CONTRIBUTION OF POSTMODERN MARKETING THOUGHT TO A VALUE ENHANCEMENT OF DISTRESSED ASSET PROPERTY BY MANAGING A COMMUNITY

(CASE OF REAL ESTATE PROPERTY UNDER INDONESIAN STATES OWNED ENTREPRISES MANAGEMENT)

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Abstract There are several approaches for valuing the real estate property. Numerous models of asset’s value enhancement have been developed by academicians to answer the dynamic changes in real estate industry. Some of the changes may restrict the real estate development from progressing or vice versa. Without challenging the existing models of real estate valuation offered in the academic literatures, authors in contrast support the notions that those changes can be turned into superior opportunities from the perspective of postmodern marketing. Based on empirical experiences dealing with States Owned Assets property, the authors deem Expense Leveraged Value Indexes (ELVI) of real estate valuation is the most appropriate to use because the enhancement of both the values of tangible and intangible capabilities of a property is built within the model. The intangibility part of ELVI is integrated marketing communication in which this paper will offer the marketing model of a brand community formation to be considered. The model of ELVI will be discussed in the first part of paper followed by
the discussion of empirical constraints in States Owned Assets management. The second part of the paper offers a hypothetical solution to reverse decaying assets in States Owned Assets using the adaptation of producer-customer based relation in the postmodern marketing derived from the service dominant logic theory and customer center theory.

**Keyword** Real estate value, real estate capability, property appraisals, postmodern marketing, service dominant logic, customer center theory, brand community

1. Background

In all cases, every real estate property bears values. The value itself is determined by expectation of the property owner and the prospective buyer. As long as every working individual needs a home to live, the real estate property will always be a subject to a daily economic transaction. However, the property transaction does not get easier from time to time due to the prior approval for conformity of valuation before any economic transactions can be done. The underlying factors for differences in valuation are due to the evolutions changes in environments surrounding the property, regulations pertaining to the property and human preferences to the property. This is why real estate property is always subject to going concern.

In modern world, valuation in real estate property must conform to the Universal Standards of Professional Appraisal Practice (USAP) for the tax and financing reasons. USAP states “an appraiser must identify and consider the effect on value of any personal property, trade fixtures, or intangible items that are not real property but included in the appraisal...Separate valuation of such items is required when they are significant to overall value.”

However, since the issuance of USAP, there has been much debate among property valuators whether the going concern of real estate value can be set apart from business value. The debate arouse due to uncertainty for measuring the intangibility value. Benson (1999) later proposed “a bridge model” in attempt to answer the polemic. The underlying assumption for the model building was based on the contemporary thought of modern economics in which land is regarded as an equal agent in production with labor, capital, and coordination. Contrary to classical thought, land by its own right can be as productive as other agents because of other factors surrounding the land itself. Therefore, the model is symbolically illustrated in a simple mathematical equation presented in the following figure 1:

\[
GC = RE + FF&E + BV
\]

Whereas,

GC: Going-concern value refers to the total value of property, including both real property and intangible personal property attributed to business value

RE: Real estate is immobile and tangible. Real estate is defined as the physical land and accessories fixed to the land like structures

FF&E: Furniture, Fixtures and Equipment

BV: Business value is a value enhancement that results from items of intangible personal property such as marketing and management skill, an assembled work force, working capital, trade names, franchises, patents, trademarks, contracts, leases, and operating agreements.

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2. Observational questions

Observing from the preceding equation, the variables RE and FF&E are tangible and can be quantifiably measured because the market always projects data in the real estate association for each geographical area. The other two variables GC and BV bear intangible values that normally articulated in the following ex ante questions raised by prospective buyers before making any purchases for the real estate property:

a) Who is the developer of the real estate property?

b) What financial institutions issued the home loan for this real estate property?

c) Who is the marketing agent?

d) Who is the property management?

e) How is the area going to be managed?

