service and client relations, SGC can obtain good referrals from existing or past clients which would help SGC gain market share.

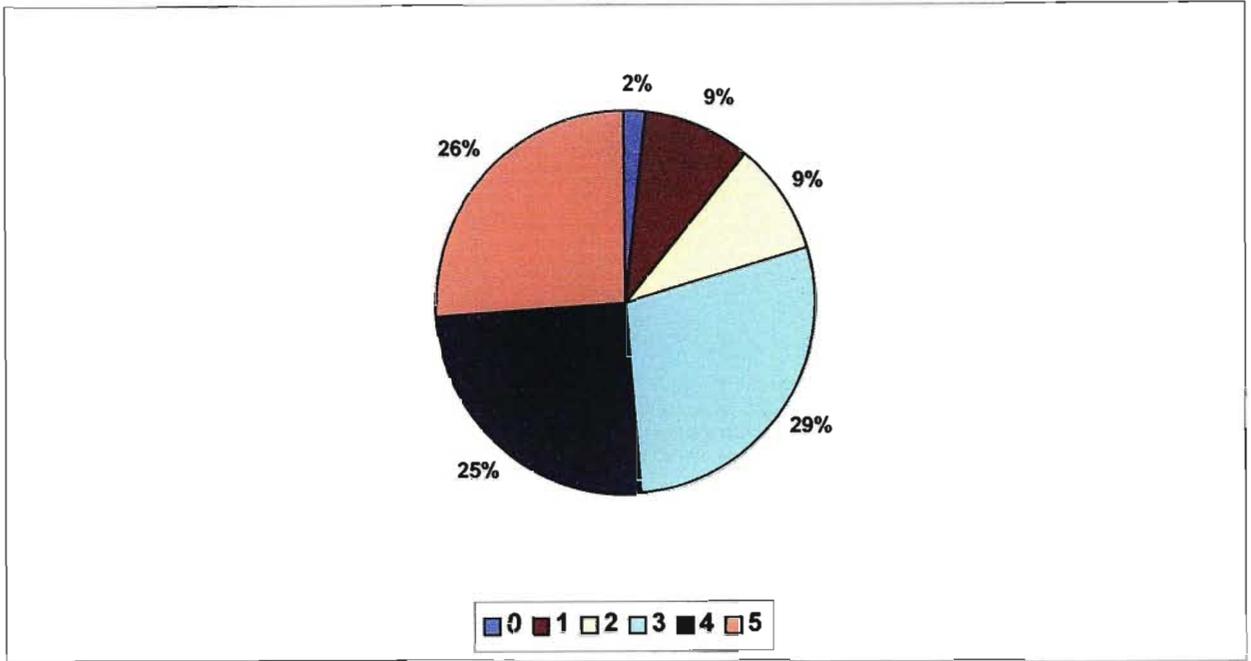


FIGURE 4.13: IMPORTANCE OF CLIENT REFERRALS

As noted from Figure 4.13, 80% of the respondents said that client referrals were an important to extremely factor when choosing a builder. As noted in Figure 4.15, 14% of the respondents said that they had chosen the builder based on previous client referrals whilst a further 13% of the respondents indicated that they had chosen the builder based on previous client referrals in addition to other considerations such as price, quality and professionalism.

4.4.7 Importance of Professionalism

The importance of professionalism relates to the question of “How important was the professionalism of the builder to you?”. The question seeks to understand how important the act, or at least the appearance, of professionalism is to the consumer as a determining factor when selecting a builder. By understanding this, SGC can ensure that all systems are made to look professional and all employees are uniformed so that an ambiance of professionalism is at all times present on site.

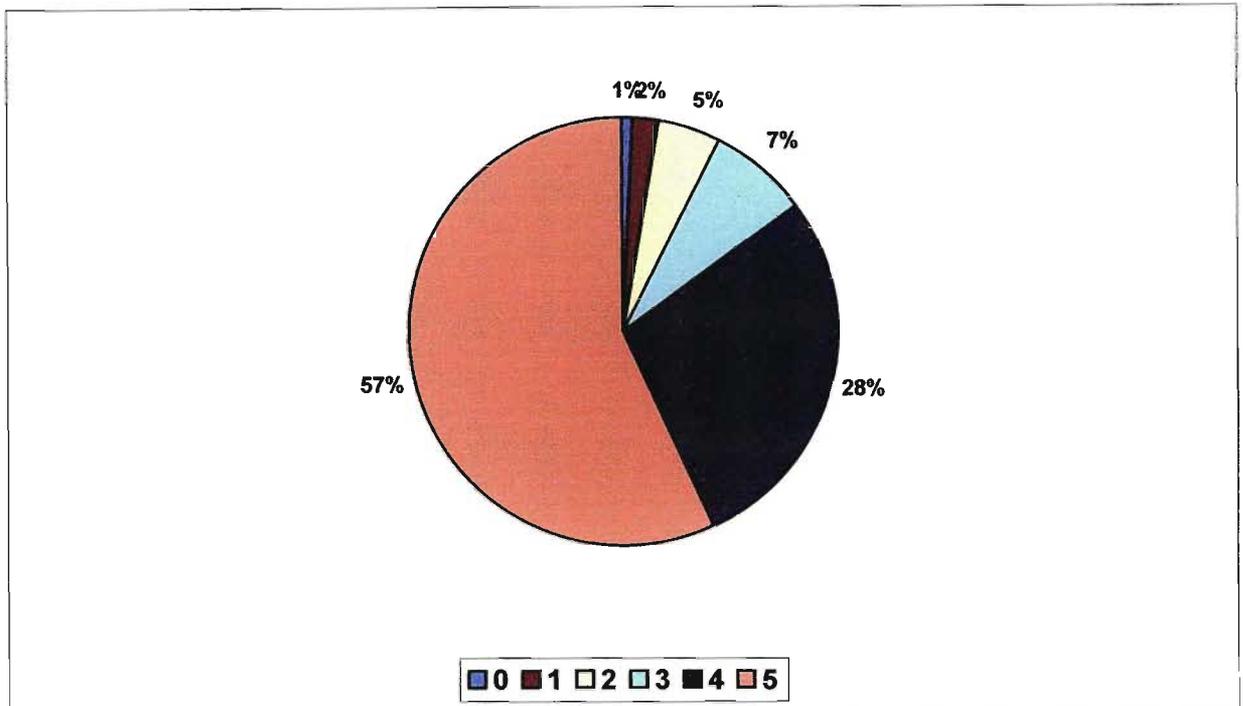


FIGURE 4.14: IMPORTANCE OF PROFESSIONALISM

Figure 4.14 shows that 7% of respondents said that professionalism was an important factor, 28% said that it was very important and 57% said that it was extremely important. Overall 92% of the respondents thought that professionalism was important versus 8% of the respondents who thought that it was not all that important.

SGC will have to ensure that all operating systems are reviewed to ensure that the company looks professional and acts professionally at all times. By so doing, SGC can make progress towards capturing market share. Professionalism in this case means how employees conduct themselves and look, the quickness of response to client queries, the manner in which phones are answered, the neatness and tidiness of the site, the quality of product etc.

4.4.8 What Was The Main Influence On Your Choice of A Builder?

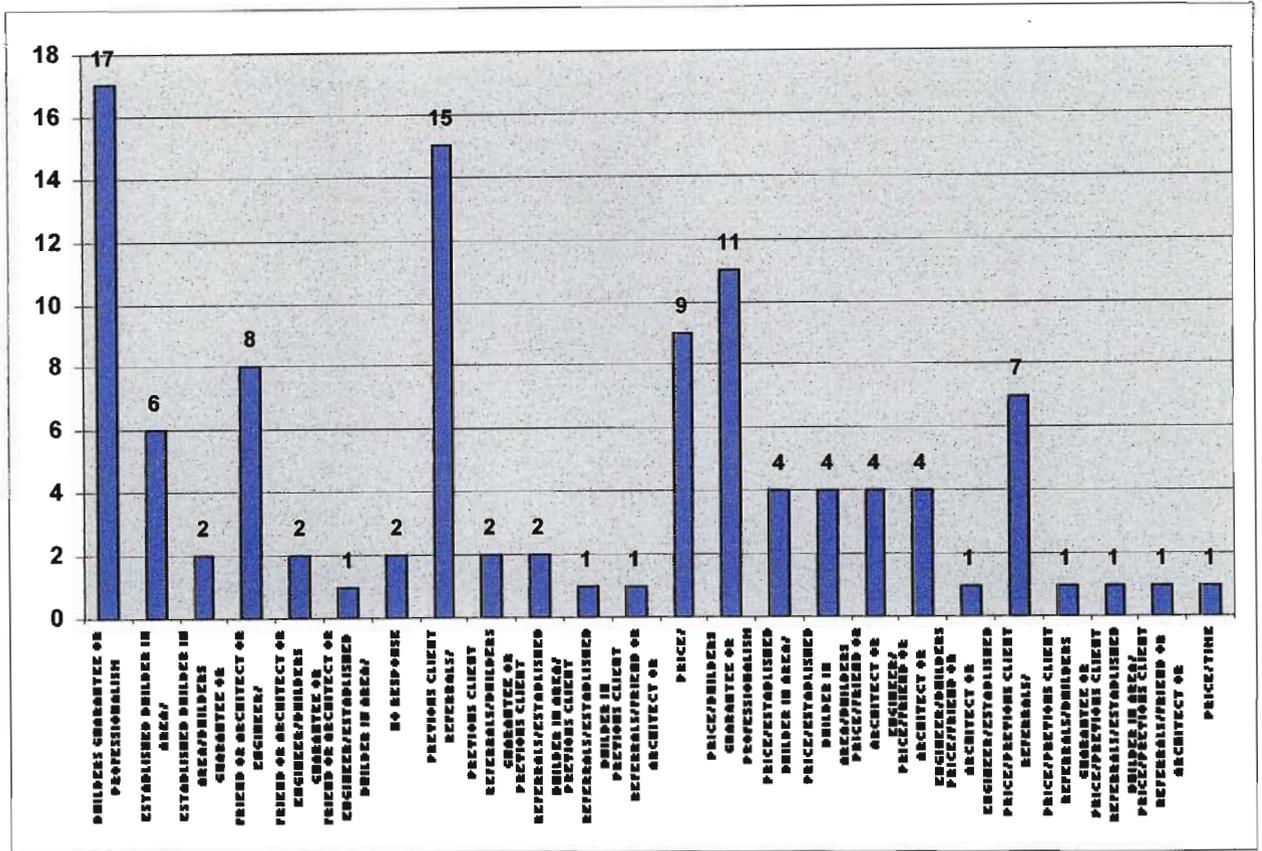


FIGURE 4.15: MAIN INFLUENCE ON CHOICE OF BUILDER

This is the crucial question as it relates directly to what influences the consumer to choose a particular building company. At first glance, Figure 4.15 shows that the biggest influence was the builder’s guarantee/professionalism, followed by previous client referrals, price/builders guarantee/professionalism, price, friend/architect/engineer referral, price/previous client referrals, and established builder in the area.

