

TURNING THINGS AROUND  
“BREATHING NEW LIFE TO AN ALMOST-DEAD BUSINESS”

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Greatlands Development and Marketing Corporation started Villa Regina Subdivision in 2004. The project was a low-cost, subdivision selling house and lot packages ranging from P550,000 to P750,000. It is located in McArthur Highway between the cities of San Fernando and Angeles Pampanga. It was one among the low-cost real estate projects with low selling velocity and had no broker network activity.

The project took a major facelift from August 2006 to December 2006, where it totally stopped its marketing and sales efforts and was re-launched last January 2007 as Florida Residences. An American-inspired community that offers house and lot packages ranging from P2,000,000 to P3,000,000. It is now the number one (1) selling medium-end housing product as of 3<sup>rd</sup> & 4<sup>th</sup> quarter of 2007 beating real estate giants like Avida by Ayala Land, Sorrento by Crown Asia of the Villar Group, and Robinsons Land.

Yes, it's true. The business had a revenue growth of 1,900% in a span of one (1) year. At first, this may sound impossible, but I say it was possible. Entrepreneurs reach a common phase in the business life cycle where every strategy is just ineffective, all your ideas does not seem to match the required output, and to add a little more drama, your people does not have that fire in them to help you get through.

What do you do? Close shop? Go find a job? Soul search? Well, a true Entrepreneur sits back, takes a step backward, musters all the sanity left in him and redefine his business plan once more. Again, it's a battle between the negative and positive you, no one else but you.

For a losing company that was on the verge of collapsing, it takes real inspiration and imagination to see the light and it doesn't take brilliant, rocket-science, or an Albert Einstein type of a strategy to turn things around. All it takes is to ask yourself the basic question where us Entrepreneurs always ask especially in times of crisis like what I've experienced.

**What is the logic of my business?**

It was the easiest question to ask but the hardest one to answer. Allow me to take you through the exciting process of how I repositioned our real estate company from a losing and close-to-damnation company to one of the best selling real estate project in Pampanga.

## **Knowing That There is a Problem, A Very Big One**

A common mistake of entrepreneurs is that the blame for the business' non-performance goes through a lot of people and a lot of departments. One of the greatest paradigm-shift for an entrepreneur is to finally look in the mirror and tell the person one sees that "you are the problem!" From this point on, one begins to see that since the business was originally anchored on the entrepreneur, of course its success and failure will definitely be anchored on him/her.

Once the entrepreneur has that mindset of change, he/she begin to see that from him/her flows the lifeblood of a company's drive for change. In all its areas and on how it functions in the business environment. From here, he/she takes a look at the main indicators of what is obvious. Therefore, the story of realization and change begins.

In the case of the researcher's business, it was sales. The real estate project was already on its 3<sup>rd</sup> year and still no sales were coming in. To add to the confusion, this project was located in a very strategic location in Pampanga and as you know well, in a province that is booming very fast. Now whoever said that real estate was all about location? I beg to disagree. On the onset, it was what the developer originally thought of. The developer buys the land, develops it, and sells it. Nobody came. A business where capital expenditure is huge, losing money for three (3) consecutive years was more or less a sign for the developer to finally close shop.

Again, what was the logic of my business?

### **Stop, Look, Listen, and Think**

The developer started by checking what is happening to this country. These are some of the findings from my research:

1. The country experienced growth in terms of GDP at 5.5% and GNP of 5.8% in 2006.
2. I also found out that during the same year, our global heroes who are the OFWs poured in \$12B through formal channels and an unconfirmed data that it was the same amount through informal channels.
3. Opportunities to supply the need for housing are still very visible. There will be an estimated 3.8 million housing need come 2005-2010. This housing need is composed of the expected backlog, substandard, and new household according to the Housing Urban Development Coordinating Council (HUDCC).

