# Competitiveness of the furniture industry products in the changed conditions: state and directions of providing at the federal and regional levels

Margarita I. Berkovich

Doctor of Economics, Professor
Kostroma State University, Kostroma, Russia
E-mail: ecdepart@kstu.edu.ru

Irina A. Soldatova

Student
Kostroma State University, Kostroma, Russia
E-mail: ecdepart@kstu.edu.ru

**Abstract.** Recently the domestic furniture industry became a prospective industrial field in order to increase the competitiveness of products. In terms of this increasing there were upgrading of the technical base, the range of products, sales service, and delivery. We assess the issues and identify the forms of Russian furniture enterprises transformation to ensure their competitiveness in the conditions of import substitution. In the conditions of the import substitution and sanctions restrictions, we can see that Russian furniture producers have mastered the production of certain simple components. Also there is the development of the production of paints and coatings. For example, particle boards (fiberboard) in the early 2000s, with changes in import duties it turned out more profitable to organize the production of these products in Russia, as a result of which the need for them is completely covered by domestic producers. By the end of 2022, prices of the furniture products decreased by 10%. The reasons were: a reorientation from European to Turkish and Chinese manufacturers (who have lower prices); the lower prices of Russian materials (for example, particleboard). Since, the final product of domestic kitchen furniture production largely consists of imported components, the cost of products is very strongly influenced by the volatility of the ruble. And, of course, due to changes in logistics processes, transportation costs are becoming markedly higher. The paper analyzes these processes on a national scale and identifies the factors of competitiveness at the regional level.

**Keywords**: furniture production, competitiveness factors, sales volume, shift in demand, sanctions.

**JEL codes:** D41, L13, L40

**For citation:** Margarita I. Berkovich & Irina A. Soldatova. (2022). Competitiveness of the furniture industry products in the changed conditions: state and directions of providing at the federal and regional levels. JOURNAL OF REGIONAL AND INTERNATIONAL COMPETITIVENESS, 3(4), 70. Retrieved from https://doi.org/10.52957/27821927_2022_4_70

**DOI:** 10.52957/27821927_2022_4_70

## Introduction

The specific nature of the product of furniture production as a special type of economic good is due to its long-term use and multiple variants of consumption. The most important factors determining the competitiveness of a particular manufacturer usually include the variety and quality of products, price level, forms and level of after-sales service, delivery, e-commerce, advertising politics, etc. It is ultimately expresses the dynamics of volumes and market share of the enterprise, its financial stability.

Enterprises of the furniture industry are located throughout the country. The industry employs 79 entities of the Russian Federation. This segment working population share is 6%.

The Russian furniture market is the most competitive one. It includes both large factories producing furniture in the industrial scale and small entrepreneurs working by individual orders. High competition promotes regular modernization of production, updating the equipment, attracting qualified employees. It helps to increase the popularity of the brand, involve more consumers, and increase their loyalty to the brand. Russian furniture successfully competed with the same products from Belarus, Poland, and China. It is exported to the CIS countries. The furniture made of wood is producing by about 2,500 companies; 15 manufacturers production volumes exceeds 1 bn rub / year.

**Main Part**

In Russia the territorial cross-section of this type of activity reveals the dominant position of furniture production in the Central and Volga Federal Districts. They account for about 60% of all furniture production in Russia. The production of furniture by Federal Districts is shown in Figure 1.