On closer inspection, however, 44% of the respondents said that price, in addition to other considerations, was an important influencing factor on their choice of a builder. 29% of the respondents list previous client referrals as being an important factor whilst 32% of the respondents said that the builder’s guarantee/professionalism was an important influencing factor. Overall then, the main influencing factors on a consumer’s choice of a builder are:

- Price
- Builder’s guarantee/professionalism

- Previous client referrals
- Friend/architect/engineer
- Established builder in the area

The questionnaire did not establish what premium on price consumers would be prepared to pay in order to retain the services of a builder that also was professional, delivered on time, was quick to respond to their queries, delivered a quality product and was referred by others. A further study on this question will need to be made to determine the premium SGC could charge by offering all other important services.

4.4.9 Importance of Tidiness

The importance of tidiness relates to the question of “How important was tidiness on site to you?”. The question seeks to understand how important tidiness of the site is to the consumer. SGC at present keeps its sites tidy at all times but by understanding if this is indeed important to the consumer, resources can be allocated to this task in lesser or greater numbers.

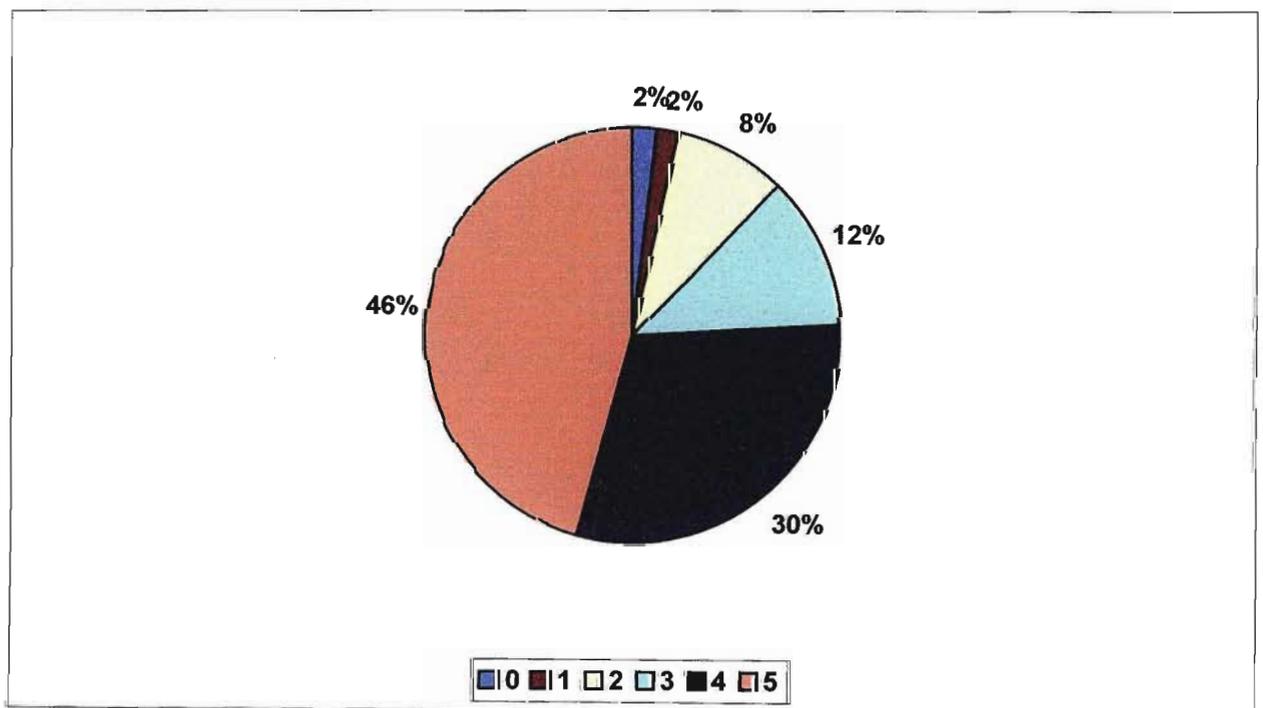


FIGURE 4.16: IMPORTANCE OF TIDINESS

As noted from Figure 4.16, 12% of the respondents said that tidiness was an important factor, 30% of the respondents said that it was very important to them and 46% said that it was extremely important to them. Overall then, 88% of the respondents said that tidiness was an important factor. SGC will take note of this and allocate the necessary resources to each site to ensure that it remains as clean and as tidy as possible given the constraints of site layout and position.

4.4.10 What Was The Level of Tidiness of The Builder On Site?

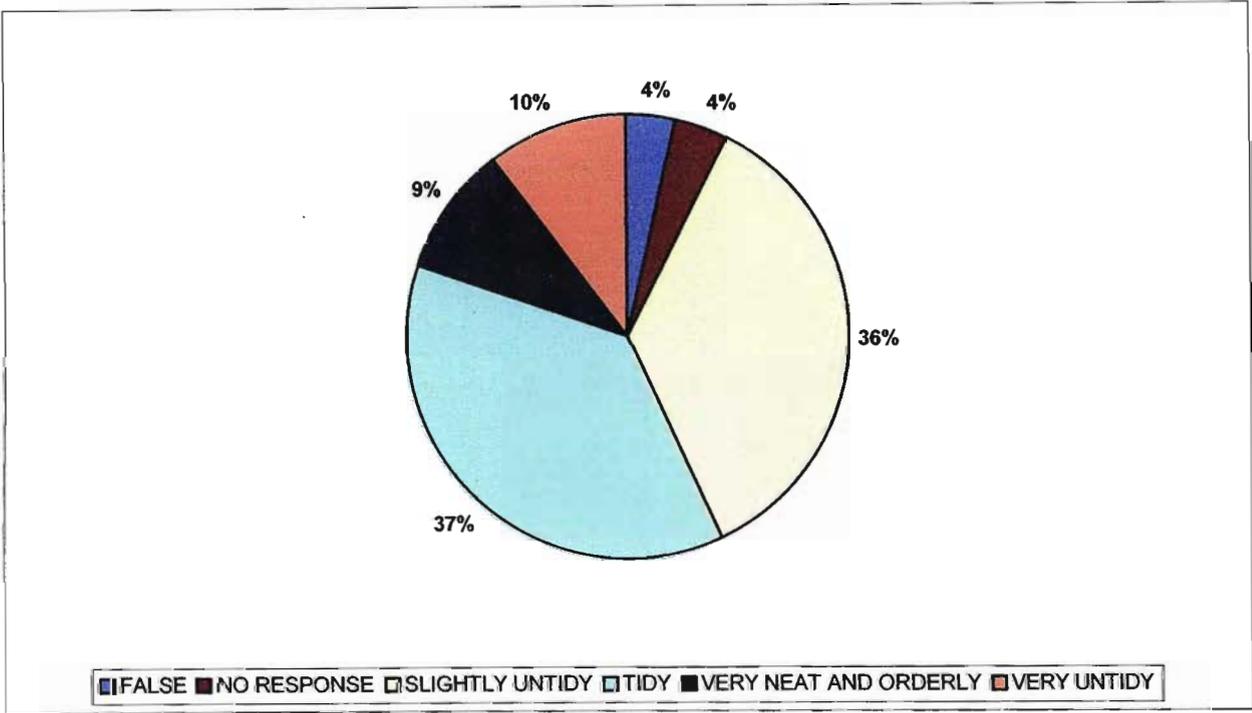


FIGURE 4.17: TIDINESS OF BUILDER ON SITE

As the graph shows, only 9% of the respondents said that the site was kept very neat and orderly with a further 37% thinking that the site was kept tidy. Only 46% of the respondents therefore thought that the site was kept tidy whilst 46% thought that it was untidy. Given that 88% of the respondents said that a tidy site was important, there is a significant gap between what they would like to see and what is being achieved. SGC could therefore use this to improve the level of tidiness on site and ensure that rubble and rubbish is removed from site on a regular basis. It is also in the interests of the site managers to have a tidy site as this generally promotes better discipline and morale on site.

4.4.11 Importance of Quality

The importance of quality relates to the question of “How important was the quality of the finished building to you?”. The question seeks to understand how important quality is to the consumer. There is invariably a trade off between price and quality and by trying to determine how important quality is, a balance between the two can be sought. SGC’s objective is to offer a higher quality product at a premium price but if quality were not all that important, then this objective would need to be reconsidered.

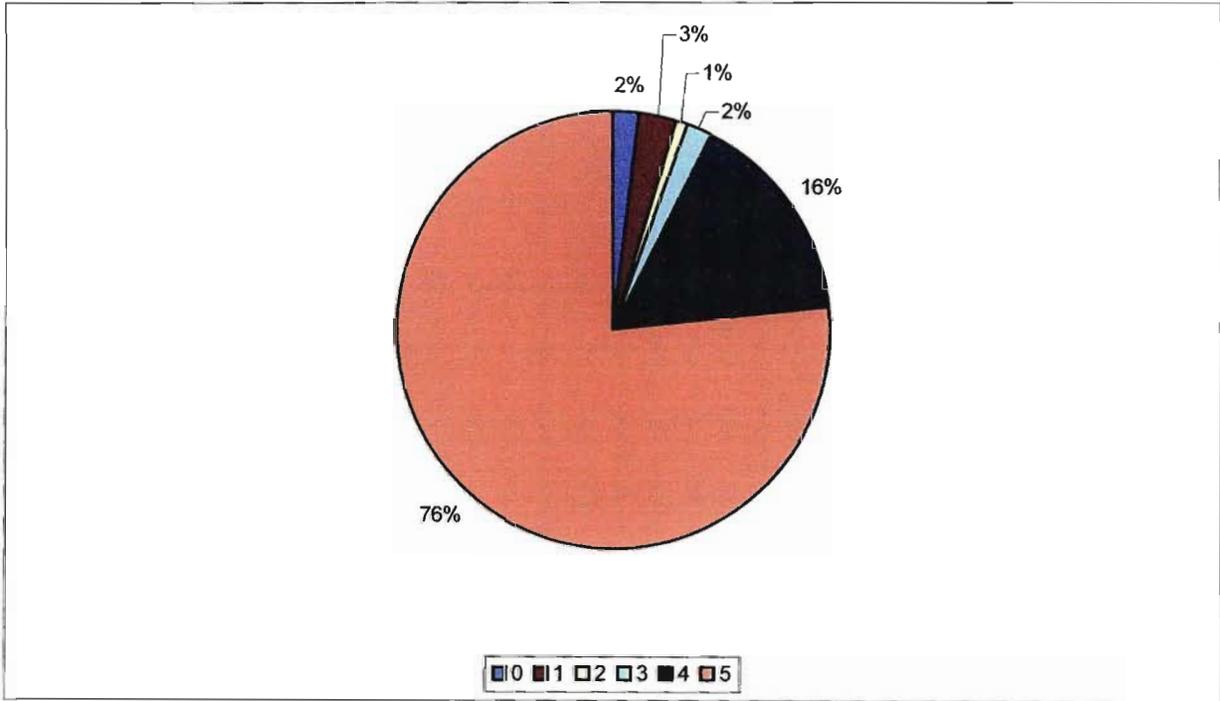


FIGURE 4.18: IMPORTANCE OF QUALITY

Figure 4.18 shows that 94% of the respondents said that quality was important (2%), very important (16%) or extremely important (76%). Quality is therefore a non-negotiable item, however, as price is also an important influencing factor, the challenge is to find the right balance between acceptability of price and deliverance of quality. Training of staff and the administration of site is the important factor in the delivery of a quality product and this will need to be taken into consideration by SGC in order to maintain a high standard of product quality.