The government identified key challenges for housing that they have to accomplish and these are the following:

1. Meeting the rapidly growing housing need;
2. Expanding private sector participation in socialized housing financing and construction; and

3. Strengthening the capacity of housing institutions;
4. An industry called the Business Process Outsourcing (BPO) industry is like a spreading wildfire in the metropolis and in key cities nationwide.
5. Local and international tourists are increasing everyday.
6. A special segment of the Filipino Baby Boomers scattered around the world were looking for a place to invest and because they are as I have said Filipinos, we are on top of their list.
7. The Philippines is being eyed as a strong candidate to be the retirement capital of Asia because of the country's natural resources and its culture of hospitality.

### **Government Programs & Directions**

According to the Housing Urban Development and Coordinating Council (HUDCC), the housing efforts of the government for the next three years will focus on the bottom 40 percent of households because of their inability to get formal housing assistance. This means providing these households with affordable socialized housing either through efficient production of housing units for ownership or rental or through sustainable housing finance. If and when necessary, the government will step in to provide subsidies to make housing more affordable. Government however will ensure that these are targeted and transparent.

The housing market should be made more efficient. This strategy calls for government to improve the efficiency of the housing market and for private sector to innovate and produce decent housing at lower costs. Housing agencies have been tasked to cut down bureaucratic red tape in the processing of housing applications. The target for this activity is to cut into half the processing period. To address the high price of urban lands for housing, Congress is being encouraged to enact the National Land Use Code. This code identifies all areas for specific uses and resolves conflicts in the use of land, their classification and their location. This will be accompanied by the Land Insurance Bill that seeks to promote a more reliable and fraud-proof system of securing land titles and addresses the problem of forgery of land titles.

A sustainable housing financing shall be put in place. When one thinks about housing finance, one immediately thinks of PAG-IBIG. This should no longer be the case when the private sector is encouraged to participate in the housing market. Housing finance shall rest on market-based principles and efficient use of subsidies and incentives to address specific market failures. Innovative financial schemes shall be put into place to generate long-term funds for housing.

### ***The OFW Phenomenon***

One of the major factors that have been affecting a lot of industries other than real estate is the emergence of the OFW market. This does not only fall under the social aspect of this environmental analysis but is also directly affecting the economy of the Philippines because of the huge inflow of money from different

parts of the world. The typical Filipino being known as the global employee has been to every destination possible, working hard for their families to let them survive while they are struggling here in the Philippines. This social phenomenon has opened a lot of businesses and gave the country a new hope for sustaining its growth. An estimated 8.3 million Filipinos or 17% of the total population are working abroad. If we will look at it on a micro level, there will be one (1) OFW for every six (6) household. Some 800,000 to 1M Filipinos emigrate on an annual basis. This number is expected to grow steadily in the years to come. The Philippines is the third largest country that sends out its labor force in world. The Philippines is only third among the top two (2) countries namely Mexico and China. An average of 2,500 Filipinos leave the country everyday. According to the recent report by the Asian Development Bank (ADB), the growing OFW market of the Philippines ranks 3<sup>rd</sup> in the world for remittance made. This amounts to around \$14-21 billion in remittances or a total of 32% of the GNP. This is expected to grow at 17.5% per annum.

According to the data by POEA in 2006, the deployment rate increased by 7.5% from 2005 to 2006. OFW remittances increased as well by a huge 19.4% from 2005 to 2006.

	<b>2005</b>	<b>2006</b>	<b>% Change</b>
<b># Of Deployed OFW</b>	988,615	1,062,567	7.5%
<b>OFW Remittance in \$</b>	\$10.7B	\$12.8B	19.4%

Source: POEA

The table below shows the origin of the \$12 billion OFW remittances. From these figures, overseas marketing efforts may be planned well and marketing budgets allocated for campaign programs of real estate companies. There was a whopping increase in remittances from Canada that recorded 400%.

