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STRUCTURAL TRANSFORMATIONS IN THE CONSTRUCTION INDUSTRY AND THE EVOLUTION OF ORGANISATIONAL STRUCTURES IN THE BUILDING MATERIALS COMMERCE

ABSTRACT. The paper presents the analysis of changes that took place in the construction industry and its macro- and micro-environment and their influence on the building material trade situation during the period of system transformation. The influence of the growing import of building materials, modern technology, and foreign investments on the quality improvement and broadening of the assortment offered after opening the borders is also analysed. We describe the structural changes in the building materials trade during the transformation period and compare the consolidation degree between the building material markets in Poland and the European Union (EU)

KEY WORDS: structural transformations. transformations, market consolidation

In the 90ties during the political system transformation numerous changes appeared in the building supply market totally altering ownership and organisational structure of the companies dealing with building materials commerce. The changes encompassed: the possibilities and methods of acting, the category and intensification of the competition on this market as well as the assortment offered.

They arose as the response for:

— processes of structure altering in legal and political surroundings,
— restructuring of the construction industry and its supplying market,
— changes in the structures of customers and an increase of their trade power and requirements,

— changes in the directions of the building materials import and its increase,
— direct investments of foreign producers of building materials,
— entry of network building shops on the Polish market,
— entry of specialised trading companies (roof makers, windows makers, fittings producers), mostly German ones.

STRUCTURAL TRANSFORMATIONS IN THE CONSTRUCTION INDUSTRY

Alterations in the recipients of building materials – constructing companies had the biggest influence on the structural transformations in the building commerce.

The main factors creating structural changes in building are:
— changes in the connection of the construction industry with the regional and worldwide market,
— opening the market for foreign competitors,
— privatisation of state owned building corporations,
— changes in cooperation structures due to self dependency of building companies,
— processes to adjust the construction companies to the needs of modern market economy,
— growth of black economy in building services,
— technical and technological progress in building, introduction of modern management and marketing methods in building.

These transformations were done through:
— counting Poland to the European building market what made necessary to break down the technical barriers in building,
— liquidation of building complexes and associations and increment of self dependency of building companies on the market what led to the changes and breakdown of old cooperation joints (elimination of agents dealing with investment process, foreign trade headquarters) and to the initiation of the processes to create them creations according the new market laws,
— adjusting processes in construction companies to the needs of modern market economy what helped to create and develop those sectors of the economy, which are important for the development of the modern building market.

CHANGES IN THE NUMBERS AND STRUCTURE OF THE CONSTRUCTION COMPANIES

In the former times of planned economy, building production was concentrated in a relatively small number of large national companies, while in the 90ties a massive break-up of the building companies took place. The supply of that market was organized till 1990 also through large trade headquarters, while later through scattered trade companies. During the socialist economy handicraft (socialised and private) gave approx. 5% of the global building production. The privatisation of handicraft after 1989 was the base of organisational changes in building. The ownership changes were important elements of the transformation in the building system structure. During the 90ties there was a constant growth of the private sector in the organisational structure of building and building production. The contribution of the private sector in the building production was 80% already in 1993. At the end of the decade the employment level in the private sector was 90% of the total employment in building. This sector had also 93% turnover assets and gave approx. 94% of building production. The ownership structure in building (state in 2002) is characterised by a great share of private companies (90.8%) comparing to the industry (73.3%) and the whole economy (52.8%).

CHANGES IN THE STRUCTURE OF BUILDING AND ASSEMBLY PRODUCTION ACCORDING TO BUILDING OBJECTS

Resulting from the changes taking place during the transformation period the share of general building (apartments, public buildings) systematically decreased in the total value of building production, from 45% in the middle of 50ties to approx. 30% in 2000. It was caused by the decrease in residential building. The share of public buildings (science, health, social, administration) and industrial building (production halls, storage, mining) remained basically on the same level, while the share of engineering construction (special construction, bridges, line works, energy supply, telecommunication and melioration) almost doubled. The change of the residential building share was the main factor of changes in the of the building and assembly production structure. In the second half of the 90ties the number of the finished apartments (Fig. 1) was comparable to that from the beginning of 50ties (1951 – 58.3, 1995 – 58.4).

