MARKET ANALYSIS FOR A COMPANY IN CONSTRUCTION BUSINESS

Thesis

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Abstract

The purpose of the thesis was to find out feasibility for starting a small-scale company in construction business through analysing internal and external environments of the case company and by making a SWOT-analysis. The main service of the company would be statutory foreman services in renovation sites and new construction sites. The target market which was analysed was Northern Savo.

The research approach is qualitative. The theoretical framework consists of marketing and business literature together with information regarding construction business and especially statutory foreman's role in contructing. The research data was gathered by analysing various journals, publications and statistics. Interviews were held with the case company.

The results show, that recession has slowed down constructing in certain areas in Finland. However, especially year 2010 has showed signs of better things to come in construction business, as building permits especially in Northern Savo have stayed in normal level. As a result of ageing houses and apartments, houses are in constant need for renovations. Actions in political environment, such as household deduction have increased renovating. Moreover, newly launched housing cooperative law brings out more supervising work and opportunities for foremen. Inside Northern Savo, Kuopio was seen as the most ideal target market.

Keywords

Market analysis, SWOT, construction business

Note

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1 INTRODUCTION

The objective of the study is to find out the feasibility for starting a small-scale company in construction business in the field of construction supervising.

The main research topic of the study is as follows:
“What is the current situation in the market, considering construction business?”

The secondary research question refers to the business plan done prior to entering the market:
“Is it feasible to start a small-scale company in construction business?”

The main aim of the study is to try to understand the structure of the market, the forces that control the market, which affect the case company and see the situation in the market as a whole and form a clearer picture of it. This provides valuable information and understanding to the case company in case the business will some day be started.

The methods of the research are analysis of literature, publications and journals, which provide the secondary data for the study. The research approach is qualitative. The primary data is collected from interviews with the case company. Theoretical framework consists of marketing and business literature together with publications in internet, newspapers and magazines.

Another aim is to find out market opportunity by analysing the market environment and pointing out the strenghts and weaknesses in the company, and the opportunities and threats the external environment poses. The analysis is known as SWOT.

SWOT is one of the most common and best known analysis of company’s business environment.

The research was done by following the market situation from publications, books newspapers and through internet. The observing of the market was done locally (Northern Savo) and domestically (Finland). Further knowledge of the constructing business was gained in conversations with the case company.

2 BUILDING INSPECTION IN FINLAND

The case company will provide building supervision services and the entrepreneur himself will act as the responsible foreman in the building sites.

The need for a general foreman is compulsory in Finland for a builder who is starting a constructing project. Every construction site, in which a building permit is required or other inspection required by the state officials, must have a general foreman. The need for a general foreman is stated in the Finnish construction law:

“One who is starting a construction project, must take care, that the building is designed and built according to regulations and specifications of building and according to granted building permit. Heeding the demands of the project, he/she must have sufficient prerequisites for implementing the project and must have qualified personnel available for the project.”
(Maankäyttö- ja rakennuslaki MRL 119 §)

The general foreman in the construction site must be qualified by the state officials for the work according to the law:
“The construction plan writer and the responsible foreman in the construction site must be qualified in experience and education according to the demands of the construction project.”
(Maankäyttö- ja rakennuslaki MRL 123 §)

The main purpose of the Finnish construction law is to:

1) Organize the use of areas and construction so, that they create conditions for a good living environment,
2) Assist sustainable development ecologically, economically, socially and culturally,

3) Secure everyone’s chance to take part in preparation of matters, the quality of planning and interactivity, diversity of expertise and open briefing.

Moreover, the aim is to create a healthy, safe and entertaining environment, which is socially working and where the needs of citizen groups have been taken into account.
(Ymparisto.fi)

The actions and duties of a building supervisor and foreman

The aim of the inspection in the construction site is to ensure by cooperation and by inspection the work performance of contractors. The inspector is the contact person of the work orderer in the construction site. The work performance should be according to contract and agreement and should not differ from the agreed technically, financially, timewise and in quality. The inspector works independently and is an important link between the contractors and the work orderer. The performance of the foreman can substantially better the outcome of the construction project. (Doventus 2010)

The duties of a building supervisor can be divided into different groups which are technical, financial, timely and qualitative inspection.

1. Firstly, an inspection plan is made, where all tasks which need inspection are stated. This can mean inspection of work or purchased building materials. Each side in the building project sees the responsibilities of the project in the inspection plan.
2. Starting meetings are held before the actual building project starts. The meetings are held between the foreman, contractor and municipal building inspector.
3. Meetings in between the building project are meant for the communication and work planning between different parties of the project. Mainly the parties include the work orderer, foreman, contractor and possibly representatives of raw material suppliers.

4. The inspector organizes a receival inspection on request from the contractor where the work is evaluated and decided if the work result is according to the agreement made before the start of the project.
5. Qualitative inspection consists of actions such as documentation, inspecting the raw material suppliers and their goods. Quality objectives are inspected through separate inspections in the construction site.
6. Timely inspection makes sure that the project is concluded in the agreed time. It consists of keeping track of the timetable. The timetable is gone through in meetings with the inspector, orderer and contractor. Moreover, the inspector keeps on track and makes sure that the raw material and component deliveries made by the work orderer are on due time in the construction site from the suppliers. (Pietilä, K.)

“A foreman is a person responsible for the work performance and quality in the construction site, which leads the construction work and takes care that the construction work is done according to the rules, regulations, granted building permit and good means of construction.”
(Maankäyttö- ja rakennuslaki MRL 122 §)

The generel foreman is always first approved by the municipal building inspection. The construction project cannot be started before a foreman has been approved to the site. (Mestari-Inssit 2010)

The foreman in the construction site:

1) Reports about the starting of construction project to the municipal building inspector officer.
2) Takes care that the construction work is done according to granted permission and rules and regulations concerning constructing are obeyed.
3) Takes care that deficiencies and flaws detected during construction work are corrected.
4) Is responsible for job safety

5) Is responsible that the inspections are requested in due time and are held in start meeting or in other appropriate work stages.
6) Takes care that the approved blueprints, needed special blueprints, up to date inspection documents, test documents and other needed documents are in use in the construction site.

(Maankäyttö- ja rakennusasetus MRA 73 §)

3 SWOT ANALYSIS

The SWOT analysis is a method widely used in marketing audits. SWOT is grid that plots internal strenghts and weaknesses in one-half of the grid and external opportunities and threats in the other half. The terms opportunities and threats should not be viewed as “absolutes”, for as Johnson and Scholes (1998) point out, what might appear at first sight to be an opportunity may not be so when examined against an organization’s resources and the feasibility of implementing a strategy.
(Palmer, Hartley, 1999, 380)

A SWOT analysis summarizes the main environmental issues in the form of opportunities and threats facing an organization. With this technique, these are specifically listed alongside the strenghts and weaknesses of the organization. The strenghts and weaknesses are internal to the organization and the technique is used to put realism into the opportunities and threats. In this way, the environment may be assessed as giving rise to a number of possible opportunities. However, if the organization is not capable of exploiting these because of internal weaknesses, they should be left alone.
(Palmer, Hartley, 1999, 380)

When making business decisions, a company needs to take into account the external and the internal business environments. Both environments create opportunities, but they also create threats.
(Lahtinen, Isoviita, 2004, 17)

Seppo Hoffren’s “Perustettavan Yrityksen Liiketoimintasuunnitelman Laatiminen” states that there should be market based reasons for starting a business in order for it to be feasible and succesful.

The normal reasons/grounds for starting a business are external factors or arguments, which give basis for starting the business as a whole.
(Hoffren, 1999, 13)

Other reasons spur from the entrepreneur or entrepreneurs themselves, which are analysed in internal analysis.