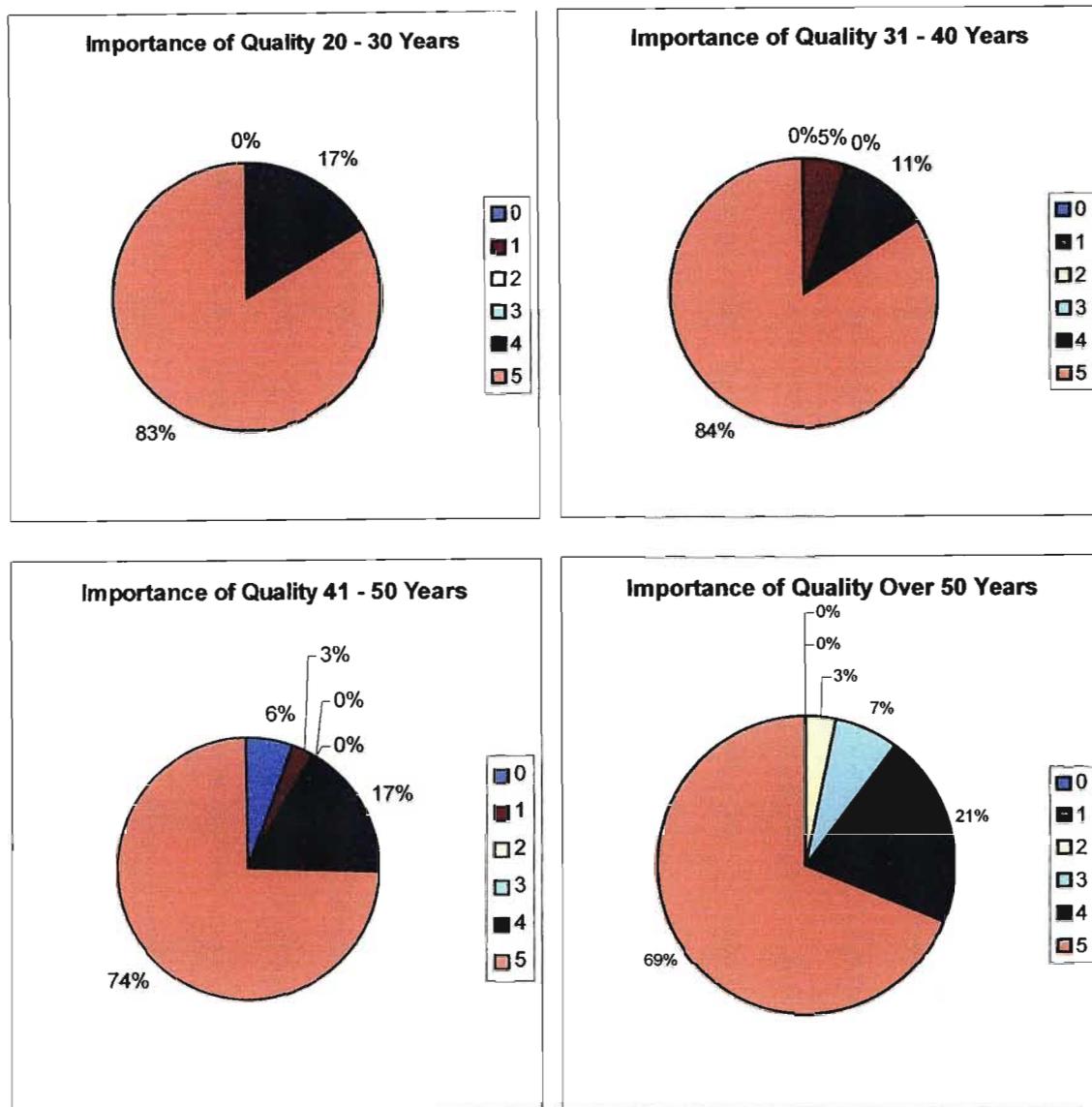


FIGURE 4.19: IMPORTANCE OF QUALITY BY AGE

The issue of quality has been categorised into age as per Figure 4.19 and the reason for this is to determine at what age quality becomes important. As shown by the above graphs, in the age group 20 – 30 years, 17% of the respondents said that quality was very important and 83% said that it was extremely important, i.e. all respondents said that quality was important.

In the age category 31- 40 years, 95% of the respondents said that quality was either very or extremely important. In this category 5% also said that quality was not all that important.

In the age category 41 – 50 years, 91% of the respondents said that quality was either very important or extremely important. 9% said that it was not important.

In the age group 50 and over, 90% of the respondents said that quality was either very or extremely important. 7% said that quality was important and 3% said that it was not all that important.

What is interesting about the age to quality aspect is that quality appears to be more important to the younger age groups than to the older. By comparing the age group category 31 – 40 years and the age group category of 41 – 50 years, 4% less of the respondents said that quality was either very or extremely important. Notwithstanding this, an overwhelming majority of the respondents said that quality was an important influencing factor and this is what SGC will focus upon.

4.4.12 The Overall Standard of Work Completed?

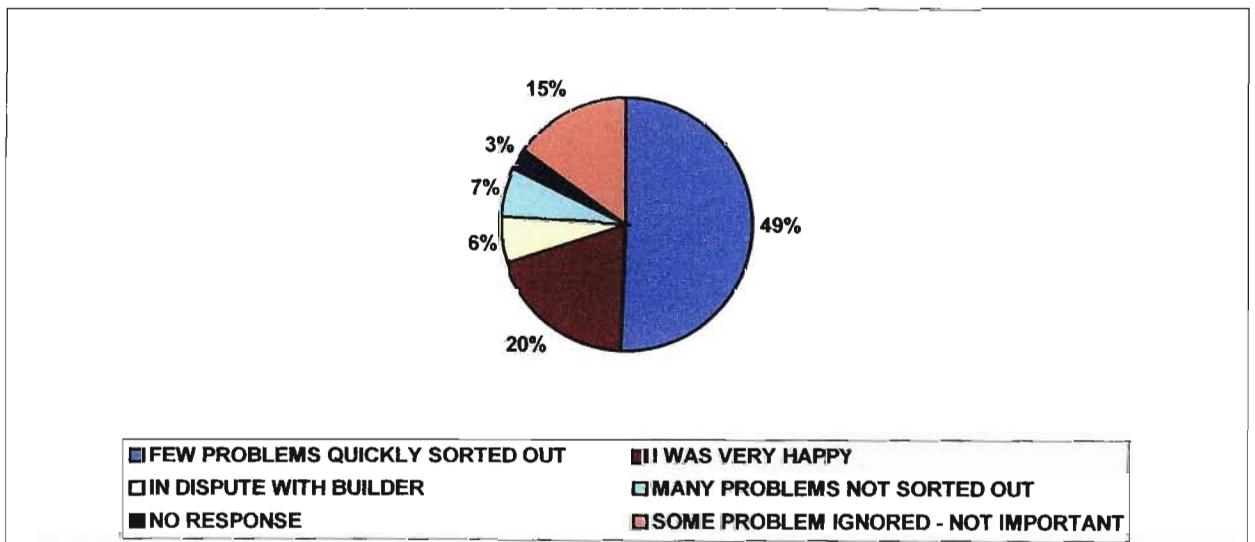


FIGURE 4.20: OVERALL STANDARD OF WORK

As quality is an important factor for consumers, the question of the standard of work completed was posed to determine if the builders were addressing this key issue. As the graph shows, 49% of the respondents said that they had problems but that these were quickly sorted out. 20% of the respondents said that they were very happy with the finished product and 15% said that they had problems but that these were not all that

important. Only 10% of the respondents said that they had many problems that were not sorted out or that they were in a dispute with their builder. The indication therefore appears to be that builders are delivering a reasonable product to the consumer and that this should not be the area in which to differentiate the service.

SGC is well known for its service and quality of product but if all other builders are also delivering on quality, whilst this should and must continue to play a major part of SGC, it should not be the sole focus. Quality must be kept at higher than acceptable levels but other influencing factors that are not being addressed by the competitor firms must be focused upon more to generate competitive advantage.

4.4.13 Importance of a Quick Response

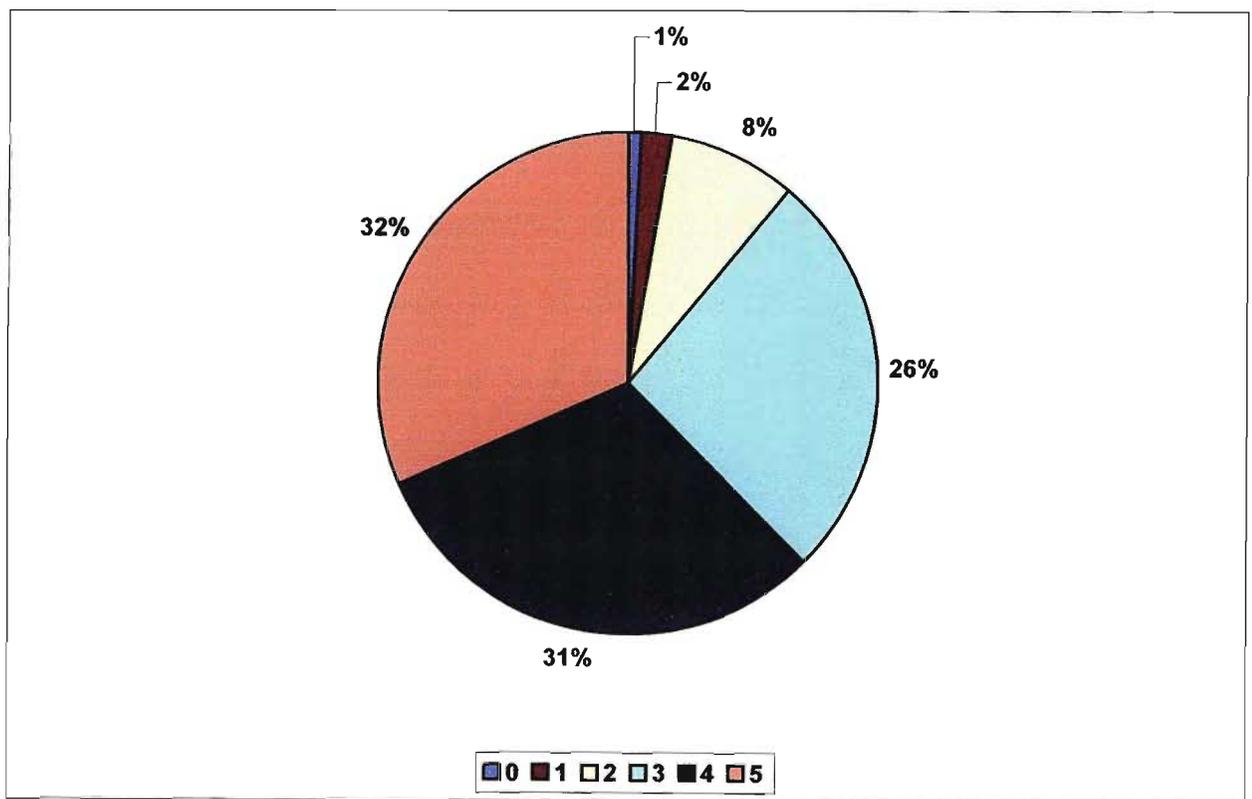


FIGURE 4.21: IMPORTANCE OF A QUICK RESPONSE

The question of “The importance of a quick response?” relates to the time that it takes for a builder to deliver a quotation, answer queries or any other action that may require the builder to respond to the consumer. As Figure 4.21 shows, 89% of the respondents said