<b>Country</b>	<b>2005</b>	<b>2006</b>	<b>% Change</b>
1. USA	6,424,848	6,526,429	1.58%
2. Saudi Arabia	949,372	1,117,915	17.75%
3. Canada	117,061	590,627	404.55%
4. Italy	430,071	574,662	33.62%
5. United Kingdom	300,725	561,670	86.77%
6. Japan	356,659	453,398	27.12%
7. UAE	257,429	427,246	65.97%
8. Hongkong	338,895	413,723	22.08%
9. Singapore	240,149	285,126	18.73%
10. Taiwan	86,551	168,998	95.26%

Source:POEA

The top ten provinces ranked by the number of OFW Households are shown below. This will help real estate developers evaluate specific locations if it is viable

or not. The usual investment choices made by a typical OFW is to buy properties for personal use and their relatives in the province. Pampanga has the most number of OFW household compared to the total household recorded in that province.

<i>Province</i>	<i>Number of OFW Household</i>	<i>Share of OFW Household to total number of Household</i>
Pangasinan	124,956	27%
<b>Pampanga</b>	<b>99,359</b>	<b>29%</b>
Iloilo	98,122	27%
Laguna	96,650	25%
Cavite	93,620	25%
Rizal	82,510	24%
Batangas	77,739	23%
<b>Bulacan</b>	<b>71,818</b>	<b>18%</b>
Negros Occidental	59,290	26%
<b>Tarlac</b>	<b>52,290</b>	<b>26%</b>

Source: POEA

The top ten destinations of OFWs from year 2004 and 2005 are illustrated below.

<i>TOP TEN DESTINATIONS OF OFWS</i>	<i>DEPLOYMENT</i>		
	<i>2004</i>	<i>2005</i>	<i>% Change</i>
1. Saudi Arabia	188,107	193,991	3.13%
2. Hongkong	87,254	94,553	8.37%
3. UAE	68,386	81,707	19.48%
4. Taiwan	45,059	46,714	3.67%
5. Japan	74,480	42,586	-42.82%
6. Kuwait	36,591	40,248	9.99%
7. Qatar	21,360	31,418	47.09%
8. Singapore	22,198	27,599	24.33%
9. Italy	23,329	21,261	-8.86%
10. UK	18,347	16,799	-8.44%

Source: POEA

From the data that was gathered, it proved that the real estate industry today compared to what it was during the financial crisis of 1997 is now standing on solid ground. This means that there is a strong and growing market compared then that most real estate investments were all speculative.

Another finding is that the sophistication level of the market that we are serving have increased due their exposure in the global market and that the

dynamics of the marketing landscape has changed tremendously over the years.

### **Porter's Framework Analysis**

The framework helped me understand the inter-connectivity of the players in the industry and how to gear my company in response to the changing behavior.

#### ***Bargaining Power of Suppliers***

The power of suppliers of raw materials in the real estate industry mostly depends upon the economic situation. During this time of construction boom, suppliers generally have greater bargaining power and have the capacity to command higher prices. During times of crisis, suppliers tend to lower their prices because of the diminished number of customers. This is very much manifested in steel and cement materials. During this time that real estate is booming, suppliers give higher prices due to increased demand and urgency.

#### ***Bargaining Power of Customers***

Individual buyers do not have much bargaining power when it comes to prices. On the other hand, corporate accounts may have certain advantages because of volume discounts. The power of the individual buyer relies on his ability to pay in cash, which forces a developer to lower prices in exchange for better cash flow.

Homebuyers are highly price sensitive since this expenditure represents a large fraction of the buyer's monthly income and savings. They also face high switching costs in terms of location that a developer is offering. However, due to the increasing sophistication of buyers, which is brought about by their exposure, they are able to demand for higher quality, extended financial terms and better service in terms of amenities and other value-added features.

#### ***Pressure from Substitutes***

Not everyone from the listed housing backlog can afford houses. That is why substitutes include purchasing lots only, renting, and living with parents, etc. No matter how uncomfortable these substitutes are, these are more practical options for those who can't afford to purchase their own house for the moment.