Lahtinen and Isoviita (1998, 83) suggest that companies should exploit the information provided by the SWOT analysis:

Strengths	**Weaknesses**
Create competitive advantages from strenghts!	Get rid of weaknesses!
Opportunities	**Threats**
Make full advantage of opportunities!	Turn threats into opportunities!

Figure 1. *Exploiting SWOT. Lahtinen, J. & Isoviita, A., 1998, 83*

4 ENVIRONMENTAL ANALYSIS

Johnson & Scholes (1997, 90) have presented five steps that should be taken into account in environmental analysis: identify key opportunities and threats, identify competitive position, identify key competitive forces, audit environmental influences and assess the nature of the environment.

In order for a company to succeed in long-term, a company in minimum has to spot the changes in business environment, understand the consequenses, and to change actions accordingly. Moreover, it is possible to see future's changes in advance and to gain advantage from future opportunities and even threats. If a company does not understand the consequences of the change that has happened in the environment and change its operations accordingly, it will die sooner or later. These are the reasons why analysing the environment is so important for companies. (Kamensky, 2008, 21-22)

Kotler (2000, 76-78) divides the environments into two: internal and external environments. The internal analysis points out the strenghts and weaknesses of the company, while the external analysis points out the opportunities and threats in the market.

4.1 Internal analysis

The internal analysis is a comprehensive analysis of a company's strenghts and weaknesses. The strenghts of a company are attributes that can give a company a competitive edge over other companies in the same industry. Weaknesses are areas within the company where competitors in the same industry can take advantage of as their competitive edge. The company does not have to correct all its weaknesses or gloat with its strenghts. What is most important is whether the company should limit itself to those opportunities where it possesses the required strenghts or should it consider better opportunities where the company might have to acquire or develop certain strenghts. The internal factors set limits to the

business decisions that can be made. The parts of the internal environment are business idea, financial and mental resources, know-how and profitability objective. The company can itself affect the factors in the internal environment.
(Lahtinen, Isoviita, 2004, 17)

Business idea

A business idea defines, what actions the company does or in what it is involved in. It also defines its most important customer groups and procedures it takes. Another important factor of business idea is the image of the company. If the customers' image of the company or its products or services are negative, the customers move on and do business with a company, that has a more positive image in their eyes. Consumers do not want to engage in business with a company with a bad reputation. The four main parts of the business idea should blend in well together. The four main parts defines what the company offers, to whom the products are offered, why customers use the company's products and how the products are produced and offered. If a company has decided to be service-oriented, it has to take care, that it happens in practice. A business idea is functional, when a customer feels that the company has exceeded his/her expectations toward the product or service. A business idea should be unique and hard to be copied for the competitors. From a marketing perspective, the success of business idea can be divided into productional and commercial success. Productional success arises from good products and procedures, which customers have approved. Commercial success is a result from choosing the right market segments and that customers have a good image of the company. Productional success enables commercial success, while commercial success enables overall success. (Lahtinen, Isoviita, 2004, 27-28)

Resources

Lahtinen and Isoviita (2004, 28) have split resources into two different categories: financial and mental resources. Mental resources include know-how of the personnel. Without mental resources, other resources are not of any use. If a company does not have adequate financial resources for a project, the company has to back off. The same goes with mental resources: if a task can not be well handled, the company should not engage into it, before the task can be performed with the appropriate know-how. Other factors include company's ability to adapt to the changing circumstances in the internal and external environments.

Profitability aim

Profitability aim is the most important factor in the internal environment. All business decisions should be made bearing profitability in mind. If business in long run is not profitable, it is doomed to end. Companies cannot afford producing products and services with inadequate contribution. In case of private firms, the major objective is profit. (Kotler, 2000, 23)

4.2 External analysis

"No company is an island, but exists in a sea of other organizations."
(Adrian Palmer and Bob Hartley)

Some of those organizations mentioned above are helpful to a company in meeting its objectives, while others are out to compete with it. Some elements in the business environment have direct and immediate impacts on an organization, while other elements are more remote.

Palmer and Hartley (1999, 31) claim that the external environment comprises all of the forces and events outside the organization that impinge on its activities. Some events directly affect the firm's activities – they can be described as forming an organization's microenvironment. Other events that are beyond the immediate environment nevertheless affect the organization can be described as the macroenvironment.

Businesses have to monitor the key macroenvironment forces (demographic-economic, technological, political-legal, and social-cultural) and significant microenvironment actors (customers, competitors, distibutors, suppliers) that affect its ability to earn profits. For each trend or development, opportunities and threats can be identified.

(Kotler, 2000, 76)

According to Kotler (2000, 76) an external environment analysis points out the opportunities and threats in the market.

According to Kotler (2000, 76) a marketing or business opportunity is an area of buyer need in which a company can perform profitably.

Opportunities can be classified according to their attractiveness and their success probability. The company’s success probability depends on whether its business strenghts not only match the key success requirements for operating in the target market but also exceed those of its competitors. Mere competence does not constitute a competitive advantage.
(Kotler, 2000, 76-77)

An environmental threat is a challenge caused by an unfavorable trend or development that would lead, in the absence of defensive action, to lowering of profits. Kotler (2000,77) adds that threats should be classified according to seriousness or probability of occurrence. Once major threats and opportunities have been identified, business’s overall attractiveness can be characterized in the following way:

1. An ideal business is high in major opportunities and low in major threats.
2. A speculative business is high in both major opportunities and threats
3. A mature business is low in major opportunities and in threats
4. A troubled business is low in opportunities and high in threats.

(Kotler, 2000, 76-77)

4.2.1 Microenvironment

The microenvironment can be best understood as all those other organizations and individuals who directly or indirectly affect the activities of a company. The microenvironment of a company includes suppliers and distributors. The company

may deal directly with some of these, while others exist with whom there is no direct contact, but can still influence on the company's actions. Company's competitors can also have a direct effect on its market position and form part of the company's microenvironment.
(Palmer & Hartley, 1999, 32)

According to Palmer and Hartley, (1999, 32) the following key groups can be identified in companies' microenvironment:

1. Customers
2. Suppliers
3. Intermediaries
4. Other stakeholders

Customers are a crucial factor in an organization's microenvironment. In a competitive environment, without customers there can be no business. A company should be concerned about the requirements of its customers. A company should know its customers so well that it is able to predict what they will require next, instead of waiting too long until it is too late and to follow.
(Palmer & Hartley, 1999, 32-33)

Consumer buying behaviour among consumers varies from service to service from product to product. Expensive purchases are likely to involve more buyer deliberation and more participants. Philip Kotler (2000, 176-178) has distinguished different buying roles of buying behaviour:

An influencer is one whose view or advice influences the purchase decision.
A decider is one who decides on any component of a buying decision: whether to buy, what to buy, how to buy or where to buy.
A buyer is the person who makes the actual purchase.
A user is the person who benefits of the service.

Kotler (2000, 177-178) states that there are four different types of buying behaviour:

Firstly, complex buying behaviour is a three step process, in which the buyer develops beliefs about the product or service and develops attitudes. After that the buyer makes a thoughtful choice. This is usually the case in expensive products or products or services which are bought infrequently or are risky.

Dissonance- reducing buyer behaviour happens when a consumer is highly involved in a purchase but sees little difference in brands or different service providers, building supervisors for example.

Habitual buying behaviour means products bought with low involvement and no brand differences. Buying decision is made out of habit.

Variety- seeking buying behaviour is characterized by low involvement but significant brand differences. Here consumers often do a lot of brand switching, or service provider switching.