that it was important for the builder to respond quickly to their queries. The percentage of respondents who thought that it was important, very important or extremely important were evenly distributed but the key point is that 89% of the respondents thought that it was important for the builder to respond quickly to their queries. SGC will take note of this and ensure that all queries are timeously dealt with to ensure competitive advantage.

4.4.14 How Many Quotes Were Asked For?

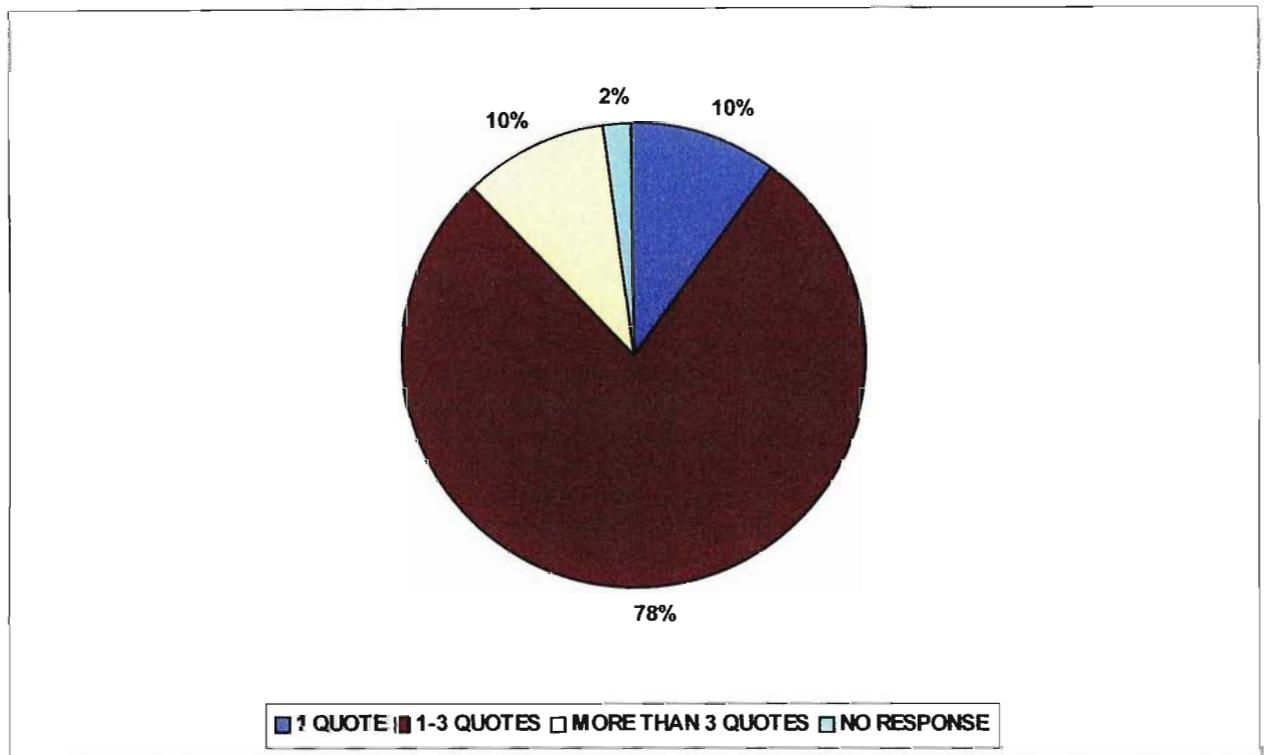


FIGURE 4.22: HOW MANY QUOTES WERE ASKED FOR?

To determine how many competitors were being asked to quote at the same time as SGC, the question of “How many quotes did you call for?” was posed. As noted from Figure 4.22, 78% of the respondents said that they had asked for more than one quote. 10% said that they had asked for one quote only and 10% said that they had asked for more than 3 quotes. Given the above data, there are two aspects to this. SGC is in a favourable position to win business as it competes against only two other builders in 78% of the cases in which SGC is invited to quote but if SGC is not invited to quote, then SGC loses out as only 3 quotes are sought. To improve the odds of capturing market share, SGC will have to market its name on a regular and sustained basis. The key to obtaining work is to be

invited to submit a quotation as the chances are then one in three that SGC will win the work. The odds are therefore greatly reduced when compared to the overall size of the market.

4.4.15 How Long Did It Take to Receive the Quote Back?

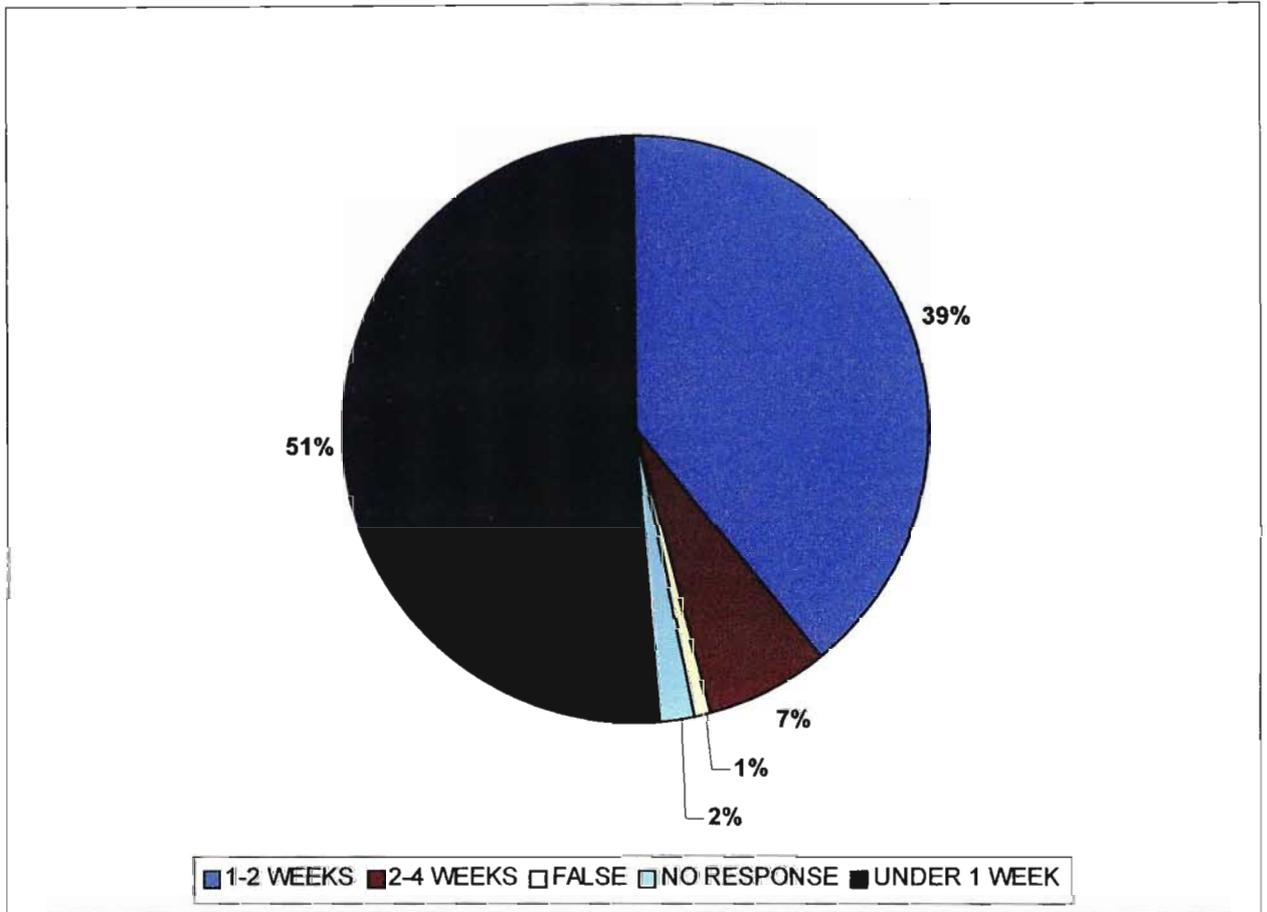


FIGURE 4.23: LENGTH OF TIME TO RECEIVE A QUOTE

As noted from Figure 4.23, 51% of the respondents said that they had received the quotation in under a week whilst 39% said that it took one to two weeks to receive the quotation. To remain competitive SGC will have to ensure that it submits the required quotations within one week of being invited to do so.

