

CHAPTER 2

LITERATURE REVIEW

In the real estate risks factors consists of different variables. There are various exceptions to the law, as well as methods for foreigners who want to acquire land or purchase a house or condominium unit in Thailand legal (Ratprasatporn & Thienpreecha, 2002). The first variable is internal political stability. The domestic political and government actions are the important things to attract the foreign investors. The high political stability can invite the high number of foreign investors (Bank of Thailand, 2009). The second variable of real estate risks is Thailand corruption problem. The corruption problem has direct effect on foreign investments, high level of corruption is highly effect number of investment (Wei, 1997). This topic is a serious problem in Thailand today. A price of real estate houses is also one important factor to motivate the foreign demand investors to invest in the real estate house. The lower the price of housing is the higher the demand of investment will be (Lim et al., 2005).

The cultural factor is the importance dynamic to success in international markets. In order to success in this area the businessman should understand the basic culture of their customers (Barratt, 1995). The major variables used to study in cultural factors are personal contact, language barriers, cultural differences, and customer habits. Reference groups are the group of people who have a strong affect on decision making such as family members or friends. The second variable is language barriers. Nowadays, the English language is important in international and global business (Marschan et al., 1997). The Thai government, as well as the Ministry of Education, is working hard to promote the English language among Thai people, especially as a means of communication in business. Thai government and education officials have worked together to promote the English language proficiency of Thai people to be a top priority for business communication (Thailand Board of investment, 2004). In terms of cultural difference, the developers should understand the basic cultural differences between Thailand and Sweden in order to provide the right service and property. The last variable of culture is customer habits. In terms of lifestyle, the consumers will present the ways they live, what they wear, how they spend money and time on the product. The developers or real estate agencies have to identify the consumers' lifestyles and find the right property that suits to their lifestyles (Barlow & Ozaki, 2000).

This research studies the Factors Influencing Chinese consumer decisions to buy condominium in Thailand. Some theories relate to this research are as follows:

2.1 Real estate risk factors

Real estate market exists within a broad institutional context defined by the prevailing political, economic, social and legal system (D' Arcy & Keogh, 1998). Real estate investment is becoming progressively more to international. "As markets around the world are more sophisticated, investors are looking to expand in worldwide" (Lizieri & Finlay, 1995; Newell & Worzala, 1995; McAllister, 1999).

Motivations for property investment vary according to the background of the investors concerned. The main argument to support international diversification is that foreign investments offer additional potential to reduce total risk of international investor. They appear to be certain country preferences between international security and the real estate investors depending on country of origin. It seems that the first preference of the real estate investor is internally within the country of origin (Hines, 1988).

2.1.1 Internal politics stability

The stability in the domestic political and government actions are important contributions to attract the foreign investors to invest in the country. “Recognizing the contribution of foreign investment can make economic growth and developing host countries are increasingly a pragmatic approach to foreigner investment” (Lim & Fong, 1991).

Thai Government has focused on liberalization on trading, economic sustainable, Asia bonds and tourism promotion. Thailand is a founding member of General Agreement on Tariffs and Trade (GATT) negotiations, World Trade Organization (WTO) negotiations, and trade agreements such as Association of Southeast Asian Nations (ASEAN), ASEAN Free Trade Area (AFTA), Asia Pacific Economic Cooperation (APEC). In addition, the Thai government issues policies to support all the business growth. In 1997, Thailand faced the economic crisis and many entrepreneurs confronted bankruptcy. After the crisis, the Thai government issued the short term policy to encourage the new investment from both domestic and foreign investors by decreasing the loan interest rates, reducing the transfer fees, and increasing the housing credit loans extended by commercial banks (Bank of Thailand, 2009). The Ministry of Interior announced the real estate transfer fees of 0.01% instead of 1% in order to support the trading of real estate. This announcement has been valid from March 2009 (Sinthiraphatsak, 2009).

2.1.2 Thailand corruption problem

“Corruption in host country has a negative effect on inward foreign direct investment from all source countries” (Wei, 1997). Corruption has been involved in all part of economic and political sectors for ages. It is still a serious problem in Thailand today and it has deeply rooted in Thai government (Treerat, 2000).