The suppliers of this company are the construction companies who provide the actual technical implementation of the building project.

Other stakeholders form an increasingly important part in company's microenvironment. In the case of customers or suppliers, a company has or may have some form of contractual relationship. However, there are many other organizations and individuals in a company's microenvironment that can directly affect its effectiveness in the market. According to Palmer & Hartley (1999, 33), these are referred to as "publics" of and organization and include pressure groups, government agencies and the local community. Society at large has rising expectations on companies that increasingly have to act in a socially responsible manner.

Competition environment

For a new company, identifying competitors and finding out their way of doing business is crucial when trying to establish itself to the market. The range of company’s actual and potential competitors usually is very broad. A company is more likely to be hurt by emerging competitors or new technologies than current competitors. Identifying competitors can also measure to some extent the demand of the service which the case company would provide. If there are only few competitors on the market it might can mean safer passage for the case company and would mean the entry barriers for the market to be low. This could also mean that the case company would be more able to survive in the business. However, many potential competitors in the same area would imply that the customers have many alternatives to choose from and would mean for the competition to be strict. However, as the foreman activities in a construction site are stated as compulsory, it impacts the demand. Moreover, especially the economic environment and the political environment influence the buying behaviour of individuals.

Competitors can be divided into direct competitors and indirect competitors. Direct competitors are those who essentially provide the same product or service. Indirect competitors are those who satisfy the same need with different product or service.

The first basic determinants of a company’s profitability are the attractiveness of the industry. The rules of the game in the industry must be deeply understood. According to Porter, (1999, 16) the aim of competitive strategy is to cope with the rules – and in an ideal case, to alter the rules so that it benefits the company.

Five forces have been identified by Michael Porter that determine the long-run profit attractiveness of a market or market segment. These are industry competitors, potential entrants, substitutes, buyers and suppliers. All industries are not equal in their profitabilities. Industries where all five forces are favourable, many competitors earn big profits. However, in industries where one or more of the forces create pressure only a few companies can create profits. The profitability of the industry does not depend on the product or the service, it depends much on the structure of the industry and market. Industries differ greatly in ease of entry. It is easy to open a new restaurant but difficult to enter aircraft industry. Major entry barriers include high capital investments, economies of scale, patents and raw materials to name a few. Even after a company has entered the industry, it might face mobility barriers when trying to enter more attractive market segments. Companies also face exit

barriers, such as legal or moral obligations to customers, creditors. Many companies stay in the industry as long as they have covered their variable costs and at least some of their fixed costs. Their continued presence in the industry, however, reduces the profits for everyone.
(Porter, 1999, 20-22; and Kotler, 2000, 221)

A segment in unattractive if it contains many, strong and aggressive competitors. If the segment proves to be stable or declining, if fixed costs are high or if competitors have high stakes in staying in the segment, it might prove to be even more unattractive. Kotler (2000, 218) has stated according to Michael E. Porter, that these kind of conditions listed above will lead to price wars, advertising battles and will make it expensive to compete.

The attractiveness in a segment varies with the height of its entry and exit barriers (see figure 1). The segment is most attractive when entry barriers are high and exit barriers are low. Then few new companies can enter the industry, and firms which perform poorly, can easily exit. When entry and exit barriers are high, profit potential is high, but firms face more risk because poorer-performing firms stay in and try to compete. When both barriers are low, firms can easily enter and leave the market, but returns are stable and low. Threat of new entrants also defines the probability, that industry gets new companies, who change the value of service to the customers through lower prices or diminish the value by raising the costs of competition.

<table>
<tr><th colspan="4">Exit barriers</th></tr>
<tr><td rowspan="3">Entry barriers</td><td></td><td>Low</td><td>High</td></tr>
<tr><td>Low</td><td>Low,stable returns</td><td>Low, risky returns</td></tr>
<tr><td>High</td><td>High,stable returns</td><td>High, risky returns</td></tr>
</table>

Figure 2. Barriers and Profitability (Kotler, 2000, 219)

When there are actual or potential subsitutes for a product or service on the market, the segment is unattractive. Substitutes place a limit on prices and on the profits. If technology advances or competition increases in these industries, prices and profits in the segment will probably fall. This threat of substitute products however does not play a significant role in this study, as the service itself does not vary significantly from supplier to another.
(Kotler, 2000, 218)

A segment poses threat in unattractiveness if the buyers possess strong or growing bargaining power. The bargaining power grows when buyers become more concentrated or organized, when the product or service is undifferentiated or when it represents a significant fraction of buyers' costs. The bargaining actions force prices down, buyers may become price aware, demand more quality, and set competitors against each other. This results usually in lowering the seller profitability. (Kotler, 2000, 218-219)

Industry and market concepts of competition

The market conditions facing companies vary considerably. Customers may feel they are exploited with high prices and bad service by companies who know that their customers have little choice of supplier. On the other hand, customers are wooed by many companies who are selling similar products or services in a market which provides a lot of variety for the customers.
(Palmer & Hartley, 1999, 146)

According to Philip Kotler (2000, 220) competition can be examined by looking at competition from an industry and a marketing point of view.

"An industry is a group of firms that offer a product or class of products that are close substitutes for each other."
(Kotler, 2000, 220)

As the action provided by the starting company in the study would be a service, the above statement also refers to services. What needs to be taken highly into account is the construction industry which provides the need for the service provided by the company.

Competitors can be identified in addition to the industry approach by using the market approach. Competitors are companies that satisfy the same customer need. Once the competitors are identified in the market, their characteristics, strategies, objectives, strenghts, weaknesses and reaction patterns should be found out. The resources and capabilities of the competitors decide whether they can carry out their strategies and reach their goals. Six competitive positions can be pointed out in the target market which a firm will occupy, they are: dominant, strong, favorable, tenable, weak and nonviable. Moreover, Kotler (2000, 226) has brought up four categories of competitors according to their reaction pattern, which are: laid-back competitor, selective competitor, tiger competitor and stochastic competitor.

Analyzing competitors and their actions

Competitor analysis has two primary actions which are to obtain information about potential competitors and use that information to predict competitor behaviour. The goal of competitor analysis is to understand:

1) With which competitors to compete
2) Competitor's strategies and planned actions
3) Competitor's reaction patterns
4) How to influence competitor behaviour to firm's own advantage.

(NetMBA Business Knowledge Center 2010)

Michael Porter (1980, 49) has presented a framework for analysing competitors. The framework is based on four aspects of competitors:

1) Competitor's objectives
2) Competitor's assumptions

3) Competitor's strategy
4) Competitor's capabilities

Objectives and assumptions drive the competitor. Strategies and capabilities define what the competitor is capable to do or what it is doing.