4.4.16 Importance of Builder's Membership of a Regulatory Body

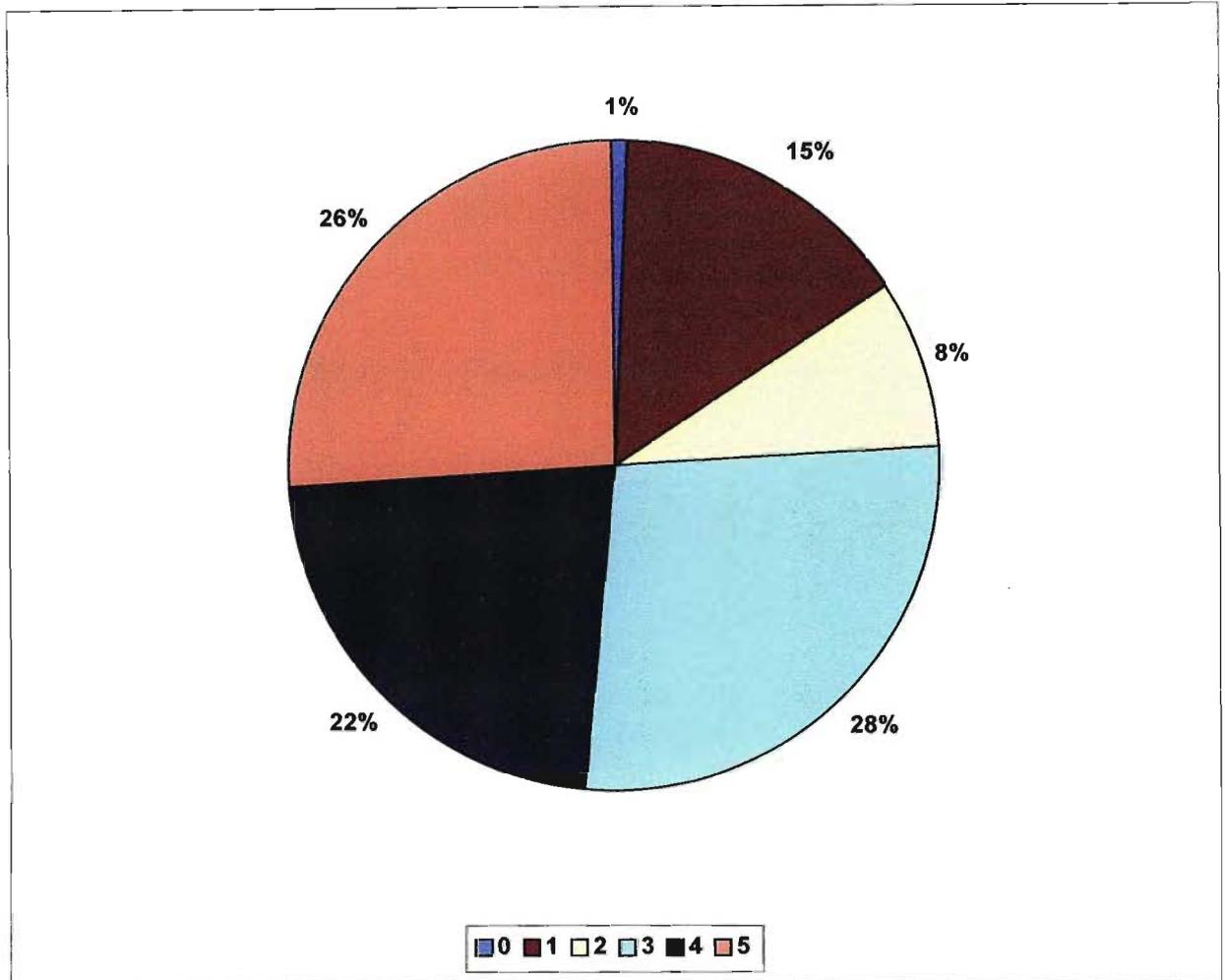


FIGURE 4.24: IMPORTANCE OF A REGULATORY BODY

As noted from figure 4.24, 76% of the respondents said that it was important to them for the builder to belong to a regulatory body within the industry e.g. Master Builders Association, NHBRC etc. 24% said that this was unimportant. SGC belongs to both the Master Builders Association and the NHBRC and shall continue to do so given that this is an important factor. This factor is, however, not an area in which competitive advantage can be easily gained as all builders building new houses are required by law to register with the NHBRC.

4.4.17 Did Your Builder Offer Any Warranty?

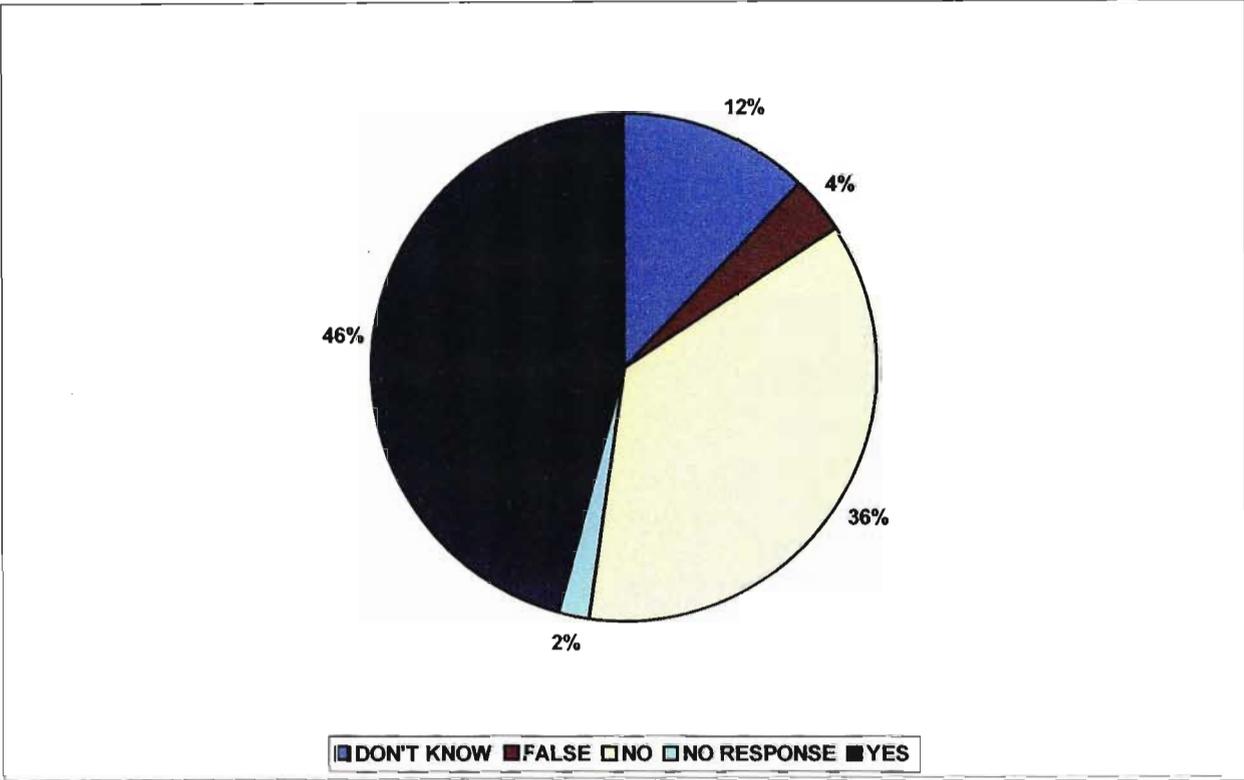


FIGURE 4.25: BUILDERS WARRANTY

Figure 4.25 shows that 46% of the respondents said that the builder they used had offered a warranty on the work done whilst 36% said that the builder had not. As noted from the previous graph, 76% of the respondents said that it was an important factor in their choice of a builder yet from the above graph, there is a discrepancy between what the respondents think important versus what is actually delivered by builders. As the value of work done is generally quite high, it would seem that a warranty of sorts would be required but 36% said that the builder did not have a warranty and a further 12% said that they did not know. SGC will continue to offer a warranty on their work given the importance to the respondents but this does not seem to be a significant factor in gaining competitive advantage.

4.4.18 Who Made the Final Decision to Select The Builder?

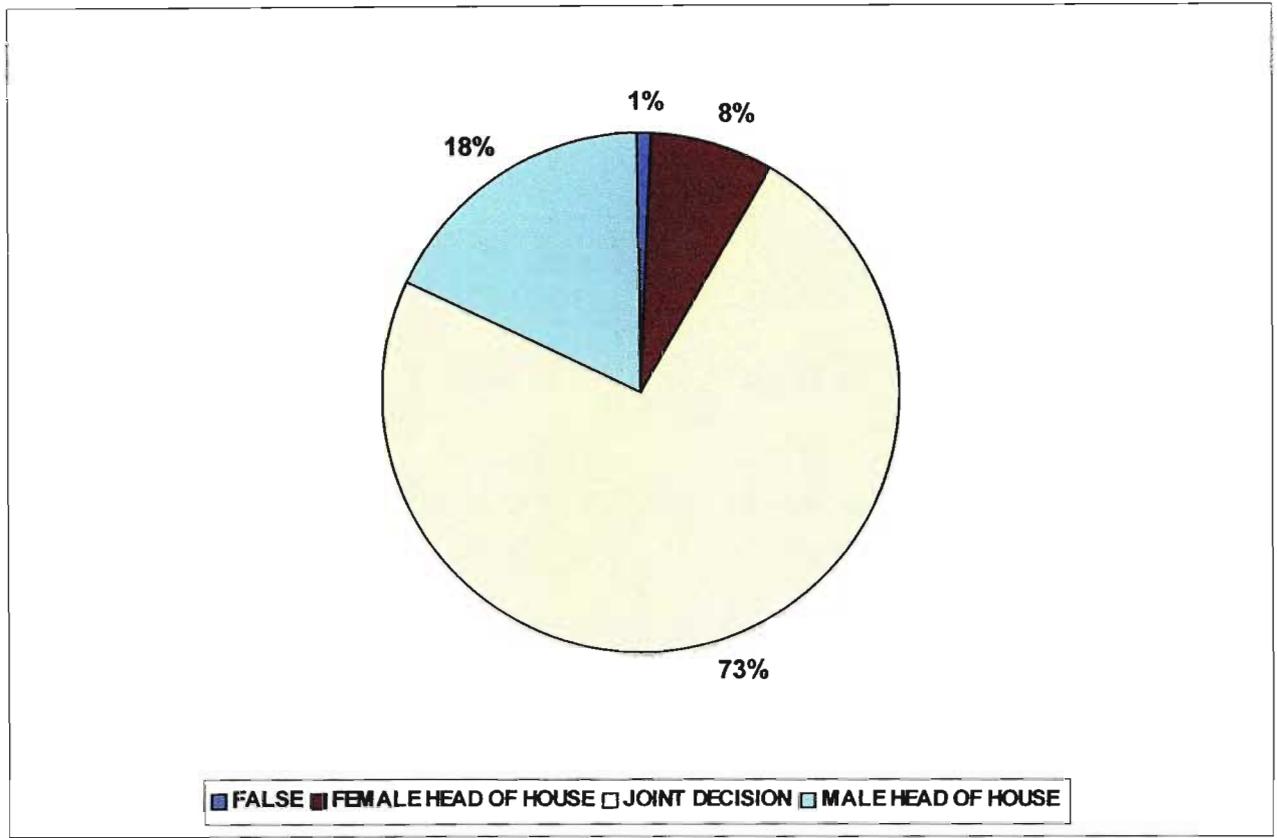


FIGURE 4.26: FINAL DECISION MAKER

As noted from Figure 4.26, 73% of the respondents said that the decision on the selection of a builder was a joint one. 18% of the respondents said that the male made the decision whilst only 8% said that the female made the decision. From experience, this appears to be a reasonable conclusion although in all SGC dealings with clients, the female plays more of a role than does the male. Whilst this may not extend to the decision on the selection of a builder, the female does play a significant role as it is generally they who deal with the builder.

