

CONSTRUCTION MATERIALS MARKET IN POLAND 2018

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Abstract: The equilibrium of the construction market in Poland had been severely shaken at the beginning of the 21st century and only became normalised in recent years. In the article, the authors have attempted to indicate the options allowing producers and distributors of building materials to overtake the competition as well as to answer the research question of whether in this situation companies should consider increasing the customer service effort. The study incorporated the use of the Blue Ocean Strategy, which indicates that competitiveness is not the only success factor and that it is much more important to stand out from the competition. The research carried out has shown that implementation of the Blue Ocean Strategy by construction materials wholesalers is absolutely possible, desirable and advisable in order to avoid entering the area of mere price competition, which may lead the company to the brink of bankruptcy.

Keywords: construction materials market, blue ocean strategy, competitiveness, price.

1. Introduction

The equilibrium of the construction materials market in Poland had been severely shaken at the beginning of the 21st century and only became normalised in recent years. The requirements associated with distribution of building materials, however, have always been very challenging. Until recently, they were mistakenly focused on financial factors only. Fortunately, nowadays the quality of goods and services is more important to customers than the price itself. In 2018, the construction materials market in Poland was a market of rising prices. The materials the prices of which increased the most, namely by 28%, were wood and OSBs (oriented standard boards), sold by a construction materials wholesaler Grupa PSB Handel S.A ([www.muratorplus.pl/...](http://www.muratorplus.pl/)). Conversely, the estimates presented by a price database ORGBUD Serwis ([orgbud.pl/...](http://orgbud.pl/)) show a rise in the prices of building materials by several percent. The phenomenon of price increases, especially by such amounts, is not often observed.

In the article, based on the Blue Ocean Strategy, the authors have attempted the identification of the options providing producers and distributors of building materials with the possibility to overtake the competition as well as to search for an answer to the research question of whether in this situation companies should consider increasing the customer service effort. The prices of building materials have been rising in recent years, which is related to, among others, the introduction of a higher VAT on building materials, various legal changes that have taken place, or increased demand for such products. The laws of business cycles, however, had taken their toll and, after years or months of increased sales, periods of decline, downtime or even collapse came.

2. The Blue Ocean Strategy

To carry out the analyses, the authors used the Blue Ocean Strategy. In their groundbreaking book 'Blue Ocean Strategy', Chan Kim and Rene Mauborgne (Kim, Mauborgne, 2010) prove that competitiveness is not the only success factor and that it is much more important to be distinct from the competition. Such distinctness from the competition does not mean a 'simple' differentiation, but the creation of advantages using new tools that make competition irrelevant.

The following are the elements making up the Blue Ocean tools:

- Strategy canvas is an innovative tool enabling the comparison of entity's own actions with the competition, enabling the introduction of new aspects which the competition does not explore, but which allow the entity to become drastically distinct from others. It is important that the distinction is not limited to just one element, because the competition can easily copy it. If the distinction comprises, for example, 3 elements, then the entity can expect a success.
- The notion of noncustomers, i.e. a group to which the product has not been addressed so far, either because of the price or due to the assumptions that turned out not to be true. On 'traditional' markets, introduction of low-cost airlines, for example, which revolutionised the availability of the product, i.e. a flight, was such a breakthrough.
- 4 Actions Framework is a tool that enables the creation of new values for the customer, communication of those values in a different way, or reduction of the production costs. The actions can be combined (Fig. 1).

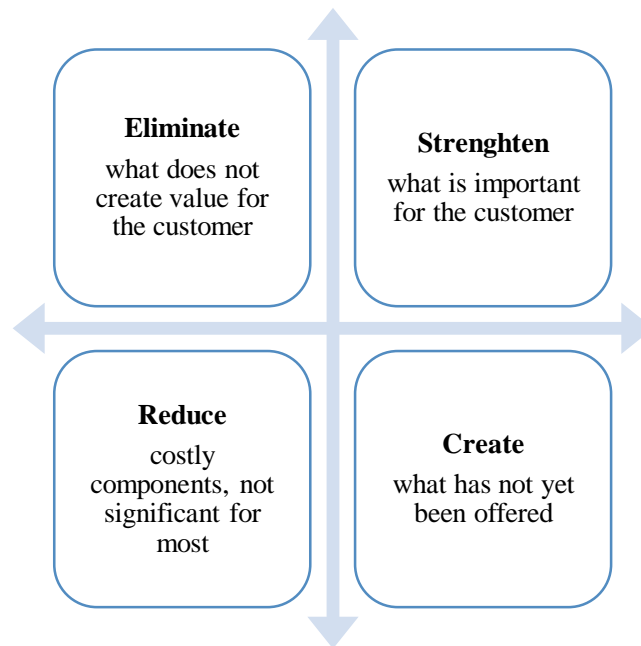


Figure 1. 4 Actions Framework. Source: Kim, Mauborgne, 2010.

USP – Unique Selling Proposition (or UVP – Unique Value Proposition) entails the features of a product that are to distinguish that product from the competitors’ products. This raises the question whether USP is important for the customer. The practice of ‘traditional’ markets shows that communication with customers and convincing them of the uniqueness of a given product is much more important than the issue of USP itself. There are numerous examples, beginning with the Media Markt “not for idiots”, ending with Audi’s “advantage by technology”. It turns out that customers do not care whether this is true; what matters is the habits, convenience and even reflexes. Categorisation of customers and creation of market segments is typical of classic marketing. Here, customers sometimes prefer to spend more to get a product that meets the wide range of their requirements; whether it is the convenience of service, safety, savings, or the brand and the prestige resulting from the use of a specific, more expensive product. In the Blue Ocean Strategy, however, it is the USP, or rather its several elements, that matter, because a company can distinguish itself from the competition when is able to offer the customer an innovative product that delivers a certain value.

Product usability map is another very interesting tool that provides an insight into the entirety of the complex purchasing process that occurs on the side. The supplier's task is to make the customer aware of the benefits that may arise not only during the product use phase, but prior to and after that phase. Chan and Mauborgne created a matrix in which six phases of the buyer experience cycle can be distinguished, as viewed through the prism of six utility levers (Tab. 1).

Table 1.
Product utility map

		Phases of the buyer experience cycle					
		Purchase	Delivery	Use	Supplements	Maintenance	Disposal
Six utility levers	Customer productivity						
	Simplicity						
	Convenience						
	Risk decrease						
	Fun and image						
	Environmental friendliness						

Source: Kim, Mauborgne, 2018.

As a result, 36 areas emerge, activity within which enables assurance of competitive advantage and differentiation from the competition. There are not many companies that can efficiently cope with filling the entire matrix, owing to which they could interact with the customer, through various aspects and in every phase of the buyer experience cycle.

Six paths opening new value-cost borders:

- looking at alternative industries, instead of focusing on the rivals,
- looking at strategic groups within one's own industry, instead of focusing on the competitive position,
- looking at the buyer chain and redefining the buyer groups in the industry, instead of focusing on better servicing for the current groups of buyers,
- looking at the comprehensive solution sought by the buyer, instead of focusing on maximizing the value of the product offer,
- reconsidering the functional and emotional orientation of one's industry, instead of focusing on improving the price and the efficiency of the solution offered,
- participation in the shaping of the external trends that have major impact on the industry, rather than focusing on adaptation to external trends.

3. Sales scheme for contractors

There are two sales models which incorporate the use of an intermediate link, in the form of wholesalers – more often, and direct sales – less often, only for large contractors and a selected range of goods. Employees working at contractors' purchasing departments for years have been accustomed to the fact that market laws and the competition apply. Their interests in the changes in the process basically consisted in the demand for lower prices. From the profit-making perspective, it is completely understandable, sensible and logical. The expectations regarding discounts, promotions and lowering prices, however, have become very high. A contractor basing his/her activity on cost estimates tried to increase the profit achieved

through the savings associated with the purchase prices. In such situation, producers do not want to give up their profits, thus 'force' wholesalers to lower their margins, which in the case of low demand is not quite effective. On the other hand, producers, not wanting to give up their earnings, profit, investment and development, offer new solutions that would allow sales without price competition. Solutions in this area, however, must contribute to what the contractors are interested in the most, that is profit increase, extension of the work season, shortening of the technological processes, acceleration of the execution process, elimination of costly processes and employee work, in favour of prefabrication, automation and the use of new solutions.

The research conducted enabled the indication of several examples, out of which the case of the company Silka ([www.ytong-silka.pl/pl/element/...](http://www.ytong-silka.pl/pl/element/)), which introduced a new type of brick used in partition walls, seems particularly interesting from the perspective of the Blue Ocean Strategy. These bricks were thinner, while maintaining all required physical parameters, such as strength, sound insulation, moisture and fire resistance. Apparently, this seems to be an insignificant detail and in fact could be perceived as such by individual recipients. It was not the individual customer, however, who was the target group for this product, but the developers, for whom smaller thickness meant the possibility of selling more square meters of an effective apartment on the same surface area. From the developer's perspective, interior walls should be as thin as possible. The price of the product manufactured by Silka was not lower than that of conventional bricks of greater thickness, and, paradoxically, it was even slightly higher, which did not negatively affect the volume of sales. Nevertheless, this kind of condition, of course, cannot go on forever. Most competitors soon introduced similar solutions. This example shows that the search for the blue ocean is a continuous process, in which one cannot become content with the success achieved and stop further development.

Other examples of an innovative approach in the industry pertain to the use of external wall materials with thermal insulation that enables opting out of an additional layer of a typical insulating material such as mineral wool or foamed polystyrene ([ytong-silka.pl/pl/ytong/...](http://ytong-silka.pl/pl/ytong/)). In addition, polyurethane adhesives, used instead of mortar to connect bricks, were introduced. This resulted in better insulation parameters, faster execution of work and, as a result, reduced labour costs for the contractor ([selena.pl/...](http://selena.pl/)).

Some companies dealing with insulation systems, such as Sto-ispo, have introduced systems that enable performing work at low temperatures, which extends the season for this type of work ([www.sto.pl/...](http://www.sto.pl/)). Of course, many other companies soon introduced identically functioning solutions, eliminating the competitive advantage gained or created. Another solution entails the introduction of protective nets on the scaffolding, which also protect against adverse weather conditions. Many companies from the construction chemistry industry for years have been using additives for mortars or concrete, which resulted in the extension of the concrete binding process, increasing its frost resistance or other selected physicochemical parameters.

One well-known innovation, also on the market of private recipients, is the Hammerite paint, which can be used to paint rusty elements without the need for the burdensome, cost-intensive cleaning phase. This company, for a long time, was also the only manufacturer that offered such a solution, which fairly can be called the blue ocean space ([www.hammerite.pl/...](http://www.hammerite.pl/)).

Manufacturers of steel or reinforced concrete constructions strive to shorten the execution process as much as possible, but, unfortunately, it is impossible to eliminate all the most expensive elements. If the contractor decides to make extensive use of machines, this is a very costly solution, nevertheless, a justified one at the time of increasing prices of labour. Conversely, a contractor deciding to use workforce must be aware of the employees' growing wage requirements. The use of materials with increased resistance may lead to a reduction in assembly costs, but these materials are much more expensive to buy.

Observations of the construction market show that many manufacturers do not stop at the price struggle and try to give it up. It is not an easy process, all the above-presented examples of innovations provided a competitive advantage for a certain period of time, until they were noticed and copied by the competition. This shows that construction of a blue ocean is a process, not a one-time action. Undertaking this process, however, offers development for the entire industry and achievement of completely different effects.

Most construction companies use construction warehouses of various sizes when making purchases. In the last year, shortages in the supply of individual assortment of products were quite frequent, which until recently seemed to be an impossible relic of the past. It seems, however, that companies, on the side of both the producers and the wholesalers, have drawn appropriate conclusions from this phenomenon, which translated into the aforementioned increase in product prices. It is reasonable to ask whether and by how much the inevitable decline in the demand will reverse this trend or whether it will cause the entrance into the blue ocean path and offer new value to customers rather than price reductions. The laws of the construction market are the same as those of other markets. The driving force behind all activities is profit, therefore it is unrealistic that, at the time of a downturn in construction, the pressure to lower prices and the contractors' search for savings at all costs will not intensify.

4. The principles of operation of Blue Ocean vs. the construction materials market

Existing research shows that the intermediate link, i.e. the wholesalers, do not apply to many elements of the Blue Ocean Strategy. A closer diagnosis, however, allows more optimistic conclusions.

The simplest interpretation that a lower price results in more profits is, of course, true, although not entirely. Profit can be achieved not only through the possibility of cheaper purchases, but also as a result of the ability to speed up various stages of work, automatise or even eliminate that work. Customer awareness of a given contractor company can vary, the seller's task is to develop this awareness, which, of course, requires knowledge, experience and time. The area in which innovation activity can be observed relatively easily is the construction chemicals market. Manufacturers are introducing new products that reduce the need for additional work, so that the process itself can run faster and cheaper. The possibility of using glue on wet or even frozen substrates is, in many cases, invaluable to the contractors, who will gladly pay more for such products. Certain conditions must, however, be met, namely the contractor needs to see the benefits of a given solution, while the seller must be able to provide arguments for those benefits.

A construction warehouse can become a space of Blue Ocean where the competition becomes irrelevant. Studies show that this cannot be done in the traditional way productivity increase or cost reduction. Many companies that have decided to take up a price war have only experienced difficulties or even went bankrupt. Customer service, which should be maximally simplified and accelerated, has been and will be of great importance to the customer. It is necessary to think about who the customer is, what affects his/her performance as well as about the simplicity of service, the convenience, etc. It turns out that such analysis can allow development of competitive advantage in several areas, which can translate into the formation of a new strategy canvas that is based on these values.

Too many assumptions are made with regard to the process of sales or customer service, which eliminates the possibility of influencing the customer in one way or another. It seems that institutional buyers value not only the price, but environmental friendliness, in each phase of the buyer experience cycle.

Research indicates that wholesalers apply the following improvements to their operations:

- Possibility to shop online not only helps the buyer but also saves the seller's time. Automation of operations and documentation of orders are additional benefits. The mere introduction of online sales, of course, is not a Blue Ocean, yet it brings the ocean closer.
- Loyalty programs have been widely known and used; if a buyer sees certain benefits resulting from such programmes, then they can be effective, especially in combination with other elements.
- Training as a basic tool for awakening and creating the recipients' awareness. Attracting a sufficiently large number of customers for such trainings may be a problem. This process is easier when combined with other aspects, such as a loyalty programme for specific persons.
- Comprehensive service – customers do not have to worry about any of the stages, because the seller is able to organise all these elements in such a way that the buyers can deal with other matters during this time.

- Reverse discounts – received by customers after a certain limit of turnover is reached; for wholesalers such discounts are associated with timely payment to their suppliers. Combination of these elements reduces the risk of payment gridlocks.
- Consultancy– employment of professionals who have a deep understanding of general construction issues, or cooperation with specialist companies that operate in narrow areas of the market, as an added value for the customer, providing him/her with an opportunity to solve his/her specific problems.
- Differentiation on the market. As J. Trout claims in "Differentiate or die" (Trout, 2002) – in order to survive, one has to differentiate oneself from the competition. This can be done in many ways; it is best, of course, to combine several methods into one coherent strategy of operation. It is worth taking advantage of the opportunity to differentiate through consultancy, whether personal or via a website.

The research indicates that, in 2018, having certain products in offer already gave the seller a competitive advantage, while competing via prices, as the primary way to convince the customer, meant the entrance into the red ocean of competition, hence the need to analyse one's actions and propose solutions that enable creation and maintenance of the competitive advantage as well as formulation of one's strategy, in a way that would be difficult or impossible to be followed by competitors.

The producers' search for new solutions is a natural developmental process for them. Manufacturers usually have more options than wholesalers. Not wanting to operate only within the low-price realm, they create products that are copied over time by the competitors, yet, up to that point, they enable the realisation of higher margins and create profits.

Recipients are not interested in innovations that are not financially advantageous for them. Wholesalers have this pattern of thinking, which is most true, nonetheless, financial benefits do not only entail lower purchase prices, but also a search for savings in other areas. Problems with finding workforce, which are common, mean that contractors increasingly value the possibility to shorten a given process or eliminate the human factor in labour and perceive it as an advantage. Offers emerge not only regarding the purchase of products, but also in relation to rental of machines operated by qualified persons. This is a bold and an innovative move, which, at present time, provides competitive advantage.

Construction companies are currently changing the nature of their expectations, or rather are forced to change it. An approach in which purchase prices are dedicated, has gone into temporary oblivion. In order to carry out their orders on time, construction companies must focus on systemic solutions, use construction materials that shorten and facilitate work.

Sellers of construction materials must look for other ways to differentiate themselves from the competition, i.e. construction materials chain stores offering greater flexibility, a wider range of products, or professional advice.

5. Conclusions

The research carried out confirmed that implementation of the Blue Ocean Strategy by construction materials wholesalers is absolutely possible, desirable and advisable, in order to avoid entering the area of mere price competition, which may lead companies to the brink of bankruptcy.

Examples of blue ocean strategy implementation in commercial companies exist, but it is difficult to build such competitive advantage in this area that would be sustainable and make competition become irrelevant. It happens, but most often it works for some time only, during which the competition manages to figure out what elements of the strategy a given company has used and begins to use these elements in a similar way.

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