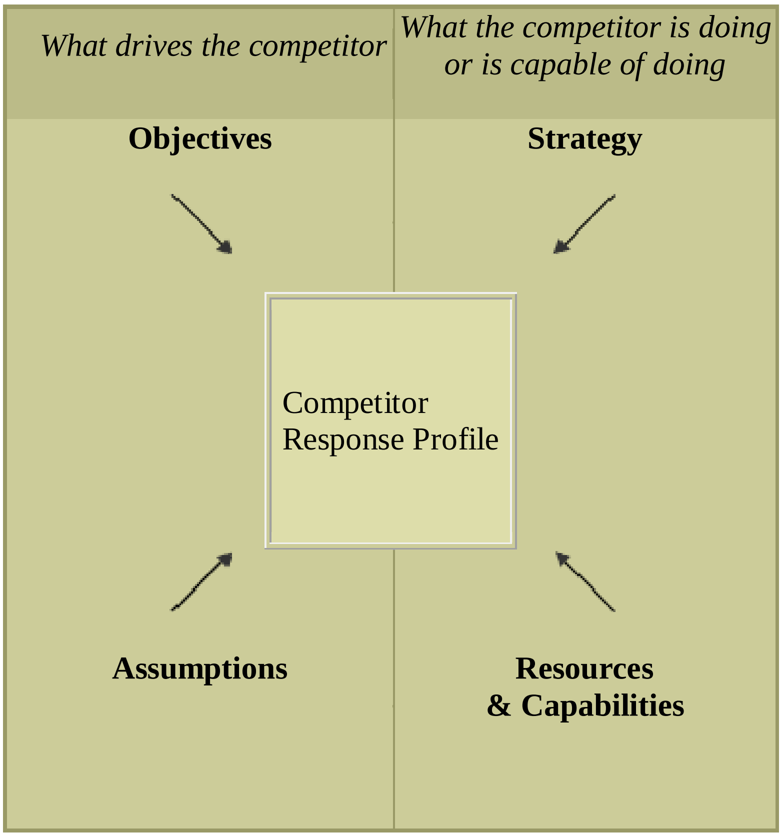

Figure 3. Competitor Analysis Components (Michael E. Porter, Competitive Strategy, 1980, 49)

Competitor's strategies

"A competitive strategy means looking for favourable competitive positions in the industry. Competitive strategies are aimed at gaining a profitable and continuous position against the forces that determine the competition among the industry." (Michael E. Porter)

Two main sources exist where the company can gain information about competitors' strategies: what the competitors say they do and what the competitors actually do. What the competitors are saying is revealed in press releases, shareholder reports, statements and interviews. It is not so difficult to know what thecompetitors are saying about their doings, however the stated strategies may differ from the actual ones. What the competitor is doing is evident in where the cash flow is directed such as capital investments, strategic partnerships, promotional campaigns and hiring activities. However, figuring out this information can realistically prove to be difficult.

Michael E. Porter (1985, 25-31) has defined three basic competition strategies, with which companies can gain better success. These strategies are cost leadership, differentiation and focusing. Philip Kotler (1999, 5-9) bases the strategies on similar affairs. Kotler states that markets can be won through higher quality, better service, lower prices, high market share, adaptation and by exceeding customer expectations. Kotler adds that markets can be won by continuous product improvement, innovation or by entering high-growth markets. Michael E. Porter (1999, 9) has also stated the essence of operational excellence and competitor strategies. It is argued that a company does not really have a strategy if it performs similar activities as competitors, only a little better. It is simply operationally more effective. "Being operationally excellent is not the same as having a robust strategy. Operational excellence might help the firm for a while, but other firms will soon catch up or pass up the firm." Thus, only operational performance is not enough to survive in the market.

Competitor's assumptions

The assumptions that a competitor's managers hold about their industry, competitors and their industry help to define the moves that they will consider. A competitor's assumptions may be based on a number of factors, which can be: beliefs about its competitive position, regional factors, industry trends or past experiences with a product or service. Moreover, a thorough competitor analysis also includes assumptions that a competitor makes of its own competitors in the same industry and region, and whether that assesment is accurate.
(NetMBA Business Knowledge Center 2010)

Competitor’s objectives

Knowledge of competitor’s objectives gives better prediction of competitor’s reaction to different competitive moves. Competitor objectives may be financial or other types. Objectives can include growth rate, market share and technology leadership. Whether the competitor is meeting its objectives indicated how likely it is to change its strategy.

Competitor’s resources and capabilities

The resources and capabilities determine the competitor’s ability to respond effectively to a competitive attack. Assumptions, objectives and strategy are only useful in understanding how the competitor might want to respond.

The capabilities can be assessed according to strenghts and weaknesses as in SWOT analysis. The strenghts of the competitor define its capabilities. The competitors’ ability to increase its capabilities in certain areas can be analyzed. Moreover, the competitors’ ability to react to changes can be evaluated. Some companies may continue for many years in the same direction before adapting, while others are able to mobilize and adapt quickly. Factors that slow a company down are low cash reserves, large investments in fixed assets and organizational structure that holds back quick action.
(NetMBA Business Knowledge Center 2010)

Industry structure and equilibrium between demand and supply

The demand to the services of the studied company arises from constructing of single family houses and renovation which are clearly affected by macroenvironmental issues such as economical situation and political environment.

Demand refers to the quantity of product people are willing and able to buy at a specific price on a specific time. Construction surveillance is a matter which the construction work orderer has to have sorted out. Both new constructing and renovating sites may have a constructing supervisor. That is why demand should be examined through both started construction sites and renovation sites. As having an inspector and a foreman in the building site is compulsory, the demand rises from the amount of started projects.

Common understanding of an industry's profitability is that profit is determined on the equilibrium between demand and supply. If demand is greater than supply, it results in better profitability. The structure of the industry affects on the long-term equilibrium and to what effects the equilibrium has on profitability of companies. As shifts in demand and supply can affect on short-term profitability, the structure of the industry must be seen for a healthy long-term profitability.
(Porter, 1988, 23-25)

4.2.2 Macroenvironment

The macroenvironment comprises general trends and forces that may not immediately affect the actions of a company and the relationships it has with customers, suppliers and intermediaries, but, sooner or later the macroenvironmental change will alter the nature of these relationships and the actions of a company.
(Palmer & Hartley, 1999, 34)

Companies and their suppliers, customers, competitors and publics operate in a macroenvironment of forces and trends that shape opportunities and pose threats. These forces are noncontrollables, which a company must monitor and respond to.
(Kotler, 2000, 138)

According to Philip Kotler (2000), the macroenvironmental forces can be divided into six different groups accordingly:

1. Demographic environment
2. Economic environment
3. Natural environment
4. Technological environment

5. Political-legal environment
6. Social-cultural environment

Johnson & Scholes (1997, 96) have suggested in the theory of PESTEL-analysis that demographic environment can be included into social environment.

Sociocultural factors

Johnson & Scholes (1997, 96) state, that sociocultural factors include population demographics, income distribution, social mobility, lifestyle changes, values and attitudes, consumerism and level of education.

Population and their consumer behaviour is one important macroenvironmental force that needs to be monitored, as people make up markets. Mainly the interest should be focused on the rate of population in different cities, regions; age distribution and regional characteristics and movements. Moreover, the effects that the current recession might have on people's movement between regions and cities and their consumer behaviour is one important characteristic in the demographic environment.
(Kotler, 2000, 140)

Society shapes peoples' beliefs, values and norms. People absorb a worldview that defines their relationship to themselves, to others, to organizations, to society and to nature.
(Kotler, 2000, 152)

Level of education

Finnish economic growth, productivity and competitivity is tried to be improved by high level of education of citizens. Among EU-countries, Finland is one of the most educated among EU-countries and others, according to a research by Official Statistics of Finland.
(Official Statistics of Finland 2010)

Economic environment

“Markets require purchasing power as well as people. The available purchasing power in an economy depends on current income, prices, savings, debt, and credit availability.”
(Philip Kotler)

Companies need to be aware on indicators of a nation’s prosperity. The economic environment greatly defines the demand of the market, from customers and their ability to make purchases, especially bigger investments. As known, building and buying a single-family house is not considered as cheap in Finland among consumers.