3. Literature Reviews

In the utopia world, if a business value is constant, then measuring a going-concern value of real estate is an easy task. All appraisals have to do just evaluate the real estate capabilities in the scopes of location, age of the land and building, property presentation, property lay out and trends. However, referring back to the preceding inquiries raised by the prospective buyers, their questions represent more on the level of assurance needed by the prospective buyers. They want to ensure that they are paying with the feeling of comfort for the purchases. Hence, the bridge model shows that the business value cannot be put aside from the going concern of the real estate, but it requires more thorough methodology to define what the intangibility components under business value are for the purpose of calculating the real estate value enhancement.

In terms of value determination itself, the general methodology approach normally consists of three types: (1) cost approach; (2) sales comparison approach; and (3) income approach. The income approach employs ex-ante estimates whereas the first two approaches use ex-post estimates. However to answer the ability to value the current total real estate values and at the same time enhancing the future values of tangible and intangible capabilities of a property, a more pragmatic approach is required. Ratnatunga and Parker (2012) propose Real Estate Capabilities valuation model using Expense Leveraged Value Indexes (ELVI) that has originally been adopted from the work of Vidale and Wolf (1957). The ELVI is a way to measure an economic value of an enhancing capability of an asset at a given time. The relationship among the required variables is presented in mathematical equation stated in figure 2.

\[
\frac{dS}{dt} = r.E. \left( \frac{M - S}{M} \right) - \delta S
\]

The equation indicates that the change in the economic value \((dS/dt)\) of a capability-enhancing asset at time \(t\) is a function of five factors:

E: the costs/expenses incurred to support the capability from purchase date;

r: the value-increasing constant (ELVI No.1 - defined as the value generated per expense dollar when \(S = 0\));

M: the maximum consensus value of the capability at the current date;

S: the value of the capability at time of purchase; and

\(\delta\): the value-decay constant (ELVI No.2 - defined as the fraction of value lost per time unit when \(E = 0\))

Based on the preceding equation, it states that the change (increase) in the capability value of the real estate property will be positive or higher when the
value increasing constant \( r \), the cost incurred to support capability \( E \), and the untapped potential capability are higher than the value-decay constant \( \delta \). In other words, any improvement made at a given property will be affective to the value enhancement of real estate property as long as at the maintenance expenses (both tangible and intangible) are bigger than the depreciating values (both tangible and intangible) of the property. Within the ELVI, the question remains on how to determine the multipliers: value-increasing constant \( r \) and the value-decay constant \( \delta \).

Ratnatunga and Ewing (2005) has at one time used the ELVI to value integrated marketing communications (IMC) using other references to explain the inter-relationship among factors determining the Real Estate Capability. There are seven variables identified and employed to build the ELVI model: location of the property, age/style of the building and land, presentation of property condition, layout of the building and area, trend of the property to the market preferences, integrated marketing communications and protections that govern certain covenants to the property. The introduction to the seven factors now allows appraisers, property owners and prospective buyers to have an attitudinal effect in terms of (1) real estate recognition, (2) perceived quality of real estate and (3) a behavioral effect on sales as presented in figure 3. Hence, multipliers \( r \) and \( \delta \) can now be estimated in ELVI model.

![Figure 3. Antecedents and Consequences of Real estate Capability](source: Ratnatunga and Parker (2012))

4. Case of value enhancement turnaround

Many of the land and buildings owned by the government of Indonesia and States Owned Enterprises so called BUMN\(^2\) are in decaying conditions since the economic crises 1998. Under BUMN alone, the estimation of unutilized assets is about worth of Rp 500 trilliun (properti.kompas.com 13 December 2011). This condition instigated Dahlan Iskan, the Minister of BUMN, to have an idea for consolidating all of the BUMN decayed assets and putting them all under one basket so called the BUMN property. The company is then ideally expected to find a mechanism for enhancing the value of those assets that can be useful for the public use. The simple solution the minister offers is concurrently via sales and asset management.

This condition in Indonesia in regards to decaying asset is not unique; the United States of America and Hong Kong went through the same situation. In the case of the United States, Mason JE et al (2003) found in their study the elements that can degrade the value of the property. There are six factors that can contaminate property assets, they are: (1) range of real estate value of site, (2) range of environmental liabilities, (3) regulator pressure, (4) local government lack of support, (5) developer disinterest in site and (6) public insensitivity to site. Referring to the research conducted by Ratnatunga and Parker (2012), the contaminated factors are contributing to how big or small the value-decay constant \( \delta \) behaves.

In the case of Hong Kong, Hui et al (2007) researched on 83 home buildings in 9 districts. Using a direct sales comparison approach, the study found that rehabilitation of the decayed home buildings had increased the price by 35.6 percent and appreciated the value by 25 percent. In the same line, the benefit per cost ratio was found to be improved by 10.9

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\(^2\) BUMN is an abbreviation for Badan Usaha Milik Negara
times. In their study, they also observed some rises in intangible benefits such as the enhanced living environment and safety standards of the buildings, increased enjoyment of owners and occupiers of the repaired building, and a better image of the living environment of the old districts. In reference to Ratnatunga and Parker (2012), those rehabilitating factors are affecting the behavior of the value-increasing constant \( r \). Learning from the cases of USA and Hong Kong, we are in essence now more knowledgeable what the value-decay constant and the value-increasing constant are. Both studies were conducted in ex-post manner.

Back to the case of states owned assets in Indonesia, authors would like to share the ex-ante case of enhancement value in a housing property owned by the government of Indonesia. The property site is called Bogor Lake side under the management of PT Sejahtera Eka Graha (SEG), a subsidiary of Ministry of Finance. The property was handed over to the government from an obligor who went under after the 1998 economic crises. Since 2004, this property has been left for PT. Perusahaan Pengelola Asset (persero) \(^3\) to manage. For the purpose of this paper, the authors focus on the three decayed homes in one Rukun Tetangga (RT) \(^4\) of the area: inventory stock TH 5 no2, inventory stock TH 6 no 6, and inventory stock TH 8 no 3a. The following table 1 and table 2 are the condition lists of the three homes conducted in April 2011 prior to renovation.

<table>
<thead>
<tr>
<th>REC Strength Variable</th>
<th>Reason for Inclusion</th>
<th>Stock TH 5 no 5, Stock TH 6 no 6, Stock TH. 8 No. 3A</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Location:</td>
<td>To achieve a high score, the real estate location must be a dominant force in its sector with a strong market demand. Factors such as closeness to Central Business District, Schools, Hospitals, Roads, Public Transport, Parks and Shopping increase this score. The size of the land is a key factor here.</td>
<td></td>
</tr>
<tr>
<td>2. Age/Style:</td>
<td>To achieve a high score, the real estate location must portray a period style for which there is a strong demand. Factors such as paint colours, brickwork, tiles, carpets, fitouts, kitchen style etc., externally and internally, could enhance or diminish this score.</td>
<td></td>
</tr>
<tr>
<td>3. Presentation:</td>
<td>To achieve a high score, the real estate location must portray livability. Factors such as surroundings, building strength, overall neatness, maintenance of property including the garden, ease of opening doors and windows, carpet durability; and the absence of leaks, mould, paint flaking, etc. could enhance this score.</td>
<td></td>
</tr>
<tr>
<td>4. Layout:</td>
<td>To achieve a high score, the real estate layout must</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Moderate: Close to CBD, International Schools, Major Highway Jagorawi, Back door access to the biggest mall in Bogor Botany Square, yet no public transport in the area. Home owners must have their own transportation.</td>
<td></td>
</tr>
</tbody>
</table>

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\(^3\) PT. Perusahaan Pengelola Aset (persero) known as PPA is a States Owned Enterprise whose business is in financial services. Under government decree no 61, 2008, one of the PPA’s roles is asset management.

\(^4\) Rukun Tetangga is a form of residential community in one cluster.
features that increase its desirability by the targeted market.

have contemporary features such as number and size of bedrooms, bathrooms and toilets, walk-in-robies, living and dining areas, garage sizes, balconies etc. Building extensions to incorporate more features could enhance this score, but overcapitalization could also diminish this score.

bedrooms and one toilet contradicting to the current demand for 3 bedrooms and two toilets. Other features are applicable for either rezising or expansion because the structure only occupies 50 percent of the land.

However, marketing treated as a separate variable as the effectiveness of marketing is integral to a property’s ultimate capability value.

management and marketing is null.

5. Trend: Actions here include real estate location image and changes in the price-quality-value relationships of the style and features of the property.

To achieve a high score, the trend is analyzed in terms of its positioning; i.e. a property’s ability to remain contemporary and hence retain profitability. Factors such as fashionability, lifestyle of target market, demographics, and family size trends are considered in the scoring.

Not favorable: The trend of the house was designed in 1992, hence fashion wise is old. Demographically the house may not be suitable for a family with two children.

6. Marketing Support: Actions here include ‘pull’ advertising such as in print and electronic media and ‘push’ promotion via real estate agents. These actions affect all the other real estate capability variables.

In the short-term, the level of marketing support expenditures is an essential feature in the calculation of profitability. To achieve a high score, the integrated marketing communications

Not favorable: Since 2002, the property has been maintained by government representatives after the financial restructuring. The know-how of property

Table 1. Seven Real Estate Capabilities adopted from Ratnatunga and Parker (2012) used by PT. Sejahtera Eka Graha (SEG) and PT Perusahaan Pengelola Aset (PPA) to assess inventory stock TH 5 no2, inventory stock TH 6 no 6, and inventory stock TH 8 no 3a.
Table 2. Data and interviews on neighborhood community (Rukun Tetangga) provided by Sejahtera Eka Graha management in April 2011

<table>
<thead>
<tr>
<th>Stock</th>
<th>Land size</th>
<th>Building Size</th>
<th>Regulated Price of LAND</th>
<th>Appraised Value of BUILDING</th>
<th>Minimum Regulated Selling Price</th>
<th>As-is Price determined by community</th>
<th>Net gain or (loss)</th>
</tr>
</thead>
<tbody>
<tr>
<td>TH 5 no 2</td>
<td>187</td>
<td>155</td>
<td>Rp232,700,000</td>
<td>Rp32,550,000</td>
<td>Rp425,250,000</td>
<td>Rp500,000,000</td>
<td>Rp75,750,000</td>
</tr>
<tr>
<td>TH 6 no 6</td>
<td>187</td>
<td>155</td>
<td>Rp32,550,000</td>
<td>Rp425,250,000</td>
<td>Rp500,000,000</td>
<td>Rp75,750,000</td>
<td>Rp25,250,000</td>
</tr>
<tr>
<td>TH 8 no 3A</td>
<td>189</td>
<td>111</td>
<td>Rp396,500,000</td>
<td>Rp23,310,000</td>
<td>Rp420,210,000</td>
<td>Rp500,000,000</td>
<td>Rp20,210,000</td>
</tr>
</tbody>
</table>

Table 3. Data provided by SEG management in April 2012

With the existing conditions of decaying multiplier \( \delta \), selling the houses at that time would have not produced significant benefits especially in Stock TH 6 and Stock TH 8. The management later decided to spend more time on digging up further information from the residential community. During the interview process, there were five of the community members who expressed their interests in purchasing those houses on given lands. They all had stayed and settled in the same community for more than 5 years, hence they knew better the environment surrounding the neighborhood better than anyone else outside of the community. Although each member was unique, every one of them was expressing individual preferences should SEG management decide to take up a renovation. The room for formulating value increasing-constant \( r \) was then opened up and allowed to be defined through a series of knowledge and information exchanges over several tea times. The area of discussion was progressively narrowed to three subjects of presentation, layout and trend items out of seven REC variables. Following up the survey, the SEG management committed to doing a renovation on the in-stock houses based on the agreed specifications. They delivered the houses through bidding mechanism among the interested buyers by year end of 2011. The result of renovation has produced a significant value enhancement as it is presented in table 3 and picture 1.

Picture 1: Photo provided by SEG management in April 2012

4. Contribution of Postmodern marketing thought to a value enhancement in distress assets

Taking from the micro case of SEG, it is clear that concentrating on Integration Marketing communication (IMC) by investigating the community’s specific needs becomes essential when the other REC variables do not bear positive strength to begin with. Through exchanges between the
employees of SEG and the residential community, a series of value enhancement determinants are created to turn the unfavorable into favorable potentials such as presentation, layout and style of the houses. Out of this exchange, a value proposition is produced for renovation criterion that meets the value in use initiated by the prospective buyers. Involving consumers in the process of value creation is a business process behavior in the era of postmodern marketing. How this process can come about is best defined in the following flow studied and proposed by Pongsakornrungsilp (2010). He set up the model based on his research on the interaction between producers and consumers in the community of football clubs. The flow is presented in the following figure 4.

Figure 4. Knowledge sharing process (Pongsakornrungsilp 2010)

Producers and consumers are two inseparable groups under postmodern marketing. With the availability of all information in these days, both parties can interact to produce a value enhancement. Unlike the modern marketing proposed by Kotler (2007) where producers and customers are separated and segmented in practice, today’s consumers are mixed. The producer can be a user and the consumer can also contribute in product and service improvement. They are both co-creators and co-consumers (Brown 1995).

Vargo and Lusch (2004) being the founder of the service dominant logic theory show how the
interaction between employer and employee can produce value creation. Company owns resources in two forms: (1) the workers with their skills and knowledge (company’s operant resources) and (2) the products and services created and offered to the market (company’s operand resources). Through time, continuous development between the two resources produces a value proposition. The example of the value proposition is when a proposed designed by the SEG management offered to the prospective buyers after conducting the survey on residential community.

From the consumer side, there are also two kinds of resources defined by consumer culture theory: (1) a group of consumers who have been shaped by their social status, cultures and physics (consumers’ operant resources) and (2) the object and materials possessed by the consumers (consumers’ operand resources) (Arnould and Thompson 2005). The usage experiences between the two consumers’ resources produce value in use over time. The example of value in use is when the prospective buyers shared their thought of the new house design according to their expected tastes and budget constraints when being surveyed.

The interaction between the company’s operant and the consumers’ operant allows the sharing to take place (Pongsakornrungsilp 2010). The result of the exchange is a unanimous value enhancement that can produce two outputs simultaneously should there be a moderator. The first output is generation of ideas for further development toward the product or services (proactive poster) where all of the considered results are put into the right perspective by company’s operant for a new value proposition, and the latter is a series of information and knowledge to be shared for the emotional bonding among the consumer’s operant for the ease of convenience using the given product or services (reactive poster).

5. Suggested policy consideration

At the macro level, the model of Pongsakornrungsilp (2010) for the integrated marketing communication can probably be put into policy consideration for the solution to addressing decaying asset problem of States Owned Enterprises or BUMN. A branded platform of knowledge sharing should be utilized for BUMN companies to share their knowledge. Typical characteristics of a brand community are 1) shared rituals and tradition 2) consciousness of kind and 3) sense of moral responsibility (Muñiz and O’Guinn 2001). Brand community can act as a moderator for capability enhancement where all information and knowledge is exchanged through community type of relationship (Ardianto E and Soehadi 2008).

In fact, BUMN has already had a brand community called BUMN Marketeers Club, founded in 2012 and initiated by a marketing consultancy firm: MARKPLUS. Like any other brand communities, this BUMN Marketeers Club is expected to form a sense of “we-ness” that is exemplified by the micro case of a residential community in Bogor Lake Side where the interest of the SEG management being the developer and the neighborhood’s sensitivity to the site is elevated to a unanimous agreement for value creation.

6. Suggested future research

The ability of BUMN Marketeers Club to form a sense of “we-ness” among hundreds of BUM in Indonesia as a brand community still posts some challenges. The authors offer some postmodernists’ thought to the marketing community to further the research on how the above model of relationship marketing can be more perfected to become as an alternative tool to the turnaround strategy of decaying BUMN property assets. Since sharing is the essence among operants in a brand community, perhaps further research using the following studies as
references can offer a better understanding on future modelling of brand community studies:

a) The role and space of knowledge sharing platform and its connection to a brand community (Go and Fenema 2006, T’Klooster and Go 2004).

b) Individual Motives as antecedent of sharing (Wann and Sukoco 2010)

c) Relationship of brand trust and brand affect to the brand community Commitment (Muñiz and O’Guinn 2001, Hur et al 2011)

References


