

Concept of Construction Business Environment

1. Construction business environment: Concept

The construction industry includes the units engaged in the construction and operation of road, bridge, ropeway, railway, tunnel, flying bridge and also those engaged in the construction of industrial, commercial and residential complex. The construction industry is becoming more competent, larger and responsible. Construction activities contribute remarkably to the GDP of the country. Construction also provides full-time as well as seasonal employment to a significant number of people. Infrastructure-related construction such as hydropower, roads, and irrigation constitute the principal construction activities.

Construction has direct and considerable impacts upon the environment on the one hand and on the other hand, the global awareness towards the preservation of environment has strongly linked environment and construction together. For developing countries like Nepal there is a great need for the development of basic infrastructure and there is also a challenge of preserving/protecting environment from possible hazards.

The combination of various internal and external factors that influence operating situation of a construction industry is known as Construction business environment. It refers to different forces or surroundings that affect construction business operations. It includes forces such as customers, competitors, suppliers, distributors, industry trends, substitutes, regulations, government activities, the economy, demographics, and social and cultural factors. Others are innovations and technological developments .

2. Factors affecting construction industry

I Economic sector

- State of economy
- Overall rate of growth
- Growth rate of primary, secondary and tertiary sectors
- Rate of inflation
- Linkage with the world economy
- Trade surplus/deficits
- Tax and revenue policies

II Politico-legal (Governmental) sector

- Law of the country
- Industrial policy
- Tax framework
- Subsidies, incentives and concessions
- Import and export policies
- Financial norms
- Lending conditions of financial institutions and commercial banks
- Political interference
- Political stability

III Socio-cultural sector

- Population trends
- Age shifts in population
- Income distribution
- Educational profile
- Employment of women
- Attitudes towards consumption and investment

IV Environmental sector

- Geographic and climatic condition
- Laws related to environmental protection
- Prevailing infrastructure and other physical facilities in the country

V Competition sector

- Number of firms in the industry and the market share of the top few
- Degree of homogeneity and differentiation among products
- Entry barriers
- Comparison with substitutes in terms of quality, price, appeal and functional performance
- Marketing policies and practices

VI Supplier sector

- Availability and cost of raw materials and sub-assemblies
- Availability and cost of energy
- Availability and cost of money

VII Technological sector

- Although the construction industry has been built around brick, mortar, steel and hard labor, technology is playing a larger part in this field. Something as simple as communication between the office and the field has been revolutionized by technology.
- Almost all house plans and engineering plans are done on Computer-Aided Design and Drafting systems.
- Out-of-town owners can also benefit from Web cameras placed on-site, technology which Linkages Construction utilizes.
- Technology is affecting construction work in other ways, as the industry is taking advantage of Global Positioning Systems in the field.
- New construction materials, heavy equipments, new construction processes, new technologies in design, availability of testing facilities and laboratories have made construction industry more sophisticated and robust.

3. Forces Driving Industry Competition

An industry is a unit engaged in production for a sale at a profit and with the objective of maximizing the profit. The basic characteristics of an industry are that it intends to grow continuously and forever. For the growth of an industry at least reasonable rate of return is required. Hence an industry, before initiating work, should consider whether that work is profitable or not, whether that work can be done at least cost or not. For this on demand side, the following factors are to be considered:

- ✚ The size and direction of price in future
- ✚ Demand from buyers
- ✚ General economic conditions
- ✚ Change in fashion
- ✚ Labor interests

Similarly on supply side, the following factors are to be considered:

- ✚ Price of plant and machinery

- ✚ Cost of credit
- ✚ Cost of building and land

The above mentioned factors are influenced by the environment where the firm exists. The existing situation that affects the operation of an industry is known as the industry's environment. The various environmental forces affecting the activities of an industry are :

- ✚ Economic sectors
- ✚ Government sectors
- ✚ Technological sectors
- ✚ Socio-demographic sectors
- ✚ Competition sectors, and
- ✚ Suppliers sector etc.