Many different indicators of a nation’s economic health exist, of which two of the most common are gross domestic product and household disposable income. These indicators tend to follow cyclical patterns related to economic cycle of expansion followed by contraction. Other indicators of economic environment’s current state are unemployment rate, output levels, average earnings, consumer spending, disposable income, inflation and confidence levels among consumers.
(Palmer & Hartley, 1999, 190-192)

Tracking the business cycle in the immediate and medium-term future can result in advantages, as investing on accurate time during recession can result in benefits such as:

1. Firms will be able to cope with demand as soon as the economy picks up.
2. At the bottom of the business cycle, resource inputs tend to be cheaper. This has effects also to raw material such as building materials.

(Palmer & Hartley, 1999, 190-192)

National and even international economies are rarely stable. A situation where injections of capital are equal with withdrawals can be described as a normal state of affairs. An excess of injections results in economic activity increasing, while the opposite happens if withdrawals exceed injections. This leads to business cycles that describe the fluctuating level of activity in an economy. The cycles can be described accordingly:

1. Recession – Prosperity
2. Expansion – Contraction
3. Stop – Go
4. Boom and Bust

These statements can be clearly seen in the ongoing global economic crisis and the resuscitation actions taken by the Finnish government in order to ease the situation in the Finnish market. In that sense the actions taken in the political environment have major effects in the economic environment.
(Palmer & Hartley, 1999, 189-193)

The consumption of most goods and services tends to increase during boom and decline during recession. The difficulty in forecasting the level of demand is therefore closely related to the difficulty of forecasting future economic prosperity. While aggregate changes in spending power may indicate a likely increase for goods and services in general, the distribution of spending power among the population influences the pattern of demand for specific products. The confidence in the future and level of perceived wealth are important determinants of demand for high-value services.
(Palmer & Hartley, 1999, 35)

According to Palmer and Hartley (1999, 36), an analysis of economic environment also indicates the level of competitor activity – an oversupply of products in a market sector normally results in downward pressure on profitability and prices. Also, rising level of unemployment may put downward pressure on wage rates, which favours companies who offer a labour-intensive service.

Inflation

Inflation means declining of currency’s monetary value. The causes for inflation are excess money in the economy, rising commodity prices, as demand exceeds supply and rising production costs of companies.
(Pohjola et al. 2006, 166)

Economic growth

The growth of gross domestic product (GDP) and economic fluctuation are essential minding the demand of companies’ products or services. Fluctuation happens because of changes in overall demand of products and services. According to Pohjola et al. (2006, 178-180) economic fluctuation means temporal, couple of years’ shift in gross production compared to long-term average growth rate. During slump or recession, production grows slower than in average, and during upswing, production grows faster compares to long-term average.

Unemployment

Unemployment means incomplete usage of productional resources. It increases the amount of paid unemployment benefits, thus public expenses and decreases tax revenues, decreases the ability to work and the income level of unemployd persons, causes mental stress and reduces quality of life. Expenses are high measured in all meters. Unemployment does not direct to all population groups evenly. Young people, unskilled and aged workers are more prone to unemployment than other groups. (Pohjola et al. 2006, 158)

Natural environment and ecological factors

The deterioration of the natural environment has become a global concern. People in many cities nowadays have had to withstand dangerous levels of air and water pollution. The legislations passed by governments are affecting many industries. According to Kotler, (2000, 147) companies need to be aware of threats and opportunities posed by four trends in the natural environment: the shortage of raw materials, the increased cost of energy, increased pollution levels, and the changing role of governments. Mika Kamensky (2008, 140) has stated that ecological factors include the usage of land, preserving of water system, air quality and protection. Other factors include energy consumption and laws concerning nature preserving.

Usage of land and preserving of nature

The aim of the preserving of land and nature is to prevent beforehand the deteriation of soil, maintain the nature as a living environment, repair damaged areas, and prevent the spreading of harms in the environment. The means which are used are legislation, evaluation of environmental effects, town and country planning, permit processes, inspection, payments and taxes. Finlands Environmental Administration develops and controls land use planning and construction. The law concerning the land usage (MRL) states that the aim of the law is to to organise land use and building to create the basis for high quality living environments, to promote sustainable development, ensure open planning and participatory processes and to ensure that a wide range of planning expertise is available. This is one of the reasons why a general foreman has to be appointed to building sites. (Valtion Ympäristöhallinto 2009)

Energy consumption has been in constant increase in Finland. For companies and communities, lowering energy consumption is beneficial, because it often brings economic benefits at the same time when emissions decrease. In order to lower energy consumption, industrial companies and other actors have made energy saving treatys, where they decrease their energy consumption.
(Valtion Ympäristöhallinto 2008)

Political environment

Politicians shape the general nature of the external environment and are responsible for passing the legislation that affects specific types of companies and organizations. Domestically, government is resposible for the nature of the economic environment through its fiscal and monetary policies, the distribution of income and wealth between the company sector, public sector, and between different groups of individuals. Government passes laws that can affect market and production possibilities for companies, including the competitive framework where companies operate.

Palmer & Hartley (1999, 210-211) have listed reasons why political environment should be closely monitored and why it is so important in the market. Firstly, at a national level, government passes legislation that directly affects the relationship between firms and their customers. Secondly, the government is responsible for protecting the public interest on the expense of firms, making constraints. The stability of the political system affects the attractiveness of the market. Moreover, the economic environment is directly affected by the actions of government. It's policies influence the rate of growth in the economy and that way the total amount of spending power. Supporting acts spurred from the political environment result in a more attractive market for companies to operate and can result in more consumer demand. This also in construction business, as the spending power of people results in more single constructing and thus resulting in more construction surveillance and renovating jobs. Supporting agencies in Finland include Tekes, Finnvera and regional centres for new companies which give help to companies in terms of loans and start money. Political environment is also affected by the international economic situation, as the government has had to make decisions according to the situation in the domestic market which has been influenced by the global economic situation. (Palmer & Hartley, 1999, 209-212)

Technological environment

Technology impacts people's everyday lives. The impact at work can be big, as technology changes the nature of people's jobs, creating new jobs and making others redundant. The pace of technology change is quick, and there are many companies that have been left behind by new technology. Changing technology shapes the requirements in construction work and shapes consumer buying behaviour. The technological environment impacts the entrepreneur's know-how of technological requirements. Pohjola et.al (2006, 148) state, that general purpose technology has proved to be very significant for economic growth. It affects both the lives of private households and the actions of corporations and communities. Overtime, it develops, becomes cheaper, and creates new products, services and procedures. Electric power, steam power and information and communications technology are examples of this. At the same time when technological development creates new products and new jobs, it simultaneously eliminates old jobs.

The technological environment of construction business is influenced heavily by the political environment, as many of the regulations set in the political environment affect the technological requirements of building. Kotler (2000, 149) states, that the opportunities for innovation, varying R&D budgets, pace of change and increased regulation are trends that should be monitored in the technological environment. According to Johnson & Scholes (2002, 102) technological factors include state's investment rate to research, new innovations, development, technology's pace of change and pace of aging.

Research

Finland has one of the highest rates of research in the world, 3,5% of GDP (gross domestic product). Approximately 70% of research is funded by the companies themselves, and 30% is funded by public funds. Tekes (Teknologian Kehittämiskeskus), which works under the trade ministry of Finland is a funder and an activator for research- and development projects in companies.
(Pohjola et. al, 2006, 156)

Technological pace of change

Palmer & Hartley (1999, 37) suggest, that businesses should monitor technological development and to understand the impact of those on four related areas:

- Technological development allows new goods and services to be offered to consumers.
- New technology can allow existing products to be made more cheaply, thereby lowering their price and widening their market.
- Technological development makes possible new methods of distributing products and services.
- New technology creates new opportunities for companies to communicate with their target customers.