#### ***Threat of New Entrants***

The horizontal housing industry is a capital-intensive industry. Its barriers to entry are high due to the need for suitable land banking requirement, access to financing for development, financing that will come from customers and the need to apply economies of scale. However, in the horizontal residential sub-sector where it is highly fragmented, entry barriers are made lower because of the emergence of many landowners offering joint ventures. This is also the sector in real estate where location is the least sensitive unlike condominiums that require it to be in a developed location and resorts that demand a naturally beautiful location. In order to garner a good market share, buyers must know and appreciate the product that the developer is offering. In any given development before, land was always the largest cost but because of possible joint ventures, developers now can allot their funding in developing nice entrances and model houses for pre-selling which will improve their cash flow.

Access to development financing is also a prerequisite in real estate. This

funding line should at least have the lowest possible rates. This is possible if a developer has a good track record and a good relationship with the bank. Some old time developers tap their own source of financing for a project to push through. Financing for customers is also a major factor since not everyone has the capacity to pay outright. That is why a part of this paper talked about financing access like HDMF and GSIS to name a few.

Economies of scale play a major role in keeping costs down. A lean organization handling a lot of projects at one point is the most ideal. The key to achieving economies of scale is by developing and selling the first project fast and opening new projects by using all and the same business template. A real estate company that maintains its own construction company should be able to expand to more than 1 project since the investment and learning curve of the organization will be put to waste.

### **Knowing One's Competitors Intimately**

A developer has to understand the success factors of the big players in my industry and to know how they position their products in every locality that they are into. The size of the horizontal housing industry is very difficult to estimate because of the number of small players scattered in various parts of the country. In 2006, six (6) major developers had about P33 Billion in booked sales of residential subdivisions. Below is an overview of the major players in the real estate industry:

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#### ***Brittany, Crown Asia, Camella, etc. under the Villar Group***

This company is the pioneer among the market leaders in the mass housing for socialized, low and medium income segments. They became successful in penetrating this market because of liberal payment schemes to those who are in financial difficulty. After developing its capability in these segments, this group is now catering to higher income market segments having developed some of its new projects in Region IV.

#### **Sta. Lucia Realty**

The Chamber of Real Estate and Builders Association (CREBA) bestowed upon this 31-year old real estate company as the "Developer of the Year" for 2006 during the CREBA-HUDCC national convention. This company survived the hard times by not acquiring massive properties but participated through joint-venture agreements with landowners. Aside from developing residential properties, this company also ventured into malls and retailing. As of today, Sta. Lucia has developed 137 subdivisions, 11 championship-quality golf courses, 7 first-rate golf communities, 5 sports and country club estates and 1 mall.

#### **Filinvest Land Inc.**

The company was spun off from Filinvest Development Corporation, the listed holding company for real estate business of the Gotianun family. Its projects are primarily located in Luzon, particularly, the National Capital Region (Novaliches, Quezon City, Paranaque, and Las Pinas) as well as in Cavite, Laguna, Batangas, Rizal, and Bulacan. Some are also located in the Visayas-Mindanao

region, specifically Cebu and Davao. Filinvest is involved in various projects such as high-end residential communities, middle-income projects, socialized housing developments, farm estates, township projects, technology parks, and leisure malls. Filinvest Land, Inc. has a land bank of 2,608.5 hectares.

### **Landco Pacific Corporation**

Landco Pacific Corporation is a major, multi-product real estate development firm engaged in high-end residential resorts, leisure farms, first home residential developments, shopping centers and CBD's and memorial parks. Founded in 1990, the company was soon overseeing the planning and management of an estimated 80 development projects for some of the country's major property developers, such as The Tutuban Center and Filinvest Festival Mall. The company was also responsible for the development of the winning bid for the Fort Bonifacio Global City.

