

Emerging Markets Queries in Finance and Business

Private Labels of the DIY Retailers against the Romanian Post-Recession Environment

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Abstract

This study provides an empirical examination of the private label roles and market advantages, against the product strategies in the Romanian Do-It-Yourself market. The seductive advantage of the brands, the plain packaging of generic products seem to vanish under the scrutiny of the new somewhat bleak economic perspectives; yesterday's private labels are today's new brands and consumers seem to cannot have enough of them, in the new post-recession economy, as their level of penetration is considered to be as high as 40 % in certain markets. After the shock of the recession following the financial crisis of 2008-2010, as the consumers slowly return to spending, it is hardly expected that they will behave as they did before the crisis. In the Romanian DIY retail, a sector severely affected by the current recession, different players attempt to identify and implement product strategies that would bring competitive advantage and stop the decline in turnover and market share. Our objective is demonstrated how the implementation of private label strategies may be one of the key answers for the retailers operating on the Romanian market.

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Keywords: Private labels; recession; strategy; product;

1. Introduction

As retailers of home improvement products suffer from consumers cutting spending on housing improvement, on limited credit conditions and a declining housing market, an increase in the proportion of private label as opposed to branded products has taken greater precedence, as retailers are increasingly investing in developing their own brand goods and in improving their private label portfolios in an effort to lure in and retain price conscious shoppers.

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The comparative study of the top retailers activating on the Do-it-yourself international market as well as the analysis of the Romanian players and their relations with the private label phenomenon has led to a surprising line of work hypotheses:

The first hypothesis: the development of the private label products is considered by retailers the only valid strategy in order to preserve margins;

The second hypothesis: the private label mechanism allows the retailers more freedom of managing stock and product range, as they struggle with huge operational loss;

The third hypothesis: the surprising advance of Romanian Do-it-yourself retail players is mainly the consequence of a private label strategy.

The results of this study should serve as a basis for the development of an appropriate strategy for managing retail DIY brands in the new post-crisis economy with the declared purpose of improving business performance in the Romanian retail sector, where the impact of the private label products is still negligible or underrated.

Literature review

The Romanian DIY market has experienced, in recent years, a steep growth, followed by a deep plunge. Spurred by the construction boom of the early 2000's, the market registered a double digit growth rate until 2008, and attracted a large number of players, both local and international. These players focused mainly on establishing and expanding their footprint and thus the fight for sales and margins become apparent only in 2009, Pascu, 2010, when the global crisis hit the constructions market, with severe implications for all players.

In terms of economic development, apparently there is a cyclic recurrence of economic crisis; according to specialists Neagu, 2009: 75, they are necessary in order to balance excessive consumption and thus avoid too rapid depletion of resources. The recession periods, however, reconcile the needs and wishes of people with the real possibilities of meeting them in a certain historical period. Some analysts, Blundel-Wignall and others, 2009:2, go even further by stating that periodic recessions avoid or postpone more serious planetary crisis: basic natural resource depletion, environmental catastrophes, climate imbalances so large. Also, recessions force mankind to a critical self-assessment of lifestyles, the restructuring of the economy, the search for new solutions in science and technology, Ciucan-Rusu, 2011, sometimes resetting or upgrading the social and institutional structures. Tensions and rearrangement of elements on the world stage is to be taken into account when talking about the great financial crisis, Neagu, 2009: 77.

Although by 2012 markets have regained trust, and the threat of a new recession does not appear so frightful to markets and consumers, certain shopping behaviors were forged and sharpened during the prolonged present economic crisis, Vizjak and Iuga, 2011. While values and priorities are shifting, with home and stability gaining a greater importance, apparently luxury and status have lost appeal in view of uncertainty. The great hunt to find the best value and the lowest price remains top of mind in every household Roche and others, 2010:4; as the consumers slowly return to spending, it is hardly expected that they will behave as they did before the crisis. One of the challenges for the traditional product-price marketing is the advance of the private label products and the subsequent strategies to compete in the new marketplace.

The classic marketing literature has limited references to the private label products; with Philip Kotler, the private labels are viewed as an inconsistent market trend. The retailers stubbornly insist in developing their own brands, says Kotler, in spite of the large spectrum of suppliers ready to meet their every need. Their strategy is based only on the profit potential of such strategy Kotler, 2001:563. Thomassen provides a pragmatic approach, while pointing at the switch from brand power to retail power, in a new world of "retailization" Thomassen and others, 2006. The blood bag displayed on the book's front cover is a very strong alarm signal for marketers, in order to rethink and restructure the brand efforts, in the new competitive landscape. In 2007, Kumar develops the first analysis of private label strategy, noticing the amplitude of the phenomenon and the lack of attention from marketing scholars; the underestimation of the private label threat by the manufacturers of consecrated brands is a reality that encourages producers of private labels and retail chains to invest on a huge market, estimated at a trillion dollars market for the private labels alone Kumar and others, 2007. Another perspective is the reinvention of the retail phenomenon, inspiring the brand owners to

innovate and regard the private label problem as a genuine business opportunity Lincoln and others, 2009. All parties can add value to their business, by use of megatrends, shopper insights and value innovation.

2. Research findings and data usage

The six largest DIY networks on the Romanian market last year recorded cumulated sales of EUR1.038 billion, up 8.7% on the preceding year as seven new stores opened in 2011 and with 2011 being the first full year of functioning for the 14 store opened in 2010, reveals a ZF analysis, Moga, 2012.



Fig. 1. Evolution of the turnover for Romanian DIY retailers. Source: www.zf.ro, www.mfinante.ro

But the fact that the market is still suffering because of the construction market decline is shown by sales per store, which fell last year from EUR12.1 million to EUR11.56 million, i.e. by 4.5%.

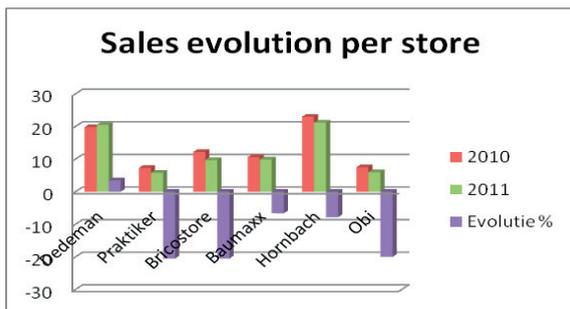


Fig. 2. Sales evolution per store. Source: www.mfinante.to

DIY stores adjusted their personnel numbers to the sales decline, with sales per employee rising 1.8%, to close to EUR100,000 in 2011. The six companies had almost 10,500 employees in 93 stores across Romania in 2011.

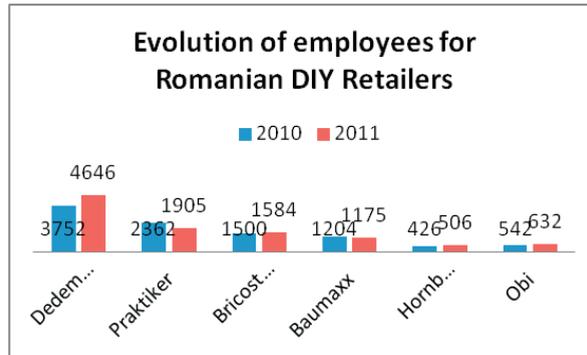


Fig. 3. Evolution of the number of employees Source: www.mfinante.ro.

In terms of turnover, store number and medium sales per employee, the first two major players Dedeman and Praktiker apparently share many common traits: they both entered the market sharply and established a large store network, both operate large format stores and both established a general client approach based on services and added value. However, Dedeman manages to accomplish with the same market coverage and number of stores as Praktiker, performances difficult to out beat, namely a turnover of 476 mil E compared to the follower Praktiker with 156 mil E.

Dedeman is the unchallenged leader of the Romanian DIY market, with sales of EUR 476 million in 2011. Dedeman is a successful of two Romanian entrepreneurs who, since 1992, have developed a chain of retail building materials and furnishings, the Do-It-Yourself type. The company opened five new stores in 2011, which was also the first full year of functioning for the other five units opened in 2010.

Private label strategy:

- The company official strategy is to sell only local brands, when applicable and are beginning the expansion into the private label area,
- One of the keys of the company's success is their usage of local solution for local people;
- Aggressive and original advertising is supporting the company's efforts of addressing the medium and low urban and rural population of Romania

Financials. Dedeman managed to boost its average sales per store, from EUR19.8 million to EUR20.5 million, up 3.5%, while average sales per employee rose 4.2%. The turnover in 2011 increased by 29%, from 369 mil E to 476 mil E, while its major competitor, Praktiker reported a significant -20,7% compared to the previous year. The average sale per store increade from 19,8 mil E in 2010 to 20,5 mil E in 2011.

Store data. Aggressive store expansion strategy has led to many questions related to the company's business and financial strategy, especially at times when the other Romanian based retailer drastically cut store expansion plans or even cancelled further expansion. The number of stores increased from 21 at the end of 2010 to 26 at the end of 2011 and new openings are announced by company officials. With an average of 102.454 E medium sales per employee, Dedeman competes directly with Baumaxx and Hornbach, retailers who display 115.319 E to 167.391 medium sales average per employee.

Praktiker holds an 8.5% share of the DIY market in Germany, with significant annual drop of 15,7% in 2008 mainly caused by the recession effects. The core market is Germany, with 50% of sales and over 350 stores in 2010. In 2007, Praktiker finalized the acquisition of Max Bahr store network in Germany, a DIY service oriented brand with 74 large format stores and addressing different market segments, While the Praktiker concept is oriented towards discounts and price-oriented strategies, the Max Bahr acquisition allowed Praktiker to consolidate its market share in Germany. Praktiker positions itself in both the value and high-end price

segment.

Private label strategy:

- Private label account for 30.0% of sales in 2010
- Private label ranges are being expanded outside of Germany
- Private label account for over 40% of Max Bahr's total sales, and are expected to reach 50% by 2013

Financials: the Max Bahr store format is outperforming Praktiker. Also, the drop in the turnover continued in 2009 and 2010, with a disturbing 6,2% in 2009 and 18 % in 2010 Datamonitor, 2012. In 2011, the German DIY giant entered a process of financial reorganization, and decentralization, allowing thus the management teams in Eastern Europe countries to provide local stores control.

Store data: store expansion continued despite the poor financial performance, but was disrupted by poor group financials. Praktiker aims to expand its own brand ranges to account for nearly half of the total sales Datamonitor, 2011. Praktiker holds in Romania the largest DIY store network of 27 stores; the organic growth strategy allowed the company to acquire a significant market share, with the largest store network outside Germany. With a product range of over 40.000 articles and 2.500 employees, Praktiker Romania accounted for 6,8% of the total Praktiker Group sales in 2009 Vizjak, 2011.

Since, the decline in turnover was constant, and significant measures were taken so far: reduced program for inefficient stores, Iasi, Timisoara and Targoviste, reducing the employee's number and also the supplier's own representatives in Praktiker stores. As for the current market strategy, the Praktiker officials in Romania blame the difficult market condition, affecting the construction material sector and the interior decorations. Also, marketing campaigns that include price promotions and a partnership with Petrom Romania's largest oil group attempted to consolidate the local position and to contain the present decline in turnover.

3. Conclusions

The rapid growth of the of Romanian Do-it-yourself retailer Dedeman is not necessarily the attribute of the private label strategy, however a strong base of market and consumer study can be envisioned when discussing the retailer's unexpected success. The company seemed to take advantage of currently low coverage rate, especially in the case of small urban and rural areas, and open stores in areas lacking presence of modern DIY retailers. Also, the adaptation to local specificities and demand, in terms of store format, products and services they offer is the next success factor; downsizing the currently dominant large format to cover more efficiently smaller towns, considering the key per-surface metrics traffic, sales and profitability is currently recommended by specialists Pascu, 2010.

The first and second hypothesis related to the development of the private label products considered by retailers the only valid strategy in order to preserve margins and the private label mechanism that allows the retailers more freedom of managing stock and product range, as they struggle with huge operational loss – seem to be applicable in the case of Praktiker, accounting for the retailer's current survival strategy and market repositioning as a price oriented Do-it-yourself store. However, the retailer is still faced with difficult strategy decisions in terms of increasing profitability and improving liquidity, current delicate issued on the table of the Praktiker Romanian management team.

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