Technical changes have a strong position in competition, that is why it is important to see the course of technical change. With this information, companies can anticipate technical changes, use the changes as advantage and better their position in the competition environment. (Porter, 1985, 237)

5 THE CASE COMPANY

The case company is a one-man company situated in Leppävirta. The company form would either be sole trader or limited company. The idea of the entrepreneur is as a whole to provide consultancy services for builders. Mostly the actions would be performing tasks of foreman and private building inspection.

Business idea of the case company

The business idea of the case company is to provide building inspection services and services of a general foreman in construction sites. Public, municipal building inspection demands a general foreman to construction sites. Idea would be carrying out the whole building cycle, meaning from an empty lot through designing, planning to an end product using own expertise and the expertise of others. The benefit to the customer comes so, that the customer does not necessarily have to contact parties other than the building supervisor/general foreman who is providing the service.

Nowadays a working person does not necessarily have the time and expertise to do renovations or start new constructions. At some point a constructor needs a building specialist. The constructor needs work force, information of costs, planning and inspection. The foreman of the case company can provide these services. Additional services that the case company would provide would be moisture measuring, inspection of incoming materials and components, asbestos metering, condition mappings and energy classifications. Another service what would be provided is acting as foreman in renovations. The users of the services would be detached house builders, housing cooperatives and possibly insurance companies in terms of damage inspections. Roughly speaking, the case company would be a constructing consultant.

The business idea of the case is executable. The primary service which is provided (foreman/building supervision) is compulsory according to law and regulated by the municipal building inspection. Additional services provide more opportunities in the market and amongst customers. The success highly depends on the demand in the market and the operational performance of the company. The know-how of the entrepreneur is strong in the building industry. The entrepreneur has been doing general foreman and building supervision jobs from the end of the 1970s together with material purchasing, scheduling and contract calculating. The entrepreneur has the appropriate, necessary education (Construction Engineer, UAS) and can according to state officials act as a general foreman. The entrepreneur is familiar with building industry, and knows many of the actors in the industry. However, the founder of the case company does not yet have any experience on being an entrepreneur. The financial sources of the entrepreneur are limited, but the starting of the company would not need large investments, and the costs of operations are low. According to the entrepreneur and the price level currently in the market for general foreman service, the entrepreneur’s goal would to have around ten supervising sites per year. The costs of the company would arise from launching costs of company, marketing costs, the entrepreneur’s salary, outsourcing of bookkeeping, occupational liability insurance, entrepreneur’s pension insurance, other insurances, gasoline, mobile phone and other running costs.

Marketing channels

The entrepreneur’s aim is to target marketing towards house designer offices, HEPAC- shops, building material retailers and building contractors. The entrepreneur is also planning a website for the company. Creating a website seems to be rare in Northern Savo especially among sole traders who do supervising.

Target customers

Customers primarily consist of builders of single family houses and renovation sites. Housing cooperatives and insurance companies are also parties which use renovation services. The main target market of the case company is Kuopio, Leppävirta and the area along main road number 5 between Kuopio and

Leppävirta. According to the entrepreneur himself, he can take casual projects from a bigger region inside Northern Savo, mainly Iisalmi, Varkaus, Suonenjoki etc.

Kuopio, Leppävirta, Varkaus and Iisalmi were chosen as the main target markets because of proximity of the entrepreneur’s home, which is the base of operations.

Pricing

The price for a foreman in a building site in the market is dependant on the scale of the construction project and the responsibilities of the foreman. According to the entrepreneur, the most common price for a foreman is between 3000-5000€ for a single detached house project. Supervising renovations bring smaller incomes. There seem to be regional differences among the price levels in Finland, and the reference price for foreman among customers is not entirely known. The case company has also confirmed, that consumers dont really know the reference price, and the foremen can usually set the prices themselves. According to case company, many foremen use hourly rates. Also, the case company has stated that invoicing would be done as hourly wages, so the actual reward of the project depends on how many times the foreman needs to visit the construction or renovation site. According to the entrepreneur and by observing prices of foremen, the price range seems to vary between 50-100€ per hour for foremen.

6 ASSESSING THE MARKET ENVIRONMENT

In this chapter, the market environment was firstly evaluated domestically, and more specifically the area of Northern Savo was evaluated.

6.1 Assessing the domestic market

The base of constructions in Finland is starting to be old. The old buildings are in a constant need for renovations. Household deduction set up by the Finnish government has increased renovations in housing cooperatives and private households. Household deduction entitles private people to hire renovation or household work. The work orderer gets the benefit as tax refund. The maximum cut is 3000€ for one individual. Household deduction has made the starting decision of renovations for private households and housing cooperatives easier. Energy grants and piping renovation aids have kept renovations in housing cooperatives alive. According to a publication by the Official Statistics of Finland the value of renovations in housing cooperatives increased by 6,2% in 2009 from 2008. A third of renovations in housing cooperatives consisted of renovating of external walls, roof structures and balconies. A quarter of renovations were aimed at renovating of HEPAC (Heating, plumbing, air conditioning)-devices. Especially in housing cooperatives, the renovations have largely been plumbing renovations, thus in those sites the biggest contractor is a pipecontractor. Pipecontractors do not usually have knowledge on building supervision. Municipal building inspection requires not only a foreman in charge of piping to these sites, but a general construction foreman as well. The increase of renovations has brought opportunities in the market, as there is more supervising work available.
(Official Statistics of Finland 2010 and Rakennuslehti 10.12.2009)

The material prices in 2009 in house building declined slightly. According to Official Statistics of Finland, material prices declined 1,0 percent in 2009. However, work prices went up by 2,9 percent, so in this regard, building did not get much cheaper in 2009 from 2008. In 2010, the building costs have been increasing slightly because of the recuperating of construction business. Especially financing got cheaper in 2009 from 2008. The loans are easier for consumers to get and the interest rates on loans have been low in 2009 and 2010. (Rakennuslehti 18.02.2010)

According to Official Statistics of Finland, the number of granted building permits in 2009 stayed in the same level as it was in 2008 in Finland. However, the permits for detached houses decreased 20 percent from 2008. Building permits measured in square meters also decreased in 2009 from 2008. The constructing of dwellings has been in increase from the middle of 2009 and the trend has continued in 2010.
(Official Statistics of Finland 2010)

Economic factors

Strengthened by various indicators, it can be seen that Finland suffers from economic depression at the moment. Construction business came to a complete standstill when the financial crisis started. According to Official Statistics of Finland, The Finnish GDP shrank by 7,8% in 2009 compared to 2008. The unemployment rate was according to Official Statistics of Finland 8,2% in Finland. The amount of working people decreased by 74000 people in 2009. The depression has especially hit construction business in Finland. (Official Statistics of Finland 2010)

Olivier Blanchard (2008, p. 9) predicted, that the economic situation in developed countries would have turned to better by the end of 2010. Finnish exporting recovered slightly in 2010 and especially the demand of private households has been positive. This means better times for construction companies as well. According to a column in Finnish Rakennuslehti, house factories believe in market growth in 2010. In autumn 2010, Finnish banks spreaded optimism, stating that economic growth will speed up in 2010. However, Finnish banks have predicted, that economic growth in Finland will slow down again in 2011. Construction business is very exposed to changes in the business cycle.
(Rakennuslehti 9.9.2010 and Kauppalehti.fi 2010)

Customers and social factors

The primary target customers of the case company would be house builders and renovators. Other customers are housing cooperatives, and possibly insurance companies. The service itself is diverse, in which many things are involved. The buying behaviour pattern which customers mostly are involved in the buying process can be described as dissonance-reducing buying behaviour, as there is not difference on the actual product. However, the need for a foreman in new building projects is statutory, so the consumers are obliged to use the service. This is also in renovation sites. The differences that the consumers find are reputational matters, experience of the service provider, price, past experiences and awareness. Especially experience and trustworthiness of the foreman are matters which consumers value. Marketing plays a role in creating awareness and possibly price range could be set up a little lower than those of competitors' especially at the launch phase. Credentials of the foreman's previous construction sites state the consumers of experience and professional skills. The consumers would like to find the best, active and most reliable foreman with the lowest possible price. That same matter is with almost any other purchasing process. Finns are conscious of prices. However, according to case company it seems that for every consumer, the price paid to the foreman is not easily known. For some, probably even the tasks of a foreman are not known. Past experiences and reputation create word-of-mouth knowledge among consumers, which is crucial among this kind of industry, where no major differences can be found from the product or the provider. This way, influencers can be found to guide the buying decisions of people. The buying process decision in building however, is a more time consuming matter for consumers, and harder to make. The recession has also had effects on political and economical environments, thus effecting consumers' liquidity and buying behaviour.