### ***Robinsons Land Corporation***

Robinsons Land Corporation (RLC), one of the Philippines' leading real estate companies, is involved in the development and operation of shopping malls and hotels, and is also one of the country's most progressive in developing residential condominiums, as well as land and residential housing developments, including socialized housing projects located in key cities and other urban areas nationwide. RLC was incorporated on June 4, 1980 to serve as the real estate arm of JG Summit Holdings Inc., one of the country's largest conglomerates with diverse interests in branded consumer foods, agro-industrial and commodity food products, textile, telecommunications, petrochemicals, air transportation and financial services.

### **Ayala Land Inc.**

This real estate arm of the Ayala Corporation is known and considered as the most successful real estate player in the country today. This company is the only full time property developer engaged in land development construction of office and residential buildings, shopping centers, industrial estates, office buildings, apartment buildings, hotels and resorts, infrastructure development and middle-income housing.

Through its over 50 years of experience in real estate, Ayala Land, Inc. has earned a reputation as the country's leading real estate developer. It is primarily credited for Makati City's metamorphosis from grasslands back in the 1940's into the premiere business district it is today. To this day, it is the preferred business location of the most prestigious corporate, commercial and residential addresses, site of many international hotel chains and home to exclusive high-end residential areas developed by the Ayala group over the past 50 years.

An estimated 65% of the projects of these major developers cater to the mid-market segment. All of these developers except for Sta. Lucia Realty offer house and lot packages. Sales coming from the provinces account for about 33% of the 2005 sales of major developers. This percentage mostly came from the two developing regions IV and III. There is an estimated minimum of 2-5 developers present in any given location. Sta. Lucia realty sells mainly open lots with cuts ranging from 150sqm above and sold at a minimum of P3,000 per square meter.

Crown Asia, on the other hand, focuses on house and lot products targeted to the middle-income market. Filinvest is involved in doing both house and lot selling and lots only.

As of October 2007, there are emerging companies that will also play a major role in the growth of the Real Estate Industry. These companies have also invested billions of pesos as part of their future plans. These companies continue to experience high sales and it is important to assess what makes them successful as we move forward. They are as follows:

1. Megaworld / Empire East
2. Century Properties
3. Eton Properties
4. Globe Asiatique
5. Federalland
6. Nuvo Land
7. SM Development Corporation
8. Phinma Properties
9. DMCI Homes

### **Understanding One's Micro-Market**

One of the most unforgettable experiences for the researcher was to re-scan the market where my business operated. There was the realization that the company was not competing at all in a marketplace where competition was very stiff. This, if I may advice my fellow Entrepreneurs especially those in the early phases of their business' life cycle, is very important. Scan your micro-market and better things will happen. The basic ingredient of a good micro-market scan involves an analysis of the locality, the competitors, and most importantly, the customers.

### **Findings** (Sample results from our micro-market scan)

#### Locality

- The Pampanga market had one of the fastest population increases amongst all the provinces in the Philippines.
- The new North Luzon Expressway increased land values in Pampanga.
- The newly opened Subic-Clark-Tarlac interchange will give Pampanga a boost in its local economy.

#### Customers

- Age-range of potential customers is from 28-40 years of age.
- The potential market includes local professionals, small and medium-size business owners, and families of OFWs.
- OFWs can purchase a house by offering financial package that would extend their payment term.

#### Competitors

- 75% of our competitors in Pampanga are in the lot-selling segment only. Only 25% offers house and lot packages.

- Only a few developers engage in comprehensive marketing and sales activities.
- The absorption or selling speed in Pampanga is very high at 200-300 houses per month.

Re-visiting the company's micro-market gave the developer the right mix of how to repackage their product and choose the exact segment that they wanted to serve. Because of the research findings, it was the developer's decision to finally shift from the low-cost segment upward the mid-cost segment. This was a major decision point because doing so will also entail that the entire organization upgrades the way it does business.