Shleifer and Vishny (1993) define “corruption” as government officials abusing their authority to accept enticement from a private sector for personal benefits and many civil servants also illegally increase their recompense by providing services to interest groups that seek favors from the government. The problem is that if bureaucrats discover that they can receive more incomes from providing services to groups seeking state favors than from their regular jobs, they are likely to pay extra attention to the demands of such interest groups rather than to the proper enforcement of state laws and regulations, as well as the effective implementation of national development plans. When government officials abuse their governmental powers for illegitimate private gain then political corruption will occur. Vulnerable governments that do not control their agencies often experience high levels of corruption and the problem of corruption is its effects on economic growth. Quah (2003) found that the bureaucratic corruptions in Southeast Asia come from civil servants’ low salaries, ample opportunities for corruption, and low risks of detection and punishment. Smith (1969), as cited in Quah (2003), mentions that “there is not a single

official who can live by his government income alone” as the “official income amounts to approximately half of (his) essential monthly needs”. In Thailand, low salaries of civil servants are an important cause of corruption. The standards for starting monthly salary of government officers are 6,000 Baht (US\$182) which is not enough to live in large cities (Straits Times -- Singapore, 2002 as cited in Quah, 2003).

Transparency International’s Corruption Perception Index (2003, as cited in Quah ,2003) surveyed that the CPI score of Thailand is 3.30 (CPI score range from 0 to 10, 0 is the most corruption) Thailand is in the 70th ranked of CPI among 133 countries survey. The Thai government has set up new independent institutions of state to checks the systems and use of power of the government’s officers in order to increase the confidence for the foreign investors to invest in Thailand (Treerat, 2000).

2.2 Marketing Mix factors

2.2.1 Product

To begin, the first p in the marketing mix stands for product. Products are the things that organizations sell to people (ABC’s of Small Business, 1999-2003). This area is concerned with creating the right product or service for the target population. The product or service should satisfy the need of the target population. For this reason, it is very important to know the wants and needs of the target population.

2.2.2 Place of Real Estate

The second p in the marketing mix stands for place. “Place is concerned with all the decisions involved in getting the “right” product to the target market’s Place” (Perreault & McCarthy, 2004, Ch 2, Pg 39). This is how an organization gets it product to the customer. There are many different ways of getting a product or service to the customer, so it is important for the organization to know if the customer wants to see or touch it before he or she buys it. The product or service reaches its target population through distribution channels, which are any series of firms or individuals that participate in the flow of products or services from the producer to the consumer.

2.2.3 Price of Real Estate

The housing price is one factor to drive the demand of foreign investment (Wong et al., 2003). “The lower prices of housing can attract more prospective buyers” (Pornchokchai, 2007). Thailand and Hong Kong are in the top range of most favored countries for new real estate among the European investors as they perceive real cost potential for investment (Lim et al., 2002).

According to Pornchokchai (2007), the property real estate in Thailand, the number of units developed remained more or less the same depend on demands of the market. It encourages the developers to decrease prices per unit to attract buyers on the way to a market. The housing investors tend to respond to decreasing real costs rather than increasing actual costs (Harris, 1989).

2.2.4 Promotion of Real Estate

The third p in the marketing mix stands for promotion. Promotion is telling the target population or others in the channel of distribution about the right product. It includes, advertising, sales promotion, publicity, personal selling, branding, and refers to the various methods of promoting the product, brand, or company (Wikipedia-Marketing, 2008). Promotion can be focused on acquiring new customers or sometimes it is focused on retaining current customers.

2.3 Social culture factors

In this section, the researchers examine reference groups, language barriers, cultural differences, and customer habits mentioned in Lim et al. (2002). Culture is an important dynamic aspect to be taken into consideration by international business entities. To be successful in international business world, companies must understand the cultures of its customers because cultures provide an overview of the social framework, social rules and customer expectations (Barratt, 1989). Lim et al. (2002) mention that culture is an important factor for the real estate business as customers are from different countries and they have different perceptions then the investors or developers should consider the consequence of different cultural backgrounds as it can influence the investment decision making.