4.4.19 Would You Recommend the Builder?

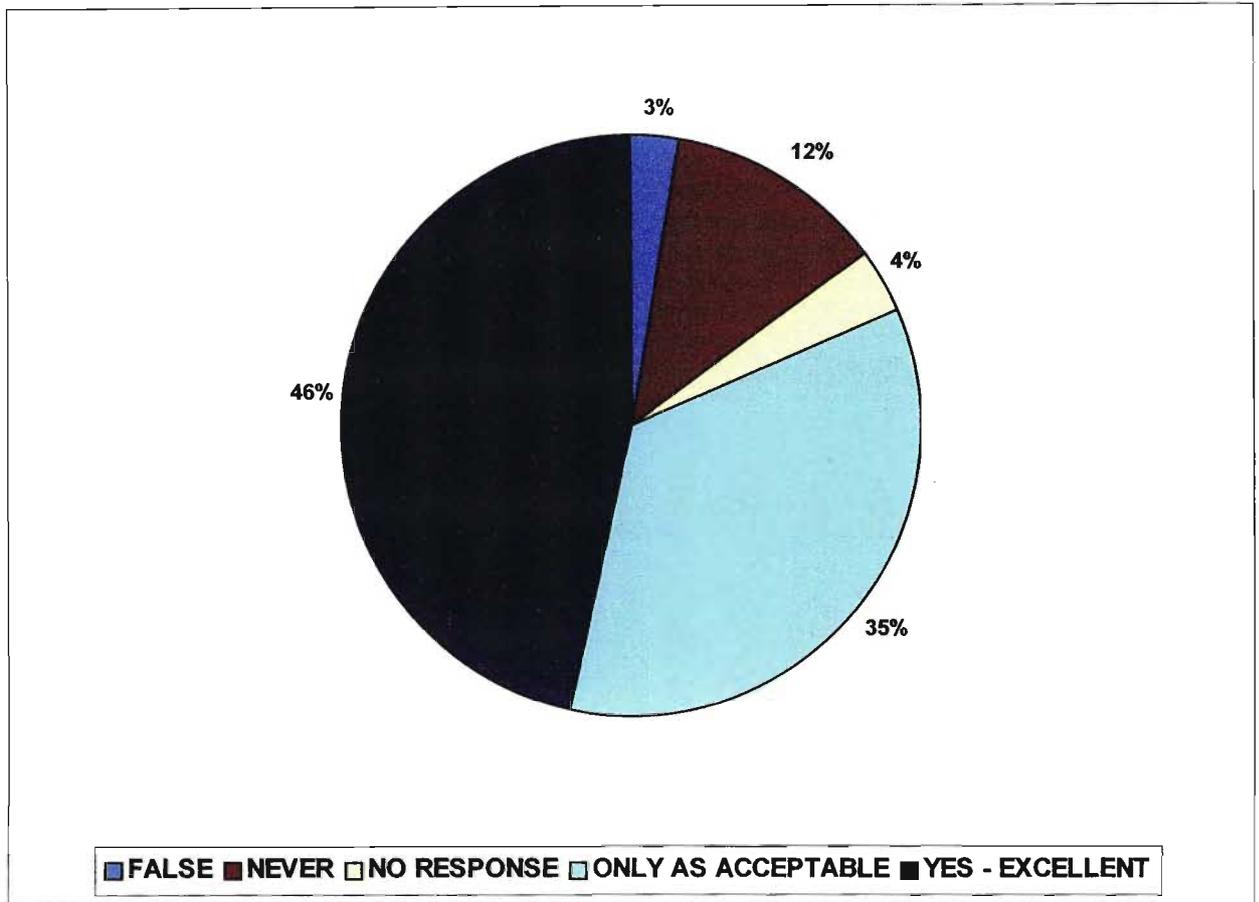


FIGURE 4.27: WOULD YOU RECOMMEND THE BUILDER

The general perception is that builders offer poor service and product yet Figure 4.27 shows that 46% of the respondents would recommend their builder as excellent and a further 35% would recommend their builder as acceptable. This then implies that at least 81% of the respondents said that the level of service and product was acceptable to them. Only 12% of the respondents said that they would never recommend the builder. This is, however, an important aspect as noted previously where previous client referrals play a very important role in the respondents choice of a builder.

4.4.20 Would You Use the Same Builder Again?

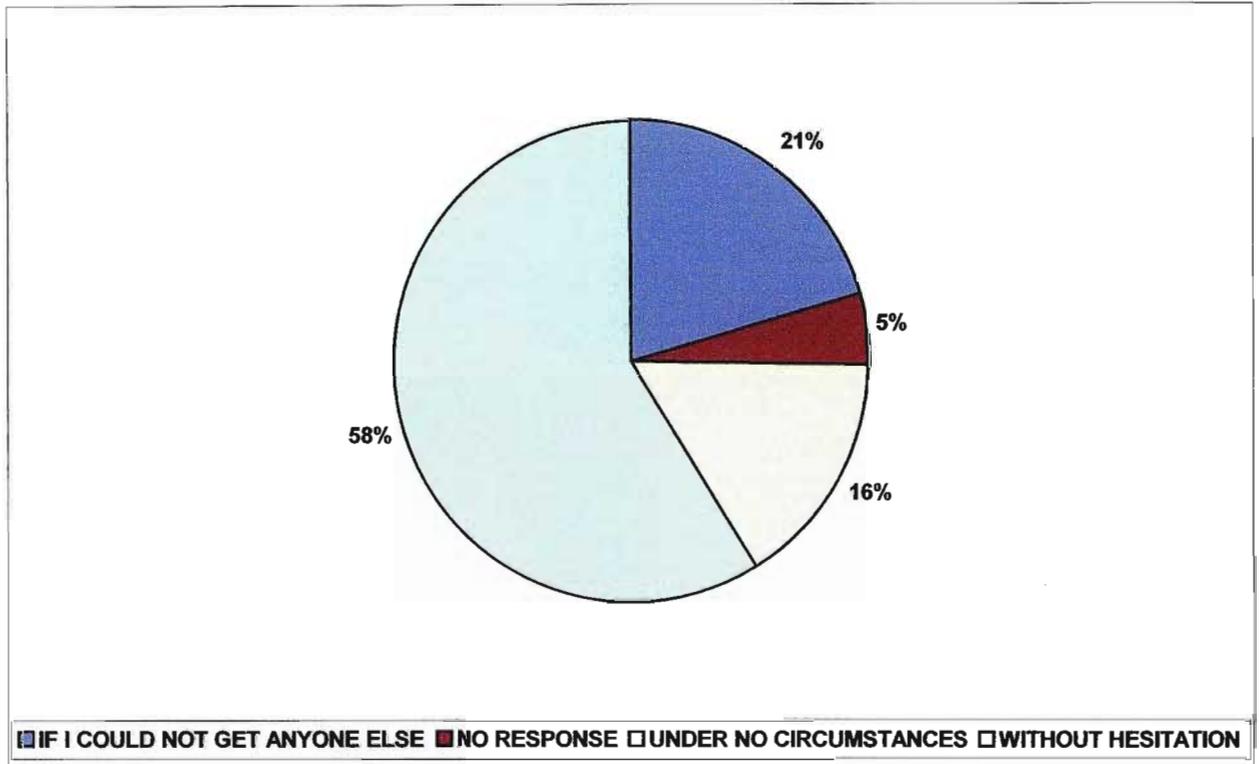


FIGURE 4.28: WOULD YOU USE THE SAME BUILDER AGAIN

As noted from Figure 4.28, 56% of the respondents said that they would use the same builder again and 21% said that they would only use the same builder again if they could not find someone else. 16% of the respondents said that they would not use the same builder again. There is therefore a variance between recommendations and use of a builder. 12% of the respondents said that they would never recommend the builder again yet 16% said that they would never use the same builder again. 35% of the respondents said that they would only recommend their builder as acceptable yet 21% said that they would use the builder again only if they could not find another. 46% of the respondents said that they would recommend the builder as excellent yet 56% said that they would use the same builder again without hesitation.

Further research will be required to determine why there is a difference between recommendations and actual use. SGC will need to ensure that there is delivery and customer satisfaction so that repeat business is obtained as well as referrals which play an important role in a consumer’s choice of a builder.

4.4.21 Consolidated Importance Rankings

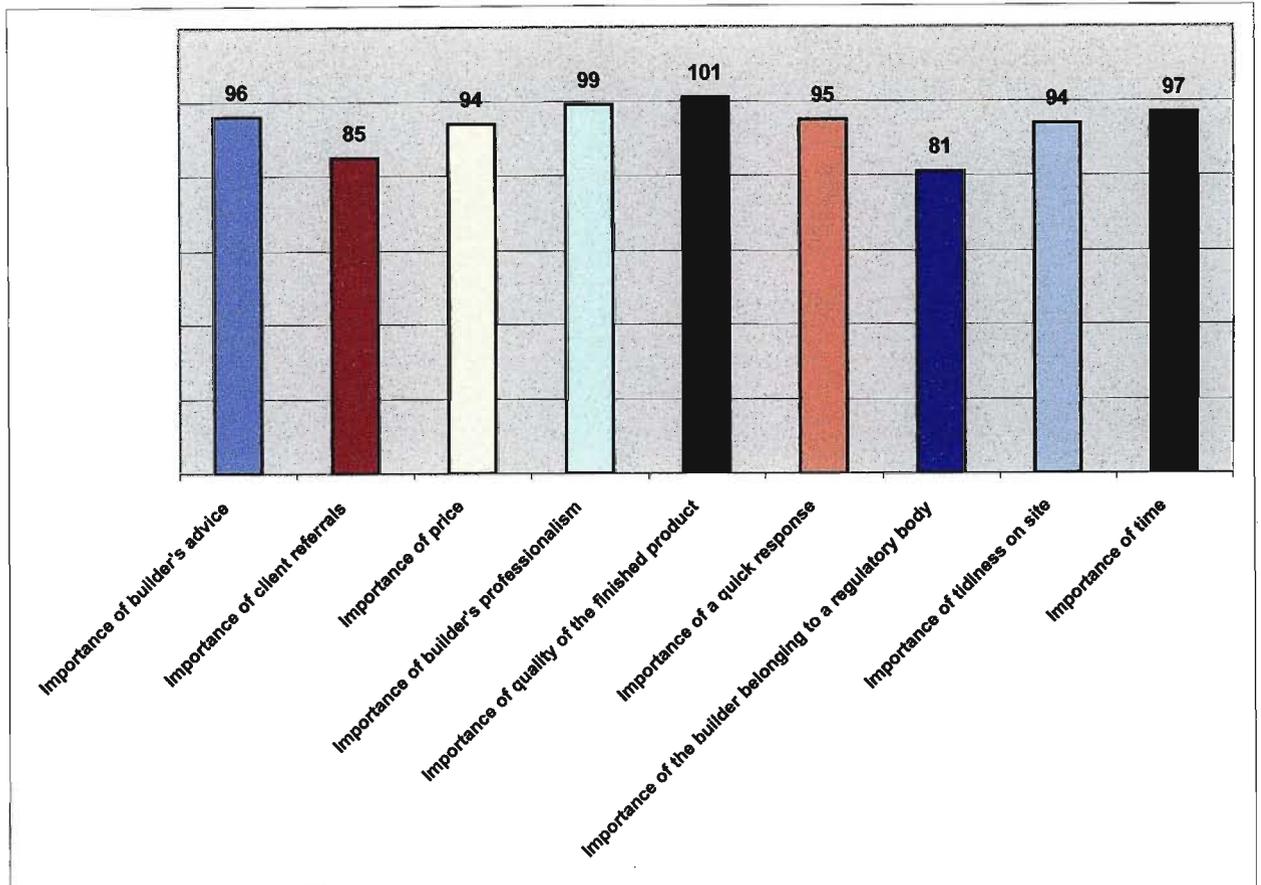


FIGURE 4.29: CONSOLIDATED IMPORTANCE RANKINGS

The principle objective of this research document is to determine what is important to clients and Figure 4.29 shows the consolidated importance aspects. For this data, important, very important and extremely important responses were combined to provide an overall view of the importance rankings. A break down is provided by the graph below.