When thinking about the social factors in the market, the recession has impacted people's incomes and affected in lack of trust in the market. As unemployment has increased, people have started to worry about their loans, savings and the stability of their job. In a study made by Official Statistics of Finland, confidence levels among private individuals in February 2010 was quite good among Finnish people. The confidence indicator was 15,9 in February 2010, whereas it was 14,9 in

January. The confidence levels among private individuals have gone up significantly from 2009. In August 2010, as a result of the better situation in the market, the confidence levels among people were significantly higher than in February 2010. According to Statistics of Finland, 23% of Finns have intentions of making renovations for their apartments. The figure in Northern Savo in the study was 18,9%. (Official Statistics of Finland 2010)

Energy efficiency of houses

The EU has agreed a directive concerning the energy efficiency of houses. According to it, energy efficiency has to be improved in new buildings and existing buildings. The aim of this directive is to lower the carbon dioxide emissions and to lower energy consumption of buildings in the EU area. In Finland already, so called low energy houses are being built. However, the aim is to start building zero energy houses, which would consume the same amount of energy it produces. This creates more costs for constructing because of technological changes to materials and machines, and it requires more knowledge from the entrepreneur, as the constructing orders are getting more strict. ARA (The Housing Finance and Development Centre of Finland) gives grants for private households and housing cooperatives in improving the energy efficiency of buildings in Finland.
(Finnish ministry of environment 2010)

Stricter regulations in renovations of apartments

According to changes in the law concerning housing cooperatives (AOYL), a renovation has to be informed first to the housing cooperative and a foreman must be appointed for the renovation. The renovation must be carried out according to good manners of constructing. The owner of the apartment where the renovation is carried out, is responsible for paying the expenses of the supervision work. In general, every work except painting and wallpapering must be first informed to the housing cooperative. This brings more opportunities for foremen in the market. In many cases, the supervising of the renovation has been done by deputy landlords of the housing cooperatives. However, according to a publication by the STT (Suomen Tietotoimisto), the supervisors have been invoicing huge amounts from the consumer. This strenghtens the impression, that there is no actual reference price in the market for supervising jobs. According to Finnish Real Estate Federation, the expenses for supervising jobs in apartments should be between 300-1500€. (STT 2010)

6.2 Assessing the market environment of the case company

Northern Savo is a county inhabited by 248000 people in Eastern Finland. The three biggest towns of Northern Savo are Kuopio, Varkaus and Iisalmi, which would be partly the target markets of the case company. Pohjois-Savo is the sixth biggest county in Finland in terms of population. Varkaus is an industry-based town, while Kuopio has been the technological centre in Northern Savo. Iisalmi bases on agriculture and industry. Kuopio has the biggest population of towns in Northern Savo (92 626). (Pohjois-Savon liitto 2010)

Statistics from Official Statistics of Finland show that people are migrating away from Northern Savo. This trend has been ongoing since 1994. One of the reasons has been better chances of work. However, the population of Kuopio has been increasing yearly. (Pohjois-Savon Liitto 2010)

The construction production in Northern Savo has only slightly declined. According to a publication in Savon Sanomat, in 2009, a total of 1005 building permits were given in Kuopio, while in 2007 the number for granted building permits was 1260. 2007 was the record year in permits in Kuopio. In 2008, 994 building permits were given for dwellings in Northern Savo. There is not much decline in free time buildings as well. By the end of August 2009, permits were given to 113 detached houses in Kuopio. There is only a slight decline to the statistics in the previous year in Kuopio. In 2009, 968 building permits were given for dwellings in Northern Savo, and 335 permits were given for freetime residential buildings, according to these, constructing has not really slowed down during the economic depression in the Northern Savo area. According to data provided by Statistics of Finland, the number of building permits given has slightly increased in Northern Savo in 2010 compared to 2009 when comparing statistics from January to July in 2009 and 2010. (Savon Sanomat 2009; and Official Statistics of Finland 2010)

Region	Volume (1000m3)		Dwellings (No.)		Free time residential buildings (No.)	
	1-12/2009*	1-12/2008	1-12/2009*	1-12/2008	1-12/2009*	1-12/2008
All regions	40153	50549	26867	27061	5675	6453
Continental Finland	39921	50264	26679	26857	5593	6376
Uusimaa	10274	11450	9078	8565	237	321
Metropolitan area	6675	8218	7083	6448	13	23
Itä-Uusimaa	468	862	377	481	95	92
Varsinais-Suomi	3485	4746	2309	2221	561	664
Satakunta	1483	1875	710	730	219	199
Kanta-Häme	1070	1979	737	885	160	257
Pirkanmaa	3638	4860	2831	2915	422	445
Päijät-Häme	1316	1955	926	990	239	252
Kymenlaakso	1714	1667	550	486	210	234
South Karelia	815	1227	362	581	226	258
Etelä-Savo	1030	1057	311	425	569	644
Pohjois-Savo	**1864**	**2633**	**968**	**994**	**335**	**361**
North Karelia	1035	1091	690	708	250	249
Central Finland	1835	2482	1538	1239	406	427
South Ostrobothnia	2366	2882	1018	1024	127	147
Ostrobothnia	2231	2389	805	734	261	270
Central Ostrobothnia	776	1002	343	284	72	83
North Ostrobothnia	2705	3625	2333	2405	387	455
Kainuu	386	986	200	227	227	230
Lapland	1428	1497	593	963	590	788
Åland	232	285	188	204	82	77

Table 1: *Building Permits by Region 2009*

Source:

http://tilastokeskus.fi/til/rl/2009/12/rl_2009_12_2010-02-19_tau_003_en.html

Bankruptcies and terminations among construction companies during recession

According to Savon Sanomat and Suomen Asiakastieto Oy, the year 2009 was hard for companies in construction business in Northern Savo. The number of bankruptcies for construction companies in 2008 was 27, while in 2009, 33 construction companies went bankrupt. Small companies, who cannot adjust to the decreasing demand, have mostly been victims of bankruptcy. The situation for construction companies started to become harder already in the autumn of 2008, as the global financial crisis began, influencing international trade and decreasing Finnish exports. (Savon Sanomat 2009)

Kuopio subregion

Kuopio subregion consists of towns of Kuopio, Siilinjärvi, Maaninka and Karttula. According to a publication by Northern Savo ELY-centre (Centre for Economic Development, Transport and the Environment), the unemployment rate in Kuopio subregion was 11,2 in 2009. The publication suggests that the employment situation is not getting better in the upcoming twelve months. However, according to ELY-centre, the economic life and entrepreneurship will get better in the upcoming twelve months. The recession has not been so severe in the Kuopio subregion as in other regions. That is because of diverse business structure of Kuopio. Long term investments especially in private sector have backed up the building industry. The publication states that the deepest recession in Kuopio is yet to be experienced in the upcoming six months. (TEM and ELY 2010)

The unemployment in contruction business has been only slightly higher than in 2009. The contruction of one-family houses is steadily recovering, and Asuntomessut which was held in Kuopio in summer on 2010 help slightly in boosting the constructing of one-family houses. Renovation constructing in Kuopio subregion has been lively, and the trend seems to continue. (TEM and ELY 2010)

The competition situation in Kuopio among construction companies seems more crowded. There are quite many construction designing companies, but some of them are mostly concentrated on public buildings, commercial and industrial buildings, not on detached houses, rowhouses or summer houses. Most of the companies are in the operational side of constructing, especially renovations.