2.3.1 Reference group

“Reference groups influence the attitudes and norms of behavior acceptable to individuals, therefore, individuals often comply to group decisions and ideals in order to gain acceptance” (McNeil, 1969). Engel et al.(1995) mention that the reference groups are collections of other people who strong affect to customer in decision making while Bearden and Etzel (1982) mention that a reference group as a group of persons that influence the individual behavior. Reference groups are conforming by the individual social network such as family members, friends, inspirational figures and colleagues (Bachmann et al., 1993). Moreover, reference groups influence varies across culture also have been identified as important determinants of public consumption (Chiders & Rao, 1992).

Kelly (1965) mention reference groups in two functions, that is, the normative function which implements standards to individual and the comparative function that provides a comparison point hitting which an individual evaluates him and others. Sahlberg (1996) says that in the real estate markets reference groups are important to influence customer decision to buy real estate to live in community residents and family plays an important role for purchasing behavior of his or her life decision making.

2.3.2 Language barrier

Marschan et al. (1997) said that English language is become worldwide in the international and global business. In case of Thailand, Thailand is similar with Japan as people speak Thai as home language. Japanese is able to read and write English is eminent. But most are not confident to speak English. They speak only Japanese that is to be disadvantage for international communication to other countries (Kwan, 2003).Thai government and education officials have revamped making English language to be a top priority in term of communications in business.

Thailand, their growth support and persuaded by the general population's drive to develop their English language capacity. Many international corporations organization which was establishing operations in Thailand was merely a beneficial skill to become a condition to hire employee in many positions throughout the country. The strong progress in English language abilities generally is creating a better-rounded and internationalized base that will make sure that Thailand is fully-prepared to provide accommodate for all international foreign business in the future (Thailand Board of investment, 2004).

2.3.3 Culture differences

According to Johnson (1962), culture comprises of cognitive elements, beliefs, values, norms and sign, signals and symbols. Culture could be defined in several ways but it can refer to what a society knows about its physical and social world including its religious beliefs, what it considers to be appropriate forms of conduct, the language and other forms of conveying meanings that it uses for communication (Evans, 2006, p. 220). All societies have a different culture, where people share a specific language, traditions, perceptions, beliefs and attitudes. The cultural aspects create them an identity which is unique and different from the people of other cultures (Schneider & Barsoux, 1997). Worzala and Newell (2007) agree that the different culture background can influence decision making. Different cultures have different values such as Western cultures often emphasizing individualism which focus on the individual while Eastern cultures emphasizing collectivism which focus on conformity to the group (Evans, 2006, p.221). Individualism versus collectivism is the degree to how interpersonal relationships are supported by the society. Individualist side, the individualist societies are expected to look after themselves while collectivist side, societies close relationships and interrelated in-groups (Hofstede, 1991).

Barratt (1995) finds that the investors have to understand the basic cultural differences background between Asian and European in order to provide the right products and services to the consumers or predict their behaviors before do business. Persson (2006) mentions that the Swedish start searching new markets in Asia and coastal destinations are good locations for retirement after the prices of holiday homes in Spain are rising. Thailand becomes a well-known destination for sun, sand, and sea for Swedish as Thailand has beautiful beaches, low living cost and warm weather through the whole year.

2.3.4 Customer habits

Gibler and Nelson (2003) maintain that individual habits are more likely to use their own knowledge, experience and behavior to making a decision. "In terms of lifestyle, the consumers will show the ways consumer live, what they wear, how they spend money and time on the product". The builder will design property according to the customer's lifestyle trends. Real estate sale agents have to identify the buyer's lifestyle and find the house that suits him. There are several different definitions and theoretical models of customer satisfaction (Evrard, 1993). However, most authors agree that satisfaction is the outcome of an evaluation process in which the customers evaluate the performance of a product or service with their expectations (Kotler & Armstrong, 1999). Once the customers are known, it is compulsory to identify their expectations. This is not an easy process since buyers are moved by a complex set of deep and subtle emotions

(Evrard, 1993). Their behavior depends on deeply held values and attitudes, concerned with their view of the world (Kotler & Armstrong, 1999). Geographical immobility is another dimension of the home and real estate markets. The home becomes the strategic point for all activities of the family members. Customer satisfaction levels are determined not only by the quality and price of the product, but also by the quality of customer service. In the house-building sector, customer satisfaction depends on the facilities that are provided, considering the complex relationship between the users and their immediate environment, as well as on the services that are provided to customers before and after the transaction (Barlow & Ozaki, 2000).