As noted from the above graph,

- Quality featured at the top of the importance rankings followed by:
- builders professionalism
- time
- builders' advice
- quick response
- price
- tidiness

- previous client referrals
- membership of a regulatory body.

4.4.22 Importance Ranking by Importance Level

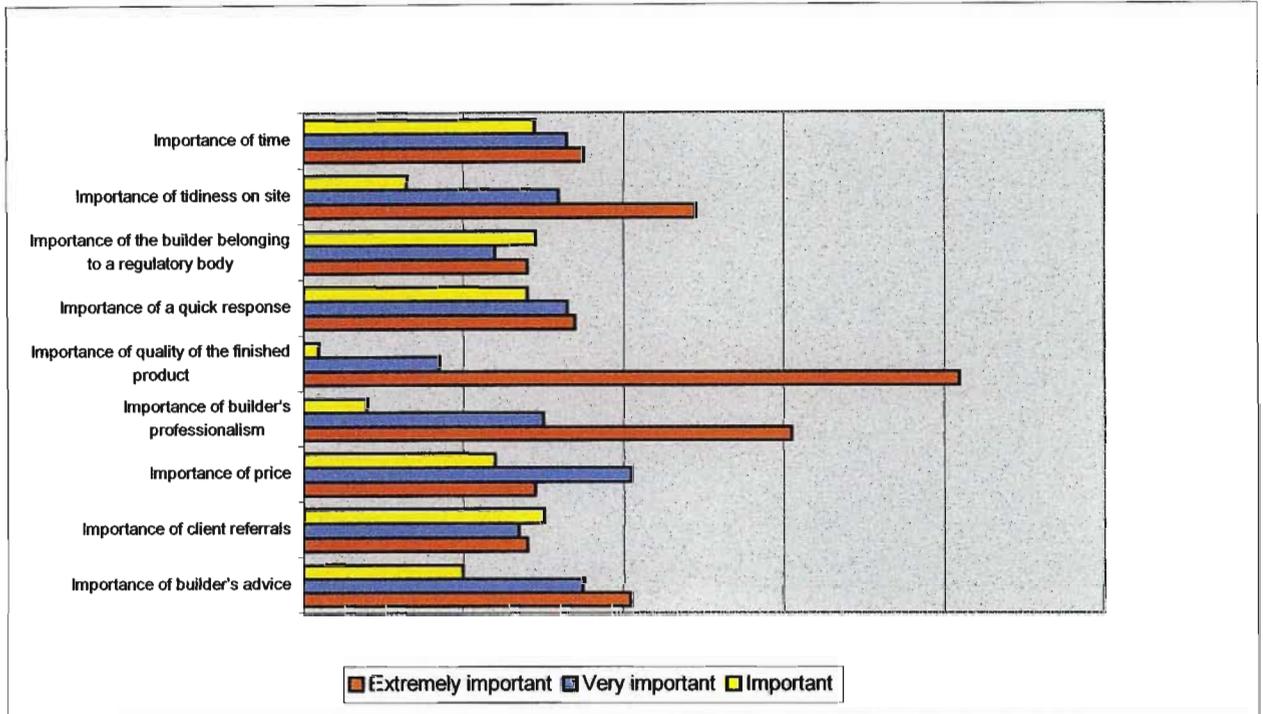


FIGURE 4.30: IMPORTANCE RANKINGS

Figure 4.30 shows the breakdown of the importance factors by important, very important and extremely important shows that consumers rate the following as extremely important:

- quality of finished product
- builders professionalism
- tidiness on site
- builders advice
- time
- quick response
- price
- previous client referrals
- membership of a regulatory body

This differs slightly from the consolidated importance rankings, however, quality of the finished product and builder's professionalism appear in the top two positions on both ranking charts and previous client referrals and membership of a regulatory body appear at the bottom of both ranking charts. To gain competitive advantage, SGC will need to ensure that it focuses on the top two importance factors whilst remaining competitive on the rest of the importance factors. It is a combination of all the importance factors that influences the consumer to choose a particular builder but given that quality, professionalism, builder's advice and time appear in the top five positions of both rankings, this is what must be focused upon more vigorously.

4.5 CONCLUSION

The analysed data shows the factors that are important to the consumer and by having knowledge of this information, SGC can develop and improve its strategic plan to incorporate the relevant factors. Building core competencies is an important aspect of the strategic plan and SGC will use the knowledge gained by the study to build core competencies in the areas that matter to the consumer. Chapter Five that follows makes recommendations in this regard.

CHAPTER FIVE – RECOMMENDATIONS AND CONCLUSION

5.1 INTRODUCTION

In this Chapter, recommendations are made as to what actions are required on the part of SGC taking into account the strategic and data analysis aspects of the study. Finally, a summary and conclusion of the study is made.

5.2 RECOMMENDATIONS

The principle purpose of the study was to determine the dominant influencing factors on a consumers' choice of a building company and to use that information to develop a strategic plan to help SGC gain competitive advantage. An analysis of the research as contained in Chapter Four of this paper shows the areas on which to focus as being the following:

- *Quality.* Figure 4.18 shows that 94% of the respondents said that quality was important (2%), very important (16%) or extremely important (76%). Training of staff and the administration of site is the important factor in the delivery of a quality product and this will need to be taken into consideration by SGC in order to maintain a high standard of product quality.
- *Builder's professionalism.* Figure 4.14 shows that 7% of respondents said that professionalism was an important factor, 28% said that it was very important and 57% said that it was extremely important. Overall 92% of the respondents thought that professionalism was important versus 8% of the respondents who thought that it was not all that important. SGC will have to ensure that all operating systems are reviewed to ensure that the company looks professional and acts professionally at all times. By so doing, SGC can make progress towards capturing market share. Professionalism in this case means how employees conduct themselves and look, the quickness of response to client queries, the manner in which phones are answered, the neatness and tidiness of the site, the quality of product, the presentation of correspondence, the collection of payments etc.

- *Time.* Figure 4.8 indicates that 27% of the respondents thought that time was an important factor with a further 31% believing time to be a very important and a further 32% believing that time was an extremely important factor. As a marketing and strategic tool, SGC will need to ensure that all work is completed within the time frame agree to taking care not to impose unrealistic deadlines on the employees.
- *Builder's advice.* Figure 4.10 indicates that 89% of respondents believed that the builder's advice was an important to extremely important element of the relationship. Only 11% of the respondents believed that the builder's advice was not all that important. By having competent managers on site, relevant and well thought through advice can be offered to the consumer who in most cases does not know anything about building or indeed what they want. Good advice can have the effect of helping the consumer to get a better product whilst helping SGC to keep variations and other changes to an acceptable limit. Good advice could further help SGC to reduce the time spent on site thus improving profits and value.
- *Quick response.* Figure 4.21 shows that 89% of the respondents said that it was important for the builder to respond quickly to their queries. The percentage of respondents who thought that it was important, very important or extremely important was evenly distributed but the key point is that 89% of the respondents thought that it was important for the builder to respond quickly to their queries. SGC will take note of this and a policy of responding to the consumer within the same day of receiving the query is at present in place and will be monitored to ensure compliance.
- *Price.* Figure 4.12 indicates that 88% of respondents believe price to be an important to extremely important factor in their choice of a building company. As noted from the above, 23% of the respondents said that price was important, 38% thought it to be very important and 27% percent thought it to be extremely important. The study unexpectedly shows that the consumer is not as price sensitive as originally thought but experience says that price plays a major role in

the selection of a builder. The study does not show this fully and further research into this aspect will have to be undertaken.

- *Tidiness.* As noted from Figure 4.16, 12% of the respondents said that tidiness was an important factor, 30% of the respondents said that it was very important to them and 46% said that it was extremely important to them. Overall then, 88% of the respondents said that tidiness was an important factor. SGC will take note of this and allocate the necessary resources to each site to ensure that it remains as clean and as tidy as possible given the constraints of site layout and position.
- *Previous client referrals.* Figure 4.13 shows that 80% of the respondents said that client referrals were an important to extremely factor when choosing a builder. As noted in Figure 4.15, 14% of the respondents said that they had chosen the builder based on previous client referrals whilst a further 13% of the respondents indicated that they had chosen the builder based on previous client referrals in addition to other considerations such as price, quality and professionalism. This is a curious aspect as previous client referrals feature high on the list of how the builder was found yet features lower on the list of what consumers deem to be important. Given this discrepancy, further research into this particular aspect will need to be conducted. Experience shows that previous clients referrals are the most important source of obtaining new work yet consumers feel that this is not all that important.
- *Membership of a regulatory body.* As noted from figure 4.24, 76% of the respondents said that it was important to them for the builder to belong to a regulatory body within the industry e.g. Master Builders Association, NHBRC etc. 24% said that this was unimportant. SGC belongs to both the Master Builders Association and the NHBRC and shall continue to do so given that this is an important factor. This factor is, however, not an area in which competitive advantage can be easily gained as all builders building new houses are required by law to register with the NHBRC.