### **Know What It Takes**

In order to be successful in real estate, the following things should be considered:

1. Location and accessibility of the development
2. Extensive market research
3. Product packaging
4. Customer-oriented housing products
5. Value-added features
6. Tailor-fit financial packages
7. Access to capital
8. Cash flow management
9. Product concept and innovation
10. Comprehensive marketing plan

### **Re-configuring One's Organization**

With the changes in the environment, also came the need to effect change in the organization. The configuration of your organization must be aligned to what type of market opportunity one will be seizing based on your long-term strategic plan. One cannot just configure it the way others do it, otherwise one will fall into the trap of fielding the wrong army in a competitive war.

### **Marketing**

The owner informed the marketing department that they would pause operations and reconfigure everything. When they all came back, it was totally a different product that they had to sell. The owner had to go through the process of evaluating the current sales force if their profile is still the one needed to push for a new type of product. The upward movement of the target market requires an upward movement in the entire packaging of who will push for the product not only in their physical appearance but also in the type of knowledge and attitude needed to be a deserving front-liner of the company. The owner replaced each one of them.

The marketing communications also changed dramatically because suddenly, they will have to communicate to a new market segment, which is more knowledgeable, more sophisticated, and more powerful in terms of purchasing power. The pricier product becomes; the more sophisticated one's customer gets.

## **Operations**

Imagine a workforce that was used to delivering low-quality products and then suddenly the owner asked them to deliver, industry breaking, quality, and timely products. Marketing promised customers superb product delivery, the department delivered the promised perception that the marketing department gave the customers. Operations in real estate comprise 90% of total spending since bulk is used for land development, and housing construction. Therefore, the Entrepreneur should make sure that resources are utilized at an optimum level while seeing to it that expectations are met with the right quality and delivery time. A long-term training program was designed to meet the ever-growing quality needs of the new target market as well as exposure programs so that the workforce knows the quality and type of finishing that other players offer.

A part of this is the handling of the organization that delivers the goods. New product, new quality demands, new culture. The owner had to do a total facelift to how things were done and measured in order to respond to the needs of the changing market. There were many rejections from the start because everyone was already in their comfort zone.

## **Finance & Accounting/Procurement**

The company's back office support suddenly became a war zone because of the many demands that needed support. The company had to establish a more professional way of counting numbers, which means newer systems and better procedures. Before, it was just a matter of recording transactions but it totally evolved to a back office support that also responds to the needs of the market such as extended financial terms, efficient collection services, and financial management. Cash flows had to be managed because since sales grew by 1,900%, the organization had to be robust enough to be able to handle such kind of sudden growth in sales. Cash flows had to be managed daily, weekly, monthly, so that management is always updated on sudden change in the movement of its vital resource, which is cash. Suddenly one starts to realize that personal finances cannot sustain the operations of one's business and that a bigger appetite for financial infusion is needed from other channels like loans from bank and investment companies.

## **Human Resource**

One does not force people to change, one inspire them. The developer had to sell them the idea that the developer's plan for change will be for the betterment of the company. From the entrepreneur lies the ability to create a very good vision for the company that people will follow because they see something good in it. One has to know that this is the hardest resource to manage because they are human beings after all, with feelings, dreams in life, and the right to choose. Gone are the days that employees are given their job description, sent to their workplace, and paid every 15-30 and the job will automatically be accomplished. It is about showing them that working for the owner creates satisfaction. A feeling where their input adds up to the company's drive for success, the company's achievement of their vision.

Start with the ABCs of human resource by providing for their basic needs and

make sure that mid-term and long-term plans are laid out for their growth. Clear communication, involvement, and inspiration are the things that one should always practice and remember. For the company, it was all about investing in a human resource team before anything else. Always remember, no investment pays higher dividends than investment in the employees.

### **Ready, Aim, Fire**

After analyzing every facet of one's business, a good business plan should always be produced so that lampposts are established and management control is present. Once one is ready with all the scientific analysis together with the right gut feel, it is time to cross the bridge and do it.