Erasmus et al. (2001) posit that exploratory approach with the intention of customer may provide the benefits to understanding the specific decision making. In most cases, consumers will consider several options before making a decision (Bayus & Carlstrom, 1990). The house is the most important durable goods (Hempel & Punj, 1999). There are similarities among the buying process related to customer decision making in different durable goods (Punj, 1987). As the car is the second most important durable in the household. Both products are highly involved to the customer and product categories offer a rich variety of prices which related to quality (Brucks, Zeinhaml, and Naylor, 2000; Bayus and Carlstrom, 1990). Similarly, the decision to buy property or real estate is also composite and demands high involvement (Gibler & Nelson, 2003). The objective physical properties of the product and the service offered by the producer or the company that adapts the basic design to offer customers may be available alternatives in the real estate markets and customer decision making (Hawkins et al., 2003). Gronhaug et al. (1987) say that households may have serious problems in making wise strategic purchase decisions to real estate. Customers' attitudes to buy a house based on direct experience with the product are much firmer than those based on circuitous experience (Berger, 1992). Gibler and Nelson (2003) affirm that the individual decision making can be a factor to improved prediction and explanations in the real estate context that can make the companies to be able to match with the customers' habit and their need to be satisfied in term of pre purchase method. Real estate should also focus on building confidence; house desired which one of the antecedents of is perceived risk can be diminished (Laroche et al., 2003).

2.3.5 Preference

[Lichtenstein, S., & Slovic, P. (2006). The construction of preference. New York: Cambridge University Press.]

Preference is an individual's attitude towards a set of objects, typically reflected in an explicit decision-making process

[Scherer, K.R. (2005). What are emotions? And how can they be measured? *Social Science Information*, 44, 695-729.]

One could interpret the term "preference" to mean evaluative judgment in the sense of liking or disliking an object which is the most typical definition employed in psychology.

[Brehm, J.W. (1956). Post-decision changes in desirability of choice alternatives. *Journal of Abnormal and Social Psychology*, 52, 384-389.]

Preference can be notably modified by decision-making processes, such as choices.

2.3.6 Customer Motivation

[Dianne Bown-Wilson, eHow Contributor; http://www.ehow.com/about_6572429_definition-consumer-motivation.html]

Consumer motivation is an internal state that drives people to identify and buy products or services that fulfill conscious and unconscious needs or desires. The fulfillment of those needs can then motivate them to make a repeat purchase or to find different goods and services to better fulfill those needs.

Hierarchy of Needs

Consumer motivation is linked to Maslow's "hierarchy of needs." According to this model, motivational drivers have different levels of importance. The most common needs are physiological and concern basic survival--the need for food, shelter and safety. Higher-level needs include social ones (for relationships and love), esteem needs (recognition and status) and self-actualization needs (fulfillment of self). According to Maslow, an individual must meet lower-level needs before being motivated to fulfill higher-level needs.

Motivational Levels

Depending on how important a purchase is to an individual, his motivational levels may vary from low to high. Influences include familiarity with the purchase, status factors and overall expense and value. Where fulfillment rewards are low, as with groceries, motivation levels are also relatively low and involve little decision-making behavior. Conversely, with a complex, risky and emotionally-charged process such as buying a new house, the drive to achieve the "right" result is high.

Motivational Behavior

The behavioral aspect of consumer motivation concerns the actions someone takes before purchasing and consuming goods or services. A person might do a lot of research--evaluating alternatives, testing and sampling--before making a selection. She might decide to buy something based on which goods or services most closely meet and satisfy motivational wants and needs. Marketers aim to gain the most impact and eventual sales by linking their products and services to clearly defined consumer needs and by understanding what motivates people to buy.

Motivational Influences

Motivational levels differ greatly between individuals and are influenced by many external variables. These include the social value of making the "right" decision, beliefs about brands and alignment of brand values and personal values. If other people are involved in the decision, their motivation also affects the behavior of the primary consumer.

Assessing Motivation

Companies and marketers use a number of different tools to help them understand consumer motivation in relation to their products and services. This may help them orient their markets according to different buyer motivation. Marketers use pre-purchase and post-purchase focus groups, one-to-one interviews and online or postal surveys to develop their understanding of consumers' motivational drivers.

2.4 Buying Decision

[Author: JiRiley;http://www.tutor2u.net/business/marketing/buying_decision_process.asp]
Definition summarized in the diagram below:



This model is important for anyone making marketing decisions. It forces the marketer to consider the whole buying process rather than just the purchase decision (when it may be too late for a business to influence the choice!)

The model implies that customers pass through all stages in every purchase. However, in more routine purchases, customers often skip or reverse some of the stages.

For example, a student buying a favourite hamburger would recognize the need (hunger) and go right to the purchase decision, skipping information search and evaluation. However, the model is very useful when it comes to understanding any purchase that requires some thought and deliberation.

The buying process starts with need recognition. At this stage, the buyer recognizes a problem or need (e.g. I am hungry, we need a new sofa, I have a headache) or responds to a marketing stimulus (e.g. you pass Starbucks and are attracted by the aroma of coffee and chocolate muffins).

An “aroused” customer then needs to decide how much information (if any) is required. If the need is strong and there is a product or service that meets the need close to hand, then a purchase decision is likely to be made there and then. If not, then the process of information search begins.

A customer can obtain information from several sources:

Personal sources: family, friends;

Commercial sources: advertising; sales people retailers; dealers; packaging; point-of-sale displays;

Public sources: newspapers, radio, television, consumer organizations;
Specialist magazines
Experiential sources: handling, examining, using the product;

The usefulness and influence of these sources of information will vary by product and by customer. Research suggests that customer value and respect personal sources more than commercial sources (the influence of “word of mouth”). The challenge for the marketing team is to identify which information sources are most influential in their target markets.

In the evaluation stage, the customer must choose between the alternative brands, products and services.

How does the customer use the information obtained?

An important determinant of the extent of evaluation is whether the customer feels “involved” in the product. By involvement, we mean the degree of perceived relevance and personal importance that accompanies the choice.

Where a purchase is “highly involving”, the customer is likely to carry out extensive evaluation.

High-involvement purchases include those involving high expenditure or personal risk – for example buying a house, a car or making investments.

Low involvement purchases (e.g. buying a soft drink, choosing some breakfast cereals in the supermarket) have very simple evaluation processes.

Why should a marketer need to understand the customer evaluation process?

The answer lies in the kind of information that the marketing team needs to provide customers in different buying situations.

In high-involvement decisions, the marketer needs to provide a good deal of information about the positive consequences of buying. The sales force may need to stress the important attributes of the product, the advantages compared with the competition; and maybe even encourage “trial” or “sampling” of the product in the hope of securing the sale.

Post-purchase evaluation - Cognitive Dissonance

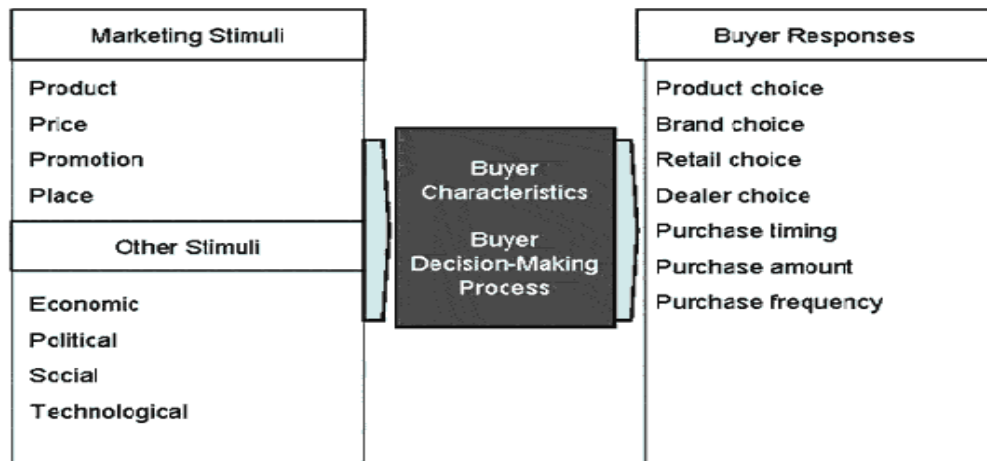
The final stage is the post-purchase evaluation of the decision. It is common for customers to experience concerns after making a purchase decision. This arises from a concept that is known as “cognitive dissonance”. The customer, having bought a product, may feel that an alternative would have been preferable. In these circumstances that customer will not repurchase immediately, but is likely to switch brands next time.

To manage the post-purchase stage, it is the job of the marketing team to persuade the potential customer that the product will satisfy his or her needs. Then after having made a purchase, the customer should be encouraged that he or she has made the right decision.

2.5 Buyer Behavior - Stimulus-Response Model

[Author: Jim Riley; http://www.tutor2u.net/business/marketing/buying_stimulus_model.asp/]
A well-developed and tested model of buyer behavior is known as the stimulus-response model, which is summarized in the diagram below.

Stimulus-Response Model of Buyer Behaviour



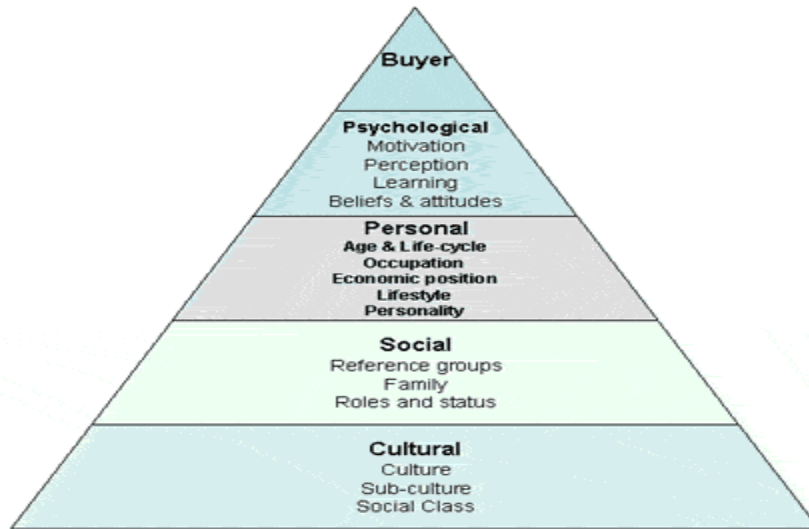
In the above model, marketing and other stimuli enter the customers “black box” and produce certain responses.

Marketing management must try to work out what goes on in the mind of the customer – the “black box”.

The Buyer’s characteristics influence how he or she perceives the stimuli; the decision-making process determines what buying behavior is undertaken.

Characteristics that affect customer behavior

The first stage of understanding buyer behavior is to focus on the factors that determine the “buyer characteristics” in the “black box”. These can be summarized as follows:



Each of these factors is discussed in more detail in our other revision notes on buyer behavior.

2.6 Theory of demand

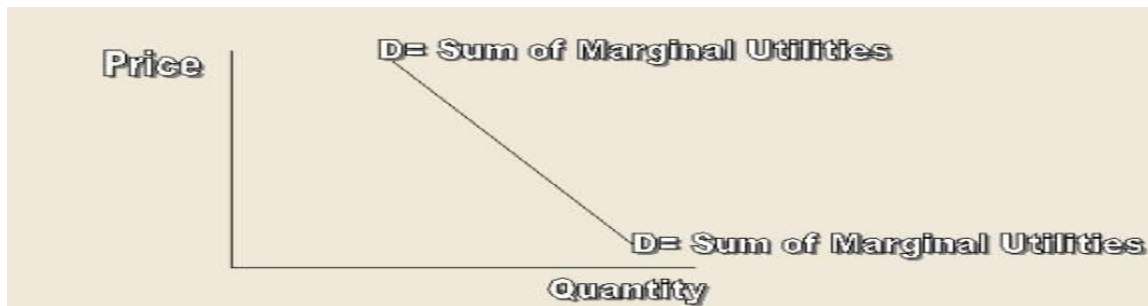
[<http://krypton.mnsu.edu/~cu7296vs/tod.htm>] Demand is a schedule representing the quantities of a good or service the consumer is able and willing to buy over a given range of prices. It reflects the way consumers react when faced with variations in the price of a good. There is no question that consumers react to price and that there is some hypothetical demand schedule. The real question is what it means. Can demand be interpreted as some sort of subjective measure of the benefits that a good or service provides? Under what conditions can such beneficial results be expected? A definitive answer is not possible, but in neoclassical economics the tendency is to assume that demand is a reflection of the degree of benefits received by consuming a good or service. In order to ensure that markets result in economic efficiency, demand must represent the genuine beneficial value for the consumer of a good or service. Critics of this neoclassical viewpoint commonly argue that demand can be manipulated and does not necessarily represent the genuine value of a good or service for the consumer (for any number of reasons).