The trend among contruction companies who offer inspection, foreman and designing services in Kuopio differs slightly from the situation in Leppävirta and Varkaus. Many companies are larger engineering or construction planning companies. However, there still are actors who do business as sole traders or small limited companies. Some of these companies have broader product portfolio than that of case company's. Some of the companies in the market offer architect services in addition to inspection, foreman and other services. Architects often act as supervisors in the construction sites. Architect offices in Kuopio include Riitta Korhonen Ltd. and Siilin Ra-toimisto. It is a convenient way for a work orderer if the same provider can provide the tasks of house designer, foreman and inspector. Some of the companies operating in Kuopio are larger engineering or designing offices who act as architechts and do structural designing of buildings. Some are larger companies in the operational side of constructing. However, many of these companies are more concentrated in public buildings and commercial buildings, namely can be mentioned SRT Ltd., and Granlund Ltd. There are a lot of companies in Kuopio in the operational side of constructing and renovating. In numbers, there are around ten direct competitors in Kuopio region in the same market as the case company company would be. Namely can be mentioned companies such as Savon Rakennusvalvonta and Tanninen ltd., which offers exactly the same services as the case company. A company called Jukka Latikka ltd. which offers house designing and acts as general foreman in the construction site further enhances the impression that there are one-man companies around in the industry. Biggest renovating companies in the area are Mijorak ltd. and Kuopion Monirakennus ltd.

Varkaus subregion

Varkaus subregion consists of the towns of Varkaus and Leppävirta. The region was inhabited by 33 557 people in the end of 2009. The population decreased by 365 compared to the previous year. The average unemployment rate in the area in 2009 was 15,2. The unemployment rate is the highest in Northern Savo. (TEM and ELY 2010)

Even before the slump in 2008, there were several lay-offs and the start point facing the deteriorating economic situation was far worse than that of other subregions in Northern Savo. As the threat of shutting down Stora Enso factory comes true in Varkaus, it would have a very big impact on unemployment and the whole market area. According to Nothern Savo ELY-centre, the unemployment rate could rise as high as 20% in the region. According to ELY, the situation is very quiet among new constructing of single-family houses and public constructing. However, ELY states that renovation constructing in Varkaus has been lively. (TEM and ELY 2010)

There are directly not many companies in Leppävirta who offer similar services as the case company. The market in Leppävirta is not crowded. The trend in the municipality of Leppävirta in these companies is that they are so called one-man companies. Marketing is minimal among these companies in Leppävirta. Most of these companies do not have websites. Namely there seems to be one company from Leppävirta which offers inspecting and foreman services. The company also has renovating constructing in portfolio. Other companies from Leppävirta are operating more on the constructing and renovating side, namely Savon HML Rakennus Ltd, Leppävirran Rakennus Ltd and Matuvo Ltd.

Close by in Varkaus more competitors can be found who also operate in the area of Leppävirta and Kuopio. Some of them offer construction services for industrial purposes, but there are quite many actors who offer construction services for private households as well. The trend in Varkaus is similar to Leppävirta. The companies in this field are small companies most of them employing only one person. One of these is Constructing Consulting Ilkka Kudjoi which offers building supervision and foreman services for detached houses, summer houses, and rowhouses. Moreover, other services of the company include moisture measuring and condition mappings. This competitor is a direct competitor and would vary very little from the services of the case company. Some engineering offices such as Instomark offers foreman services in detached house building. There are around five small companies more which provide supervising services in Varkaus. Some of them do architechtural designing as well. Moreover, there are more companies in the operational side of constructing and renovations.

Iisalmi subregion

Iisalmi subregion consists of the town of Iisalmi, Kiuruvesi, Keitele and other small towns. The population at the end of 2009 in the region was 58 537. As in Varkaus, the population is decreasing on a yearly basis. The average unemployment rate of the region in 2009 was 14, 0 %. (TEM and ELY 2010)

The business life in the region is mostly concentrated on agriculture, paper, wood, and metal industries. In construction industry, the amount of lay-offs has been decreased, and constructing is steadily bouncing back from recession. The constructing in the region is mostly concentrated on public building and agricultural building. (TEM and ELY 2010)

In Iisalmi, the competition situation is following similar patterns as in Kuopio and Varkaus. There are less than ten companies who offer supervising services for private households in new buildings and renovations. Most of them are engineering offices and construction designers. A direct competitor can be found from a small limited company called Korolainen Ltd., which offers supervising in addition to house designing. Moreover, Savon Kunto & Kosteus offers condition mapping and foreman services for renovations in housing cooperatives.

7 CONCLUSIONS AND EVALUATION OF THE THESIS PROCESS

The thesis process was hard in the beginning, as starting the thesis was harder than I originally expected. Moreover, as a working person, the time for doing the thesis was sometimes scarce. However, the study was able to meet its objective. Other kind of research methods could have perhaps been used, but the undersigned and the thesis supervisor did not see any point in making questionnaires for example. The emphasis was in publications, statistics and interviewing of the case company.

The study was able to point out factors from the domestic market which has impact on construction business and the case company. By observing from various sources and from discussions with the case company, the strenghts, weaknesses, opportunities and threats was able to be pointed out. The construction business as a whole, is known to be very responsive to economic trends, as the recent economic recession has proved. The actions in the political and economic environment have brought more work and opportunities for construction companies.

The strenghts of the case company lie in know-how of constructing, long work experience as foreman, building supervisor and strong overall knowledge of the trade. However, the entrepreneur does not have much experience on house designing, and the entrepreneur has stated that he would not provide house designing. Compared to some companies in the market, this might prove as a weakness, as some companies provide designing in addition to foreman services.

The opportunities arise much from legislation, as consumers are able to use household deduction in renovations. As a result, renovating increased in 2009 from 2008. The new law concerning housing cooperatives (AOYL) which was launched in 01.07.2010 increases the amount of available supervision work in the market. Comparitively cheap loans encourage people for making decisions on starting a building process, and studies show, that amount of constructing especially in Kuopio has stayed in good level. The entry barriers for entering the market seem quite low for a newcoming company. The amount of building permits for dwellings have increased in 2010 compared to 2009.

As a result of the new act on AOYL, the competition is expected to be increased. As a result of a possible upswing, the threat of new entrants is simmering. A threat for all of construction business is that economy sinks and constructing together with renovating decreases.

When estimating the possibility of starting a company, the most attractive town in Northern Savo is Kuopio. This bases to potential customers and especially potential renovating sites in Kuopio, even that the Kuopio area has the most competitors. As a whole, the entrepreneur can accept assignments from Northern Savo. A suggestion for the case company would be to differentiate from competitors. However, most of the competitors are indirect competitors, such as architect offices. A recommendation for the case company is to create awareness among contractors, house designers and private people. The ideal way would be to find a well-timed entry for starting the company, as the company should have a good competing position in the market as the next upswing in the economic cycle begins.

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