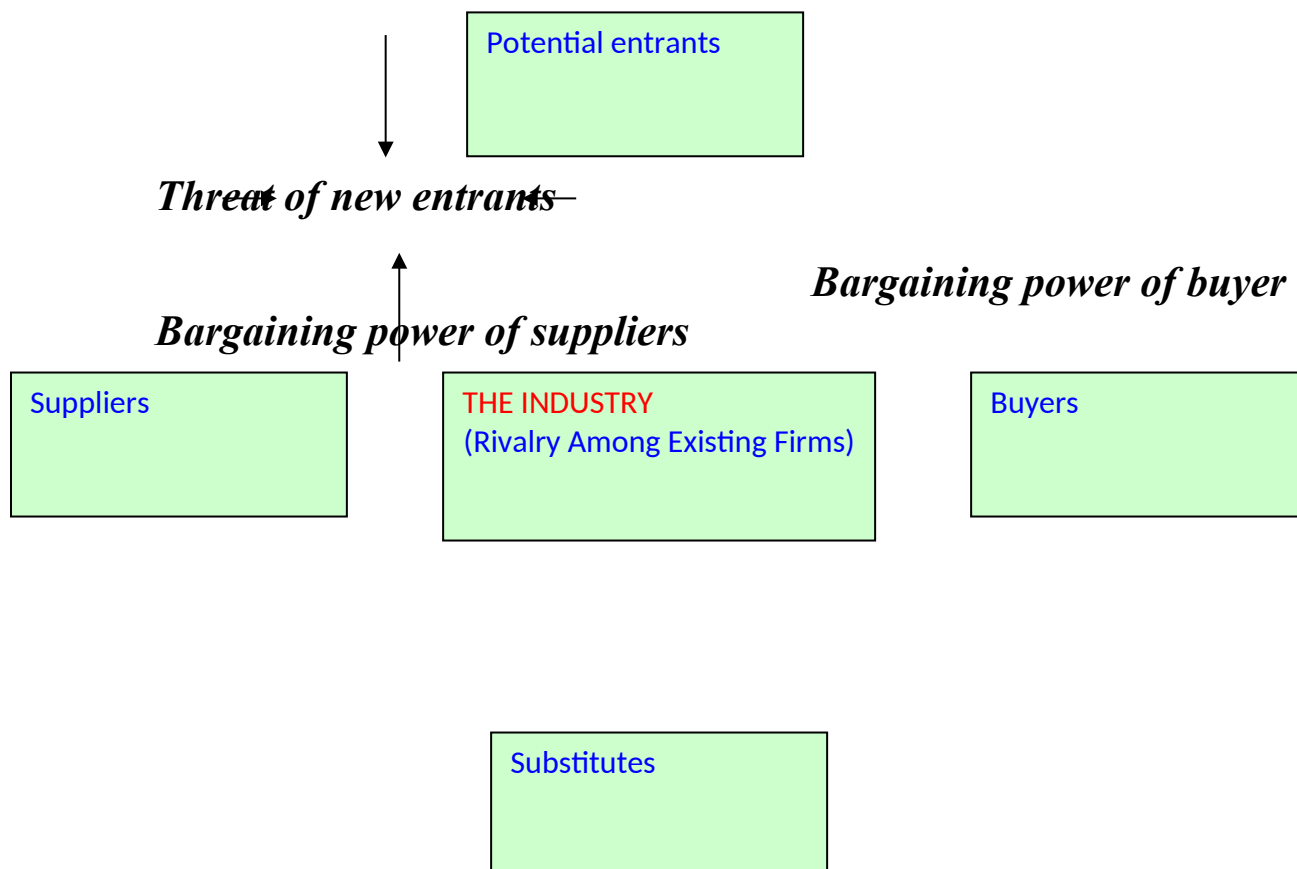
Industries compete among themselves for existence as well as profit making. The competition depends upon:

- ✚ Number of similar firms in the industry
- ✚ Degree of homogeneity and differentiation among products
- ✚ Entry barriers as per the provisions in the law like Company Act
- ✚ Comparison with substitutes in terms of quality, price, appeal and functional performance
- ✚ Marketing policies and practices

The various forces driving industry competition are:

- New Entrants
- Strong suppliers
- Buyer's strength
- Substitution products/ services
- Rivalry among existing

Forces Driving Industry Competition



Threat of substitute products

I New Entrants

New entrants emerge out in the various industrial sectors including construction industries with a new and better flavor to attract the customers. New entrants are capable to analyze the weak points and problems of existing industries and obviously they will try to hit the soft corners of the existing industries. The recent trend has shown that in construction industries, new entrants enter in the field with new ideas and new technologies with an objective to be established in the existing market and winning client/consumers' confidence. For this purpose, they are willing to provide goods and services even at very low profit that threatens the existing industries.

II Strong Suppliers

A construction industry requires a variety of raw materials, tools and equipments for production of its goods or services. These materials, tools and equipments are purchased from suppliers. The cost of production or services depends largely upon the cost of these materials from the suppliers. Due to the advancement of IT, suppliers at present have a wide range of alternatives and enhanced bargaining power. Now suppliers have the flexibility to analyze various alternatives and they can make optimum decision to yield higher profit and that makes the competition among existing industries still tougher.

III Buyers' Strength

The buyers are the ultimate users of the product or services. The buyers, in this modern age of advanced technology, have the choice to satisfy their needs with desired quality of product or service within very short duration from any corner of the world at a reasonable cost. If the buyers have strong bargaining power and are sufficiently conscious about the quality of the product or services, industries are compelled to sell their products or services at a lower price and better quality which increases competition.

IV Substitution Products/Services

If the substitution products or services of an industry is readily available at a lower price, the consumers are attracted towards the substitutes and the industry under consideration is to increase the quality of the product and at the same time is forced to lower the price which makes the rivalry among existing industries producing the same products or services still tougher. For example, if the supply of coffee is more at a lower price in the market, the tea industries get affected and to increase their sale, they have to increase the quality standard of tea and at the same time have to reduce the price of tea for their survival. The same principle applies in construction materials and industries related to other construction activities.

V Rivalry among Existing Firms

The existing industries know each other in terms of their products, practices and weaknesses also. They try to disclose the weakness of others and strength of theirs to compete in the market. In construction industries, sometimes many firms quote very low bid even knowing that they will go in loss just for the sake of preventing other firms to get the job which changes the competition into rivalry.