

Strategic innovation through massive investments in the economic crisis - Case study Dedeman

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Abstract: *Within any economy, investments ensure the relationship between the present and the future, between current generations and future generations. Investments are a particular class of expenses that engage the future the most, depending on their size and depending on the development and improvement of the productive potential of a company through expansion and modernization. During the economic crisis, most companies looked worried at the deployments of forces in the economic environment, dominated by a state of uncertainty that announced a new crisis. Dedeman, at that time, began expansion plans to surprise competitors, and decided that it was a good time to attack the competition with the bayonet, so Dedeman became a flagship market leader.*

Key-words: *investment, economic crisis, market leader, challenger, DIY market*

1. Introduction

In a period of global economic crisis, marketing and strategic innovation and investment (Kotler, 2010) are gaining more relevance to consumers' demands as they are increasingly affected by rapid social, economic, and natural turmoil. Companies are usually faced with a great innovation dilemma, meaning that if they do not innovate, and if they innovate, but their innovations are not successful, they are still at risk of dying. Gary Hamel believes that innovation can be a strategic capability, as in some firms quality is discipline. (Kotler, 2004)

Any decision from the strategic marketing point of view, except for the operational ones, is estimated through its strategic consequences, therefore it does not only involve the top of the "pyramid" (top management), but also the operational staff responsible for the strategic implementation.

In the sense (Reis, Trout, 2005) that the form must precede the fund, likewise does the strategy follow the tactics, i.e. the achievement of tactical results.

Only a general who knows very well what is actually happening on the battlefield is in a position to develop a correct strategy. In the military operations,

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the objectives of a strategic plan are to have two soldiers to fight to the last bit of energy, doubling the number of troops deployed by the enemy.

Similar to the general described by the authors Al. Ries and Jack Trout in the book "Warfare Marketing," did the Paval brothers, who represent Dedeman's top management, act. They strongly attacked the competition represented by foreign-owned companies with an incontestable financial power, through a series of strategies that relied on massive investment and which materialized in the construction of shops, advertising and land purchasing at very low prices.

In this context, the competition has decided to shelter themselves from the financial avalanche of the economic crisis by adopting measures such as: reduction of marketing budgets, staff dismissal. At the end of the struggle, after the financial crisis, Dedeman became an undisputable market leader, and the competition was forced to capitulate and accept Dedeman's supremacy.

2. Factors that contributed to Dedeman's success by defying the economic crisis

In a context where the economy delayed showing signs of normalization in 2012, Dedeman continued its spectacular lead as the DIY² leader, while its contenders decreased. The turnover of DIY increased by 20% compared to 2011, up to 2.41 billion RON (541 million EUR), twice as fast as the company predicted earlier this year.

The president of the company explained what the factors behind the increase were, which raised Dedeman's business by 126% above the level reached three years ago: "We grew on the backdrop of the expansion of our network of stores, as well as due to the fact that we managed to maintain our old network, not to decrease as our competitors did. The most important thing is to stay with your feet on the ground. There isn't something worse that can happen to a company and its employees than to lose contact with reality. That's when the end begins" says Dragos Paval.³

During the economic crisis in Romania, Dedeman turned to the services of foreign financial consulting companies, but the solutions received, to stop the investments, were not taken into account by the company's management.

The company acted in contradiction with the advice that announced disaster. In this sense, the crisis helped the company greatly because it managed to buy land that it did not even dream of. A conclusive example would be the ground for a store opened in 2009: the retailer would not have had any chance to buy it before the crisis because the prices set were in the amount of 500 euro / sq m; Dedeman had the chance to buy it about 80% cheaper.

² DIY - Do It Yourself

³ <http://www.capital.ro/>

While other retailers stopped investing and took time to reorganize and calculate losses, some competitors considered it mature to be more conservative.

In 2010, Dedeman opened an equal number of stores as the three contestants combined: Praktiker, Bricostore and BauMax which opened five units. Out of the three companies, only BauMax was really active, finalizing four stores that year, while Praktiker inaugurated a single store in Botosani, and Bricostore postponed for 2011 the only planned expansion for that year, the one in Turnu Severin.

The Bricostore and Praktiker companies developed especially during the economic growth, before the financial crisis and often chose shopping centers where rents cost a lot. However, Dedeman had a completely opposite strategy and focused on building shops on their own land and rarely associated with other retailers to develop integrated projects. The situation of the Bucharest store in the Valea Cascadelor area, located in the same car park with a Selgros Cash & Carry illustrates our point.⁴ In 2012, the company managed to operate without taking new loans, as it did in 2013. Thus, the debt ratio (total debt on equity) decreased significantly in 2012 from 0,27 to 0,22.⁵

Another important factor was the advertising budget invested, for example the paneling, which was 9.1% higher than in the same period of the previous year (January - July 2013). In 2013, Dedeman's DIY network was the company that invested most in outdoor promotion of DIY stores with 4,776 posters.

DIY stores posted outdoor advertisements that counted around 9,000 advertising posters, between April and December 2013, according to the BRAT's "Investing in OOH Advertising" (MIPOOH) study. Its category was placed after "communications" and "supermarkets", but before "alcoholic beverages" and the banking market. The Forbes Romania magazine estimates that the net budget spent by outdoor DIY operators amounted to 2.6 million euros.⁶

The most active network of DIY stores was Dedeman totalling 4,776 advertising panels, with a gross value of 2.56 million (calculated at card rates). "Panel Advertising" means an advertisement appearing on a billboard within a certain period of time.

The German company Hornbach used 714 ad slots, with a gross volume of 699,355 euros (calculated at card rates), ranking second in its category. Praktiker Romania obtained better prices at card rates for a total volume of 1,755 advertising panels worth EUR 483040. OBI Romania and Bricostore had 666, respectively 674 advertising posters, representing budgets calculated at rates of 470,000 euro and 550369 euro.

⁴ www.zf.ro

⁵ <http://www.insse.ro>

⁶ <http://www.forbes.ro>

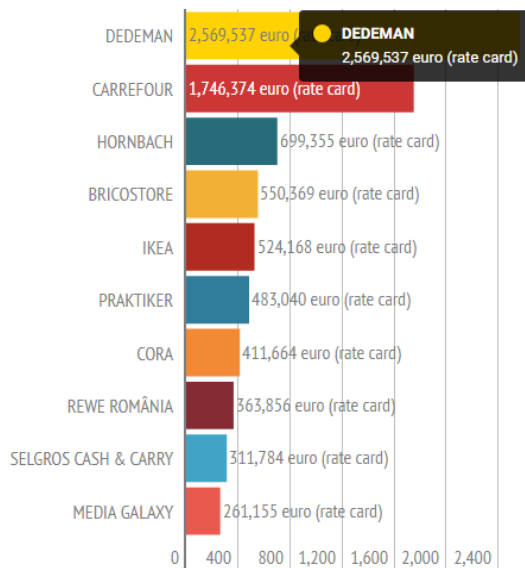


Fig. 1. Supermarkets and stores with the highest investments in outdoor promotion
 Source: OUTDOOR Investment Monitoring (MIPOOH)

It can be seen in the graph above that the largest amount was invested by Dedeman, with a gross amount of 2,569,537 euros (card rates), according to BRAT monitoring. Carrefour Romania is ranked second with 1,746,347 euros (card rates), and Hornbach, with a budget of 699,355 euros (card rates). All figures are budgets calculated at card rates.

The development strategy of the DIY network was different and well organized. Unlike the main competitors at that time, such as Praktiker, Bricostore or BauMax, who preferred not to be present in the Moldavia region and to concentrate their activity in Bucharest and in other big cities in the West and center of the country. Instead, retailer Dedeman decided to expand business first in Moldavia and then in Muntenia, and only in 2009 did it open the first Dedeman store in Bucharest.

Next, the chart of the profit evolution for Dedeman is made for the 2001-2014 period. As can be seen in the chart above, Dedeman's profit has grown steadily since 2001 until 2014, and from 2007 to 2008 there is stagnation, which is due to the financial crisis. Since 2009 there has been a boom in profitable growth until 2014.

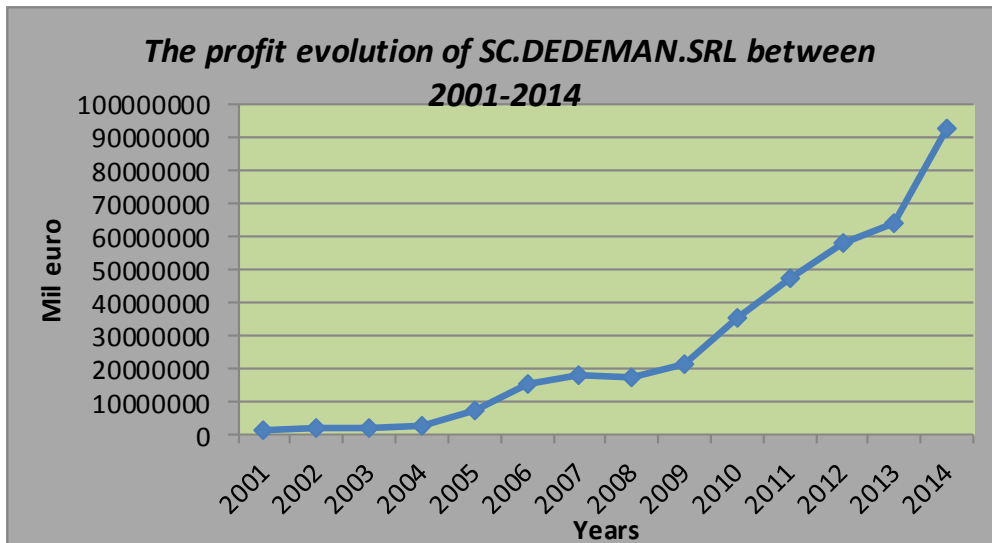


Fig. 2. *The profit evolution of SC.DEDEMAN.SRL between 2001-2014*

3. Conclusions

Company started with a mathematical strategic plan, the two managers of the company being mathematicians, Dedeman strengthened and began to evolve during the crisis, becoming one of the major players in the field.

Dedeman's DIY is a good example of a company which followed a plan that may be pursued in 2018. In this way, one may better understand the local economy and society as the two entrepreneurs have and were thus able to build an empire from scratch. In addition to this, it is very important to analyse how the company managed to cope with the financial crisis and to impose itself in a field occupied by corporations in a market generally dominated by foreigners. Dedeman had business in excess of 3 billion lei in 2014, more than the turnover its main competitors registered the same year.

In the near future, Dedeman is intended to become a multinational company and it prepares itself to expand abroad, a possibility the company's top management looked into for a long time.

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