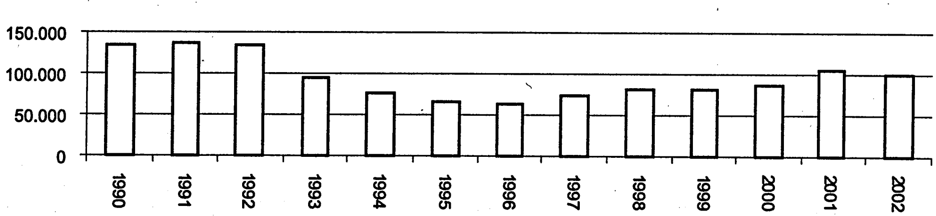

Fig. 1. Apartments finished (the number)
Source: Statistical yearbook GUS 1990–2001, Basic tendency in 2002, GUS

Important changes took place also in the structure of residential building. Before the transformation mainly cooperative, communal and factory owned apartments were built. As an effect of the changes the contribution of private houses considerably increased. Since 1997 the contribution of developers increased. These changes were similar to the ones in developed countries, where apartments are treated as consumption goods on the free market.

MODIFICATION IN THE STRUCTURE OF THE CUSTOMERS AND THEIR PREFERENCES

Due to the changes which took place in building and its financing, the number of individual customers has increased (to approx. 48% in 1997).

During the first years of transformation the building of apartments for sale did not develop. A dynamic growth of developers occurred in 1997–2002. Such situation on the market caused that individual customers choose the products and the place of purchase. The result was the orientation of the sales networks to individual customers. The other reason why building commerce prefers individual customers is the payment method – cash. It decreases the risk of running the activity. The quality of customer care increased, consultancy and after sale service were introduced. Often on behalf of the customer purchase was made by the craftsman. He had huge influence on choosing the building materials and the place of purchase. Since 1997 the sales for developers has increased. The share of sale to small and medium construction companies and developers in 1999 was on the level of 60%.

MODIFICATIONS OF THE FINANCING SOURCES OF MARKET DEMANDS

During the 90ties significant changes appeared also in the financing structure of the building industry. Earlier the investors own founds, bank credits and national capital were the main sources of financing, and there was a lack of foreign capital. Now private and foreign capital play the leading role, while the value of credits and national founds decreased. The modifications of financing regulations resulting from the system transformation depended on:

- switching from the investor's own payment to private capital (almost doubled),
- falling of national funds share (almost tripled),
- reducing of bank credits (almost three times, during the transformation period there were high inflation and interest rates),
- showing up a new financing source- foreign capital,
- diminishing shares of the remaining sources.

The modification of financing sources confirms that single customer being able to direct his profit surplus for building purposes became the most important target group of the building commerce.

TECHNOLOGICAL REVOLUTION IN BUILDING

During the period of central planning the building industry used mainly prefabricated elements and industrial methods facing organisational, materials, technological, personnel and organisational problems. The quality of work and objects, functionality and architecture were less important. During the transformation period significant changes took place in the technology and building techniques. Now the building companies independently decide about the usage of one or another building technique. The technology depends on the designer and the financial means of the investor. The building law pertaining to the building materials create frames in which the building companies may operate. The materials used must have certain certificates and approvals.

CHANGES OF THE IMPORT DIRECTIONS, ASSORTMENT AND VALUE

The opening of the borders, import of building materials and technology and the inflow of foreign investments initiated the usage of modern materials and products in building and the opening of the production of modern building materials in Poland by foreign manufacturers. Changes took place in the import structure and its value (Fig 2). There was also a dramatic change in its direction.

In 1993 the biggest values of imported material came from Germany (28%), Italy (7%), Great Britain (6%), France (4.2%), the Netherlands (4.7%), and Russia (6.8%). The structure of the imported materials also changed. Material like asbestos were replaced by modern ones. The import of cement and stones also increased.

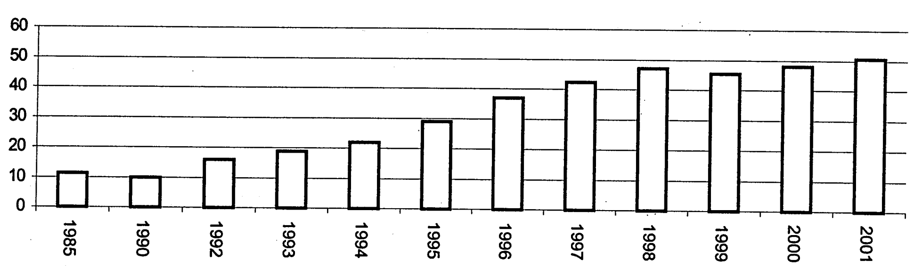

Fig. 2. Import value in 1985–2001 in milliard USD
Source: Statistical Yearbook GUS 1989–2001

CHANGES AMONG THE SUPPLIERS OF BUILDING PRODUCTS

During the 90ties significant changes encompassed also the structure and labour organisation of building materials manufacturers. First of all the inflow of foreign investments influenced the structure change (Fig. 3).

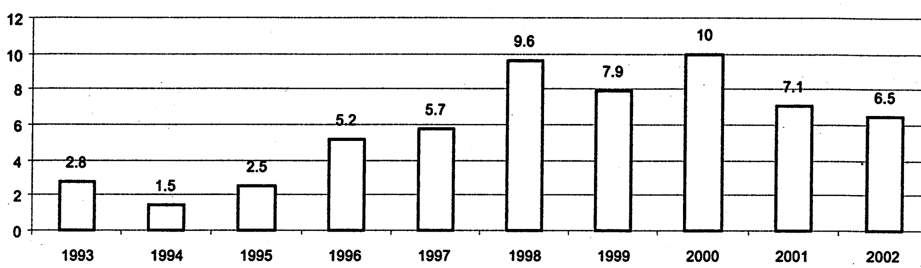

Fig. 3. Foreign Investment in Poland in milliard USD
Source: PAIZ

Initially the imported and then produced in Poland new materials were characterised by higher quality and wider range. Foreign companies introduced onto the Polish market their broad offer and activity methods. They paid attention to better customer care, and had better work efficiency. They employed sales representatives focused on direct contact with customers, organised trainings concerning not only technology but often pertaining to sales techniques and customer service, supported promotional activities and co-operated in servicing the final clients. Foreign companies were important sources of innovation, access of new techniques and technologies, and modern management and marketing for domestic ones. The latter were forced to adapt to the new standards of foreign competition to survive. Thanks to personnel fluctuations, market researches and placement connections the process of copying, quality improvement of produced goods and changes in sales system began. Further results of the mentioned changes were also the removal old products from sales offer or remarkable decrease of sales. Tar paper can be an example which is now replaced by roof tiles.

ENTRANCE OF FOREIGN NETWORKS OF BUILDING DEPARTMENT STORES AND SPECIALISED TRADE TO THE POLISH MARKET

In the 90ties companies specialised in certain branches, for example in roof and installation supply, or door and window production, entered the Polish market. This happened on different manner. Some of them bought Polish companies, while others created ventures or operated unaccompanied. Domestic companies were formed copying their behaviour cooperating closely with their customers – specialised contractors or producers.

Five networks of building department stores entered the Polish market. There were 107 outlets in Poland at the end of July 2002. The most intense expansion of the networks occurred in 1998 when 21 outlets were built. There were 2 German networks (Obi, Praktiker), 2 French (Leroy Merlin, Castorama) and one Polish bought by British Kingfisher (Nomi).

Western outlets usually buy materials manufactured in Poland since they pay big attention to logistics and products expenses. The majority of the outlets use price competition, frequent promotions and price cut. For many customers their opening hours are very convenient on weekdays till 21 and on Saturday and Sunday. They have large power in buying due to their potential and they sharply negotiate the purchase conditions with their suppliers what allow them to use price competition.

Price competition practiced by building outlets forced a price decrease on suggested retail prices by commerce even for individual clients. Trading companies compete with outlets by offering additional advantages for customers like: counselling, professional service, after sale service, free transportation. The customer who buys goods in an outlet buys them on lower price (during promotion) being aware of the lower service quality.

Keeping the high standard of service for final customer is necessary since strong competition exists after the entrance of foreign outlets to Poland and after numerous Polish trade companies were established. This is one of the most significant advantages for final customers.

ASSORTMENT AND QUALITY ADJUSTMENT OF GOODS OFFERED

The technical development in building is oriented to industrialised techniques of monolithic works. Foreign investments, adaptive transformations in the domestic companies, technology enhancement and changes in the customer structure caused an improvement of the building material quality and widening the assortment range. Changes in the structure of materials used led to the abandonment of prefabricated concrete monopoly in favour of conventional technology. In effect for example in the structure of roof covers the share of tar paper (principal cover material before the transformation) decreased, while that of the ceramic and cement tiles and roof metal sheets increased. In similar way the materials commonly used in the 90ties were replaced by modern ones.

EVOLUTION OF TRADING ORGANIZATIONAL STRUCTURES

Before the transformation the main customers of building trade were state-owned and cooperative companies (more than 70%). Its offer and organisation structure was adapted to the needs of these customers. The quality of the goods and customer service had secondary importance.

In the 80ties operated:

— National Centres of Building Materials (in every bigger city),
— Communal Cooperatives,
— Sawmills,
— First private trading companies.

In the 90ties as a result of the system change numerous companies dealing with building materials aroused. The ratio of their number to 10,000 inhabitants is much higher then the average in Western Europe. As we can observe on Fig. 4. the building materials trade is strongly deteriorated. Most of the businesses operate as individual trading companies.

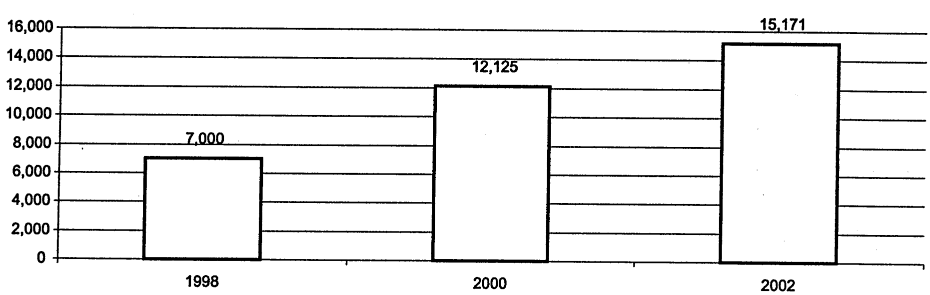

Fig. 4. Number of companies dealing with building materials in 1998, 2000, 2002
Source: GUS

The number of companies dealing with building materials in each province (state in June 2000) is represented on Fig. 5. The distribution in regions is very diverse. The most trading ed firms were register in the Mazowieckie Voivodeship (1,909), then in Dolnośląslkie (1,245), Śląskie (1,202), Małopolskie (1,184), and Wielkopolskie (1,077), while the least in Lubuskie (250), Warmińsko-Mazurskie (312), and Podlaskie (359).

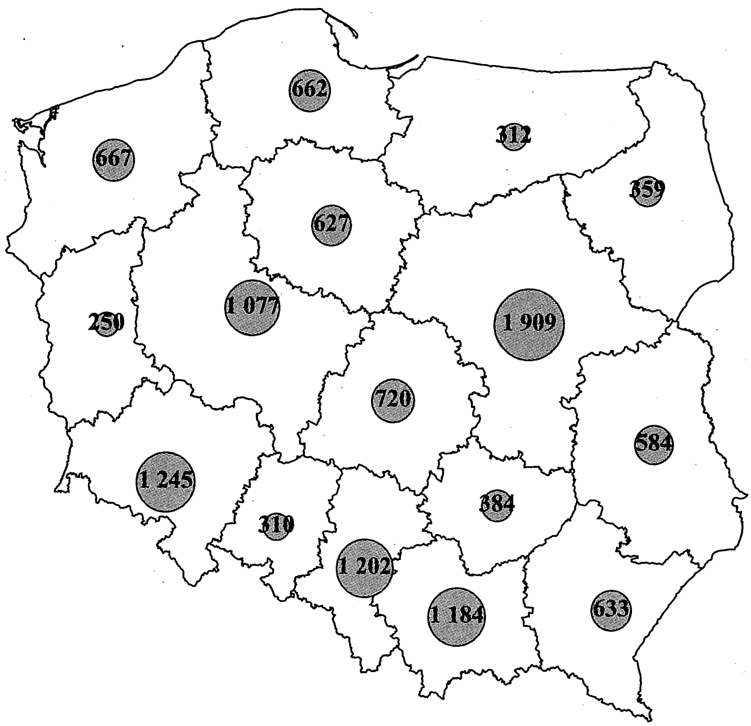

Fig. 5. Number of companies dealing with building materials in each voivodeship (state on June 2000)
Source: GUS

The most common organizational forms of companies dealing with building materials trade currently are:

— Family run general building trade companies,
— Specialised family businesses,
— All-purpose networks managed from headquarter (Raab Karcher, Budmat, etc),
— Specialised networks (WKT Polska – gypsum walls),
— Franchising companies (Gaja),
— Trading groups with shareholders (PSB, PHB),
— Building outlets.

Due to the strengthen of the competition the companies having smaller financial resources and know-how have less chance to survive. The first Trading group in Poland – PSB – was created in 1998. The dynamical development of the Gaja franchising network took place also in 1998. This can be treated as the beginning of consolidation of small and medium size companies for more effective operating under the conditions of the strong competitions on the diminishing market with more and more trading companies.

The main purposes of the consolidations are:
— increase of trading power in contacts with the suppliers, assuring low buying prices
— marketing support from the headquarter,
— information and experience exchange.

However, the share of trading group networks, wholesales networks and outlets networks in the total number of trading companies is diminutive so far. In Western Europe 80% of the companies are associated in different buying groups or are acquired by capital networks. The degree of consolidation varies from country to country in dependence on the trading traditions and legal regulations. In Scandinavia, France and England it is quite strong, while in the Mediterranean countries < like in Poland, small, family trade firms dominate. The process of consolidation will develop in Poland but probably not to the level of France or England, but it is quite possible to reach the consolidation level of Germany.

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