From the above, SGC will need to build core competencies around the factors that matter to the consumer. Only by doing this can SGC hope to succeed against the

competition and capture market share. The following recommendations are made to help SGC achieve that goal:

- Act professionally. Professionalism encompasses all the aspects of the operation from quickness of response, to client liaison, staff presentation, cleanliness of site, speed, time, quality of product, conduct etc. To be professional is an absolute requirement and is in fact a mindset rather than a task that will need to be communicated throughout the company on a regular basis.
- Deliver a quality product by introducing a staff training and improvement policy. Quality features high on the list of importance factors and will be the focus of SGC going forward. It is essential that the work be done correctly the first time and that pride be taken in the work being done.
- Complete the work within the stated timeframe by training staff to be more efficient and productive and by providing monetary and other incentives.
- Offer the consumer good and relevant advice by providing good site management and supervision.
- Keep the selling price fair and offer value-for-money.
- Implement cost constraining exercises by becoming more efficient, more productive and ensuring that the required materials are on site at the right time.
- Concentrate on profitable projects only and do not take on smaller projects that take as much effort to run as the larger projects but which deliver a much smaller return and which divert resources.
- Improve on training and development both in-house and outsourced. This appears to be the key to success and SGC will need to take note of this fact and begin staff training immediately.

- Improve internal culture by placing an emphasis on co-operation and teamwork.
- Launch an effective advertising campaign using the study data to highlight the issues that consumers deem important. By addressing these factors, SGC can reach the consumer at a more personal level.
- Undertake further research into the question of price to determine why consumers in the study say that price is not all that important, yet in the same study consumers list price as being one of the main influencing factors when choosing a builder. It is possible that the question being asked was not clear to the consumer or the consumer was embarrassed by the question. Whatever the reason, more research into this crucial question is required especially if the goal of SGC is to improve profitability by charging a premium for service and product excellence.
- Target the following consumer market:
 - Age group 31 and older. Target this age group as below this, few consumers own their own homes.
 - Areas of Umhlanga, Durban North, Berea, Morningside. These are the more affluent areas of Durban and the consumers living in these areas can thus afford to undertake alterations and renovations. In addition to this, the consumer living in the mentioned areas are less price sensitive than would be the case in lower income areas and this provides SGC with the opportunity to add value to the product offering and improve margins and profitability.
 - Married couples. The study shows that most consumers undertaking alterations and renovations are married and the approach should therefore be tailored towards this market where joint decisions are made as noted by Figure 4.26 which shows that 73% of the respondents said that the decision on the selection of a builder was a joint one.

- Promote SGC through referrals and professionals. From Figure 4.5, family and friend referrals are the main source of finding a builder. This is followed by architect or engineer referrals then by newspaper advertisements and by the builder's board.
- Alterations and renovations with a value of plus R 100,000. As noted from Figure 4.6, 42% of the value of the work done falls in the R100,000 to R500,000 category. 21% of the value of the work done falls into the R20,000 to R 50,000 category and 20% of the value of work done falls into the R 50,000 to R 100,000 category. This indicates that 83% of the work falls between R 20,000 and R 500,000 and should be the target market for SGC. As SGC is slightly larger than most competitors in the market place, the lower value work of R 20,000 to R100,000 could be left to the smaller builders whilst SGC targets the R 100,000 and above market, a practice that is at present being pursued.

The above recommendations are made in relation to the data analysis. To be successful, however, SGC will be required to implement a full strategic plan that takes into account not only the above mentioned factors that matter to the consumer but also those that pertain to the strategic development process. This process, as noted in Chapters Two and Three, shows that the development of the strategic framework is both complex and time consuming and requires the determination and consideration of many additional factors. As the purpose of the study was not to research the strategic process, only the following strategic factors were taken into account.

- *Porters Five Forces Model.* Figure 3.2 illustrates the competitive forces on SGC. Substitute products and buyers exercise a moderate to weak competitive force as there are limited substitute products, and there are a limited number of buyers except for the end consumer.

Competitive forces amongst rivals, suppliers and potential new entrants are strong as the industry is fiercely competitive, suppliers hold monopolistic positions and barriers to entry are relatively low below a certain value of work undertaken. Once

this value is crossed, the threat from new entrants subsides due to the requirement for significant capital and expertise.

- *Key Success Factors.* Theory suggests that there are few key success factors relevant to each industry and that only these key areas should be taken into account when developing a strategy. The principle issue is to determine what is important to the industry and to then develop core competencies around the key success factors. By doing this, the company can gain competitive advantage that is difficult for the competition to emulate or to copy. This provides sustainable competitive advantage. In the building industry, particularly the alterations and renovations market, the questions that need answering are:
 - What do the consumers want and what do they choose? On what basis does a consumer choose a building company, and what are the crucial product attributes?
 - What resources and competitive capabilities does SGC need to possess in order to be successful? What does it take for SGC to achieve sustainable competitive advantage?

As the purpose of the study was to answer at least part of the questions, some benefit has been gained that can help SGC begin from a strategically advantage point.

In addition to the above two important strategic considerations, a competitor analysis was undertaken and in that the main competition was identified. Further study will be required to fully understand the competition and this process is likely to be an on-going process. Other issues raised in the study include the Lifecycle Portfolio Matrix which shows where SGC is at present and where it expect to be in the near future. In this, theory suggests that SGC should: Fast Grow, Catch Up, Attain Cost Leadership and Differentiate.

5.3 CONCLUSION

The purpose of the research conducted was to determine the dominant influencing factors on a consumers' choice of a building company and to use that information to develop a strategic plan that would help SGC gain competitive advantage. As the research shows, there are some factors that influence a consumer more than others and in this regard, SGC has gained insight from the research conducted. The research has shown that consumers view quality, professionalism, time, advice and tidiness on site as being the most important factor to them. Having knowledge of this now allows for SGC to develop policies and procedures that will help deliver to the consumer these services as part of the overall product offering.

To succeed against the competition, SGC will need to develop and train staff, expand quality control mechanisms, ensure tidiness of site and staff, and focus upon being professional. If all of these factors are focused upon and introduced into SGC's product offering, competitive advantage will be gained and profitability improved. Further and more thorough research will be required to determine the pricing aspect of SGC's product offering but if value-for-money can be offered, then SGC could by addressing the issues raised by the research, charge a premium for the product which is SGC's long-term strategic goal.

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APPENDIX A

Dear Homeowner

I am a final year MBA student at the University of Natal Graduate School of Business, doing my dissertation relating to the building industry, in particular customer expectations and satisfaction. In order to incentivise people to respond to the questionnaire my company is offering a lucky draw prize of R15 000 worth of alterations/additions of your choice. This competition is subject to the rules below.

It would be of enormous benefit if you would take the time to complete the attached questionnaire and either fax back to me on 031-562 9375 or post to PO Box 50698, Musgrave, 4062, whereupon your name will be entered in the draw.

Your cooperation is greatly appreciated. Should you have any queries at all you may contact me on 031-562 0676.

Many thanks

Catherine Goss

QUESTIONNAIRE

1. What suburb do you live in? _____

2. What is your joint monthly income?
 Under R5000 R5000 - R9000 R10000 - R19000
 R20000 - R29000 R30000 - R39000 R40000 - R50000
 Over R50000

3. What is your age group?
 20 - 30 years 31 - 40 years 41 - 50 years
 Over 50 years

4. Marital Status
 Single Married Divorced
 Widow/Widower Cohabiting

5. Number of Children
 0 1 2 3 More than 3

6. Have you:
 Had alterations or additions done to your home?
 Built a new house?
 Are you planning to do any building work in the next year?

7. What was/will be the value of the work done?
 Less than R20 000 Between R20 000 and R50 000
 Between R50 000 and R100 000 Between R100 000 and R500 000
 Between R500 000 and R1million Over R1million

All personal information contained herein will remain the property of Spencer Gore Construction and will not be released to any third party.

Competition Rules:

1. Competition Closes on 15th June 2003
2. The draw will be done under the auspices of Stuart Edwards & Company (Chartered Accountants) and no correspondence will be entered into.
3. The winner's name will be announced in the Sunday Tribune dated 22nd June 2003
4. The competition is only open to house owners over the age of 21
5. The prize is not redeemable for cash
6. The value of the prize in the form of work to be undertaken will not exceed R15 000 including materials and labour, and the timing is subject to the discretion of Spencer Gore Construction
7. The prize is only redeemable for homeowners in the Ethekwini Municipal area
8. Entries may be posted to **P O Box 50698, Musgrave, 4062** or faxed to **031-562 9375** or e-mailed to **support@sgc.co.za**

8. How long ago did you use the services of a builder?
 0 - 12 months 1 - 5 years Over 5 years

9. How many quotes did/will you call for?
 1 quote 1 - 3 quotes More than 3 quotes

10. How did/will you find your builder?
 Architect/Engineer referral Newspaper advertisement
 Friend/family referral Builder's advertising board on site
 Estate Agent Yellow Pages
 Regulatory Body (Master Builders Association, NHBC)

Other – Please elaborate:

11. How long do you think it should take for a builder to give you a quote?
 Less than one week 1 - 2 weeks 2 - 4 weeks

12. How long after getting the quotes did/will you appoint a builder?
 1 week 1 month Over 1 month

13. What was/will be the main influence on your final selection of a builder?
 Price Previous client referrals
 Friend/Architect/Engineer referral Established builder in the area
 Builder's guarantees/professionalism

Other – Please elaborate:

14. Who made/will make the final decision regarding the builder?
 Male head of house Female head of house Joint decision

15. Did your builder offer any warranties with his work?
 Yes No Don't know

16. Do you think the builder simplified the project with advice, suggestions, enhancements, doing additional work at no extra cost, etc?
 None Some value
 Very helpful Excellent service and assistance

17. Did the builder finish on time?
 Finished before time Finished on time
 Was slightly late with completion
 Was way over promised completion date

18. What was the level of tidiness on site?
 Very untidy Slightly untidy
 Tidy Very neat and orderly

19. What was the overall standard of the completed work?
 I was very happy
 A few problems that were quickly sorted out
 Some problems that I ignored as they were not important
 Many problems that were not sorted out
 I am or was involved in a dispute with the builder to get problems solved

20. Would you use the same builder again?

Without hesitation If I could not get someone else

Under no circumstances

21. Would you recommend the builder to anyone else?

Never Only as acceptable Yes - excellent

22. What builder did you use?

**On a scale of 1 to 5 with 1 as not important and 5 as very important
(mark scale with an "x"):**

23. How important was tidiness on site to you?

1	2	3	4	5
---	---	---	---	---

24. How important was the price of the contract to you?

1	2	3	4	5
---	---	---	---	---

25. How important was the quality of the finished building to you?

1	2	3	4	5
---	---	---	---	---

26. How important was the builder's advice to you?

1	2	3	4	5
---	---	---	---	---

27. How important was finishing on time to you?

1	2	3	4	5
---	---	---	---	---

28. How important was builder's previous client referrals to you?

1	2	3	4	5
---	---	---	---	---

29. How important was the professionalism of the builder to you?

1	2	3	4	5
---	---	---	---	---

30. How important was a quick response with the quote to you?

1	2	3	4	5
---	---	---	---	---

31. How important was it for the builder to be a member of a regulatory body (eg NHBRC, MBA, etc)?

1	2	3	4	5
---	---	---	---	---

In order for your name to be entered into our prize draw we require the following information:

Your Name:

Your Address:

.....Postal Code:

Your contact telephone number:

I agree to abide by the rules: Signature: