



INTERNATIONAL JOURNAL OF RESEARCH IN COMMERCE, ECONOMICS AND MANAGEMENT

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BLUE OCEANS OF URBAN AFFORDABLE APARTMENTS

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ABSTRACT

Smartly small seems to be the new big thing in today's volatile times. This where the concept of affordability stands out in a world economy which is still rising out of the depths of recession. But the fact remains that the job creation resulting from positive growth will grow at a rate lesser than the rate of fall in the economy that was experienced. This process would take years to recover fully and mark positive growth in all sectors. The quest for the common man at the "bottom of the pyramid" to have a roof over his head will continue in spite of stagnating incomes and absence of focus of products targeted specifically to the segment. It is to address this emerging need that this paper attempts to establish "affordable apartments" as a blue ocean strategy, by trying to establish how it will cater to a new, unexplored customer base the "urban poor" and venture into uncharted territories as being done by prominent builders as a measure to get over the current slump in apartments market and in terms of creating new demand by targeting the untargeted segment hence forth.

KEYWORDS

Affordable apartments, Blue Ocean strategy, Bottom of the pyramid, Marketing Myopia, Targeting.

INTRODUCTION

Urbanization is not a side effect of economic growth; it is an integral part of the process". Even though the population of India is more rural than urban, as per statistics, only 30 % of the total population lives in urban India, this population alone generates over 70 % of the country's GDP and also accounts for 90 % of government revenues. In India, Delhi is most urbanized with 93 percent urban population followed by Union territory of Chandigarh (89.8 percent) and Pondicherry (66.6 percent). Other than these Tamil Nadu is the most urbanized state with 43.9 percent of the population living in urban areas followed by Maharashtra (42.4 percent) and Gujarat (37.4 percent). The lowest level of urbanisation is seen in Himachal Pradesh with 9.8% followed by Bihar with 10.5 percent, Assam (12.7 percent) and Orissa (14.9 percent).

The number of people living in Maharashtra alone accounts for 14% of the total Indian population, with 41 million persons mainly concentrated in urban areas and cities like Mumbai. Uttar Pradesh accounts for about 35 million followed by Tamil Nadu 27 million. This is a result of more concentration of activities in urban areas resulting in job creation for the masses. As a result the rural population migrates under the lure of better economic prospects and better lifestyle. A large section of this population comprises of the "bottom of the pyramid" workers, who ultimately end up in slums which incidentally currently accounts for around 1/4th of the total urban apartments. Research shows that India today faces a total shortage of 24.7 million dwelling units, with more than 70 per cent of this shortage in the middle- and low-income groups.

The existing supply of urban apartments in India caters to only the top 30 % of the income level, in the form of traditional and luxury apartments. This can be termed as the Red Oceans in urban apartments, or the existing companies catering to top of the pyramid customer base. These developers and marketers have been concentrating on refining the quality and adding facilities to the extent that the basic concept of putting a roof over the head is lost, in a case of "Marketing Myopia". The developers concentrate just on the existing customer base and try to differentiate from other players in terms of quality and value with little or no emphasis on the affordability factor of the customer. As a result, the real estate promoters find it hard to complete the project as there is no immediate demand. Confirming the trend, a World Bank study estimates that an average apartment project in India takes anything up to six years to complete as against 15-18 months in China. India also charges one of the highest levels of stamp duty in the world.

The informal agreements with banks result in giving loans irrespective of the guidelines with the objective of maximizing sales, so that the owner finds it hard to pay the debt and leads to default (a major cause for the sub-prime mortgage crisis which led to last recession). This kind of marketing myopia is a result of the real estate promoters approach where the product is first planned and then the sales team is assigned the task to "sell" the product irrespective of the market situation or annual disposable income of the customers.

The Apartments market in India has been such that the private players have been traditionally been concentrating on cities like Delhi, Chennai, Mumbai, Calcutta & Bangalore targeting the middle and high income segments. The development of urban apartments and town planning in tier 2 cities has been the responsibility of the government. The Government has always played a part of "laissez – faire" or free hand, with no proper supervision. The rehabilitation of slums has been with such a low budget and with such low quality of building material that the buildings are abandoned by the dwellers in a short time and ultimately not fulfilling the purpose for which it was meant for.

So in the Tier 2 cities, the supply in terms of organized apartments was next to nothing for both the "top of the pyramid" and the "bottom of the pyramid". There were very few players catering to the crème la crème of these cities. This trend was supported and further reinforced by factors like easy availability of land and the customers preferring individual houses compared to high rise buildings.

OBJECTIVES OF THE STUDY

The objectives of the study are to establish affordable housing as a viable blue ocean strategy by leveraging on the advantages of economies of scale and to analyse whether it can be a successful prelude to town planning. This paper also aims to suggest how the blue ocean strategy of affordable apartments can improve standard of living of the urban poor and suggest the ways to overcome the hurdles in the course with respect to factors like Planning, financials, service delivery, quality of infrastructure and environment.

METHODOLOGY

To fulfil the research objectives data has been collected from both primary and secondary sources. The secondary sources have been utilised to understand the concept of Blue Ocean strategy. The primary sources that has been used are questionnaires to reflect the perception of customers with respect to 5 factors, namely Price, Square feet area, Location, Builder reputation, Facilities. Using personal interview method the response was collected from 50 respondents and the same plotted to form the value curve of blue ocean strategy.

SIGNIFICANCE OF THE RESEARCH

In recent times, the non-availability of cheap land in urban areas coupled with and no substantial rise in income levels due to and subsequent to global recession, have led to people feeling that putting a roof above the head, the biggest dream of a common man is out of reach. It is in such a context that the concept of Affordable apartments is a concept which can revolutionize how both customers and promoters look at the idea of apartments, it can revolutionize as in a blue ocean strategy it caters to a customer base which was hitherto not addressed in the existing red oceans of apartments.

The Indian realty sector is expected to expand from \$12 billion in 2005 to \$90 billion by 2015. Such a figure can be achieved only if all the income segments are catered to, this kind of growth will cannot be brought forward by only the middle and high income groups in the economy.

It is in this context that this paper attempts to explore the uncharted territories and show the road ahead, the positive influence that such an innovative concept can make in people's lives, by making the 'dream home' possible to the masses, like the local 'pan wallah' and the "bai" to areas like town planning, balanced growth and being socially responsible. The paper also highlights by identifying the efforts of major companies in the real estate sector which are catering to making this dream possible for the common man.

LITREATURE REVIEW

Blue Ocean strategy: "The market universe is composed of two oceans, red oceans and blue oceans. Red oceans represent all the industries in existence today. This is the known market space. Blue oceans denote all the industries not in existence today which is the unknown market space. Blue oceans are defined by untapped market space, demand creation and the opportunity for highly profitable growth. Some blue oceans are created well beyond industry boundaries, most are created from within red oceans by expanding existing industry boundaries. In blue oceans, competition is irrelevant because the rules of the game are waiting to be set."

The Red ocean strategy competes in existing market space whereas the Blue Ocean Strategy creates uncontested market space as the concept of Affordable Apartments is targeted towards the low income groups as against the traditional targeting the luxury segments and being caught in a quick sand of Marketing Myopia.

The red Ocean strategy tries to beat competition whereas the blue ocean strategy tries to make competition irrelevant by targeting the three segments of non customers- First tier (customers who are willing to make the jump for better solutions) Second Tier (Who do not use the product as the product is either unacceptable or beyond the means for the target group) Third tier (Unexplored – the customers that have not been targeted till date)

The corner stone of the Blue Ocean strategy is the concept of value innovation. The value innovation is created where the company's action favourably affect both the cost structure and value proposition to buyers. The costs are reduced overtime as scale of economies kick in due to high sales volume that the superior value generates.

The four values and their relation with Affordable Apartments are

- Utility – the utility value attached to facilities
- Price – the less price value for Affordable homes
- Cost – The reduced cost as a result of low per unit area, low cost land and Economies of scale.
- Adoption – To be targeted towards the "Bottom of Pyramid"

CONCEPT OF AFFORDABLE APARTMENTS

Affordable apartments can be defined as Apartments solutions that provide more utility with lesser prices. This is possible by having lesser built up area per unit and Economies of Scale.

Economies of scale can be defined as "Reduction in cost per unit resulting from increased production, realized through operational efficiencies. Economies of scale can be accomplished because as production increases, the cost of producing each additional unit falls."The whole concept of Affordable housing rides on this concept and is commercially feasible because of the large no: of units per project. The luxury facilities which are otherwise hard to come by for this price range are made accessible through distribution of establishment costs over a large no: of units.

The lesser price would usually result in a perception that the quality and builder reputation would be less for the projects that involve Affordable Apartments, a perception that is being modified as the rules and the way business is run is being redefined in the recession free economy, considering the fact that the world economy as per various consultancies on a new beginning of new economic cycle from 2008 to 2017.

Ashutosh Limaye, Associate Director, Strategic consulting, John Long LaSalle Meghraj, says that the common features for Affordable homes or affordable homes are

- Low priced land
- Larger unit numbers to achieve economies of scale
- Smaller product sizes
- Reduction of aspiration – driven features

The apartments sector can be categorised into three categories of apartments on the basis of factors like price, location, and facilities (internal and external) location and builder / promoter reputation. The apartments or apartments as found mostly in urban apartments can be

- Affordable Homes –low price and basic utility
- Traditional homes - average to above average price and moderate utility
- Luxury homes – High Price and high utility

The key features of The Affordable Homes are that they are

- Of noticeably less price than similar units of traditional apartments
- Of noticeably less area per unit
- In large numbers per project to bring in the advantages of economies of scale
- The category where the prices are less than traditional but unit sizes are not much less; this can be targeted to middle and low income group.
- Noticeably different from the other two category of traditional homes and luxury homes on the basis of price and unit size.
- Homes are the value for money gets primary importance and the unit size and cost is the lowest possible. This can be targeted to the "Bottom of the pyramid" with the help of banks and microfinance institutions to make the Dream Home possible for every Indian.

ANALYSIS & FINDINGS

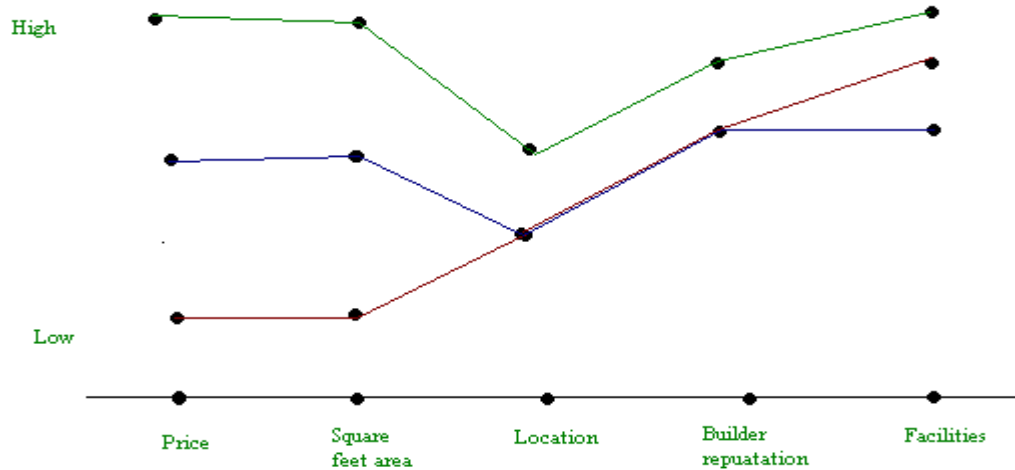
PLOTTING THE VALUE CURVE – AFFORDABLE APARTMENTS AS A BLUE OCEAN STRATEGY

As a part of the study, the response was taken from 50 respondents to understand their perception about the concept of Affordable apartments. It was found that the majority of the respondents were extremely interested to know that the small and compact houses are being constructed in the price range starting from Rs. 7 lakhs. The first impression which was that the quality would suffer was soon overcome by communicating the fact that prominent builders like Brigade has been involved in this concept with a project titled "Brigade Value Homes" where the unit size for 1 BHK starts from 500 Square feet and 3 BHK till 1100 Square feet all in the price range of Rs.10 lakhs to Rs.26 lakhs and Provident apartments by Puravankara within unit sizes of 800 to 1180 square feet with prices ranging from 15 to 20 Lakhs. The first impression was that the demand potential is enormous where as the visibility and supply is limited.

The following is the value curve which reflects respondents perception of the values associated with

- Affordable Apartments
- Traditional Apartments
- Luxury Apartments

TABLE –AFFORDABLE APARTMENTS AS A BLUE OCEAN STRATEGY



Source: Primary Data

This value curve shows clearly the price differentiation aspect of the Affordable apartments to be the strongest. Based on popular advertisements by prominent builders the respondents were seen to have a perception associated with higher facilities with Affordable apartments. There has to be a trade – off between the differentiation and the low cost to create a new value curve. To create a new value curve, the following four key questions has to be answered.

Which of the factors should be eliminated?

- In case of Affordable apartments, the high cost of land is eliminated, as the construction is on low cost land.
- Low quality construction material is eliminated.

Which factors should be reduced well below industry standards?

- In case of Affordable apartments the cost of construction per unit is reduced well below industry standards as a result of low per unit area.

Which factors should be raised well above industry standards?

- The factor of luxury facility being offered at lower prices is a value created well above industry standards. The rules are being redefined as the facilities were till date unreachable for the common man.

What factors should be created that the industry has never offered?

- to answer this question, the current factor that is being created by Affordable apartments is the price differentiation, but the concept has huge scope as
 - An effective tool for town planning, and balanced growth
 - As a home for elderly with medical facilities.
 - The advantage of community living and improved facilities, the “Dream Home” for the common man.

Out of the total respondents of 50, 24 were not home owners and 26 were existing home owners. Out of the respondents, almost 50 % of the first time home buyers were seen to prefer the Affordable apartments concept with the remaining percentage of 30 % preferring Traditional apartments and 20 % preferring luxury apartments .There was some mental road block for some about the quality aspect of Affordable apartments which can be easily converted to customer with the right communication and marketing.

Out of the respondents who would be going for a second home, 70 % respondents would invest in a second home as a n investment with the remaining opting for home for the elderly with medical benefits either for themselves or for their parents. Out of these respondents, going for a second home, 90 % were open to the concept of Affordable apartments as the risk was less for them, as the purpose was investment. They were open to the idea as the popular perception was that the rent received would be equal to the monthly home loan payout making it easier to invest.

SUGGESTIONS

The critical issues to be addressed to make an effective town planning will be as follows

- Poor local governance from
- Weak finances available to the customers
- Inappropriate planning that leads to high costs of apartments and office space; in some Indian cities costs are among the highest in the world
- Critical infrastructure shortages and major service deficiencies that include erratic water and power supply, and woefully inadequate transportation systems
- Rapidly deteriorating environment

The current challenges which are being faced are related to

PLANNING

- Many urban governments lack a modern planning framework
- The multiplicity of local bodies obstructs efficient planning and land use
- Rigid master plans and restrictive zoning regulations limit the land available for building, constricting cities’ abilities to grow in accordance with changing needs.
- Policy, planning, and regulation deficiencies lead to a proliferation of slums.

FINANCIALS

- Building regulations that limit urban density - such as floor space indexes – reduce the number of houses available, thereby pushing up property prices.
- Outdated rent control regulations reduce the number of houses available on rent – a critical option for the poor.
- Poor access to micro finance and mortgage finance limit the ability of low income groups to buy or improve their homes.
- Weak finances of urban local bodies and service providers leave them unable to expand the trunk infrastructure that apartments developers need to develop new sites.

SERVICE DELIVERY

- Most services are delivered by city governments with unclear lines of accountability
- There is a strong bias towards adding physical infrastructure rather than providing financially and environmentally sustainable services
- Service providers are unable to recover operations and maintenance costs and depend on the government for finance
- An independent regulatory authority that set tariffs, decide on subsidies, and enforce service quality is generally absent.

QUALITY OF INFRASTRUCTURE

- Most urban bodies do not generate the revenues needed to renew infrastructure, nor do they have the creditworthiness to access capital markets for funds
- Urban transport planning needs to be more holistic – there is a focus on moving vehicles rather than meeting the needs of the large numbers of people who walk or ride bicycles in India's towns and cities.

ENVIRONMENT

- The deteriorating urban environment is taking a toll on people's health and productivity and diminishing their quality of life.
- Measures should be taken to provide adequate green cover in developing affordable homes.

CONCLUSION

The Affordable Apartments concept can be the light at the end of the tunnel as it can lead to balanced development as the projects are gaining more prominence in the so called Tier 2 cities. The concept leads to balanced development in metros as the low cost land is available only in the suburbs and the projects has to be in suburbs to reduce the per unit cost. Moreover the large no: of units and the facilities that go into it result in effective town planning.

Affordable homes are a "Dream come true" for the common man as it provides Quality living at affordable price. And makes the hitherto unthinkable facilities associated with luxury apartments within easy reach of the common man. The Affordable apartment concept is a breakaway from traditional concept where the private players concentrated only on the luxury segment and affordable apartments was a government monopoly, often with limited life span of the projects and poor quality. Affordable apartments were always limited to the concept of rehabilitation of the slum dwelling.

The concept of Affordable apartments is also being socially responsible with all these factors as effective planning and making facilities within reach of the common man, and also this concept can be related to the concept of "reverse mortgage" where the existing houses of senior citizens are mortgaged for a monthly payment. If this concept is further extended to providing Affordable apartments for senior citizens with in house medical facilities against the mortgage of the existing house of senior citizens, it will revolutionize the concept and make it a blessing with a much appreciated need for community living and being cared for in the sunset days or empty nest life stages of senior citizens.

If the migration from villages to cities continues at the same pace, in 3 to 4 years time, there would be a paradigm shift from the current imbalance of the urban population as a small pie in the population of India to a more equitable distribution of urban and rural population. This would indeed shift the focus to the urban India more, with regard to the political establishment and the governance. If 5 out of 10 people live in the cities the importance given to town planning should be substantiated by the government and this could become a powerful political mandate. This is where the concept of Affordable apartments would gain popularity; more value at affordable prices would become as important a political mandate as providing infrastructure.

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