The demand curve

In utility theory the demand curve for the individual is derived directly from the law of diminishing utility. In table 1 the number of units, and the marginal utility has an inverse relationship, just as the demand curve. The demand curve slopes downward to the right just as the diminishing marginal utility curve slopes downward to the right. At any given price the quantity demanded by the consumer depends on the good's marginal utility. If the marginal utility were high then the consumer would be willing to pay a higher price, if marginal utility were low then the consumer would be willing to pay only a lower price. How much a consumer is willing to pay then depends on the good or service's marginal utility. The demand schedule then turns out to be equivalent to the schedule of marginal utilities. The two logically must be equivalent.

Market demand is simply the sum of all individual marginal utilities. Figure 1 shows this in a graph. Individual marginal utilities represent the satisfaction that each additional good or service brings to the market for that individual. Summing marginal utilities gives the amount of increased satisfaction for all market consumers. Simply put, increased satisfaction is equal to the benefits consumers receive from consuming the good or services.

Figure 1, Demand Curve and Marginal Utilities



2.7 Invest theory

[WISEGREEK: <http://www.wisegeek.com/what-is-an-investment-theory.htm>]An investment theory is a concept that is based on consideration of a number of different factors associated with the process of investing. Ideally, the theory will involve looking closely at a wide range of factors to determine how to go about choosing the right investments for a particular goal or purpose. While there are approaches to investment theory that involve employing a number of other theories as part of the process, some economists break down the task into four areas that just about anyone can grasp.

The first key factor in investment theory has to do with the goals for the investment portfolio. By determining how to diversify the portfolio while still balancing that diversification with the type of individual securities, the idea is to protect the investor from downturns in one market by providing for upswings in value with other holdings. Known as modern portfolio theory, this factor is key to the investment process for investors who have specific goals for the income generated by the portfolio.

Another important aspect of investment theory has to do with evaluating investments based on the degree of risk and potential return. Here, the idea is to help the investor focus on options that carry an acceptable amount of risk while providing the greatest amount of return. This element is the basis for the capital asset pricing model, and can make a big difference in whether or not an investor makes the right choices for his or her portfolio. A similar approach, known as the arbitrage pricing theory, focuses more on assessing the degree of risk associated with a given investment option, but still serves the purpose of helping an investor decide if the potential return is worth the volatility associated with a given option.

A well-crafted investment theory will also consider the amount of information available about both the investment option and the general condition of the market or markets where the option is traded. Known as the efficient market hypothesis, this concept holds that all information that is relevant to making the decision to hold, buy, or sell an option must be readily available to the investor in order for the market to be truly efficient. Since knowing the past history, the current status, and the potential future risks

associated with any investment is key to being able to make wise choices, the investor should determine if this situation of an efficient market exists before deciding to get involved with a given investment.

Essentially, an investment theory is all about making informed investment decisions. By taking into consideration the goals and aims of the investor, it is possible to build a portfolio that will help meet those goals. In order to wisely choose the right investments, it is important to know all there is to know about the investment and the market in which it is traded. Developing an investment theory that encompasses all these factors will greatly increase the chances for success, as well as aid the investor in avoiding investment options that are not in his or her best interest.