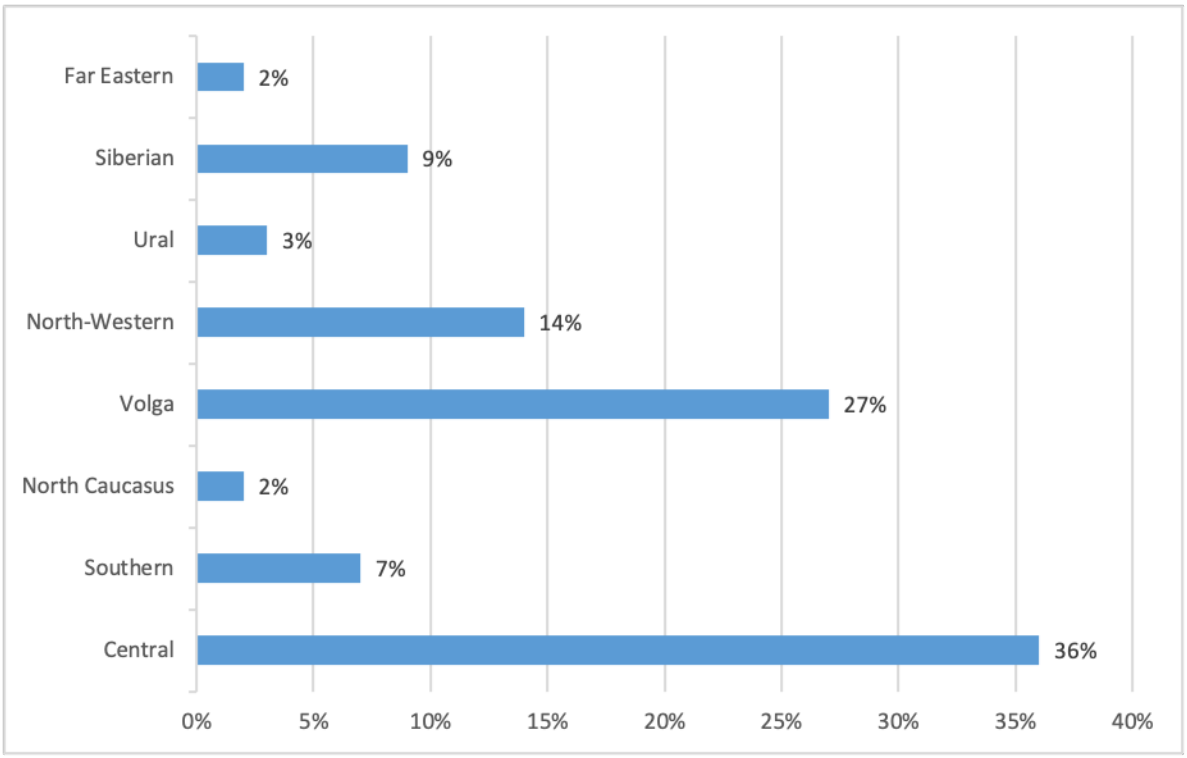


**Figure 1**. Structure of the furniture industry by Federal Districts of Russia in 2021
*Source: composed by authors*

The main production of furniture in Russia is concentrated in the Central (36%) and Volga (27%) Federal Districts. As for regions, Vladimir (86%), Voronezh (84%), Tomsk (63%), Penza (55%), and Moscow (50%) regions showed the best dynamics of furniture production (more than 1 bn RUB, an increase of more than 30%) at the beginning of 2021.

The top 10 largest furniture manufacturers in Russia for 2021 are as follows: Ascona; Mebel Style; Dok-15; FF Mariya; Korol Divanov; Orma Group; Ikea Industry Tikhvin; Micron; Shatura; Litvud.

About 200 enterprises are the medium business ones. Their production volume is 0.3-1 bn rub. per year. Some large enterprises in the furniture industry are presented in Table 1.

**Table 1** – The main indicators characterizing major furniture manufacturers for 2021

| Name | Location | Revenue, mln. rub. | Net profit, mln. rub. | Average number of employees, persons |
|---|---|---|---|---|
| «Mebelnaya fabrika mariya», LLC | Saratov region | 7930 | 120 | 1571 |
| «Korol divanov», LLC | Saratov region | 7735 | 312 | 2856 |
| «Zhivye diany», LLC | Moscow region | 7536 | 463 | 1607 |

| Name | Location | Revenue, mln. rub. | Net profit, mln. rub. | Average number of employees, persons |
|---|---|---|---|---|
| «Litvud», LLC | Vladimir region | 5114 | 450 | 1558 |
| «IKEA industry tikhvin», LLC | Leningrad region | 4499 | 94.7 | 1057 |
| «Shatura Furniture», JSC | Moscow region | 4494 | 236 | 1053 |

*Source: SBIS, 2022*

Table 1 shows that the large furniture enterprises revenue is about 4.5-8 bn rub., and the number of employees ranges 1100-3000 (SBIS, 2022).

The modern furniture enterprises aimed at improving the competitiveness of products. Therefore, they introduce the innovative technologies, modernization of production, the use of new quality materials, effective labor methods, etc.

The furniture industry in Russia develops successfully for a long time, but the market is not geared totally, there are a large number of illegal manufacturers in this industry. Their production volumes are not taken into account by Rosstat. This does not allow us to make the proper conclusions about the real state of the competitive environment.

About the nine-tenths of the kitchen furniture market belongs to Russian manufacturers. This market is considered to be unstructured, with a large number of so-called non-systemic small players, which increases competition.

About half of all companies in the industry have their own production base. But, the most competitive are those, which are able to control not only the production of furniture, but also the sales. According to the studies, 33% of furniture purchases are made online.

Large companies are constantly producing new models of casegoods or seating furniture. They are take into account consumer demand and the financial capacity of all potential buyers.

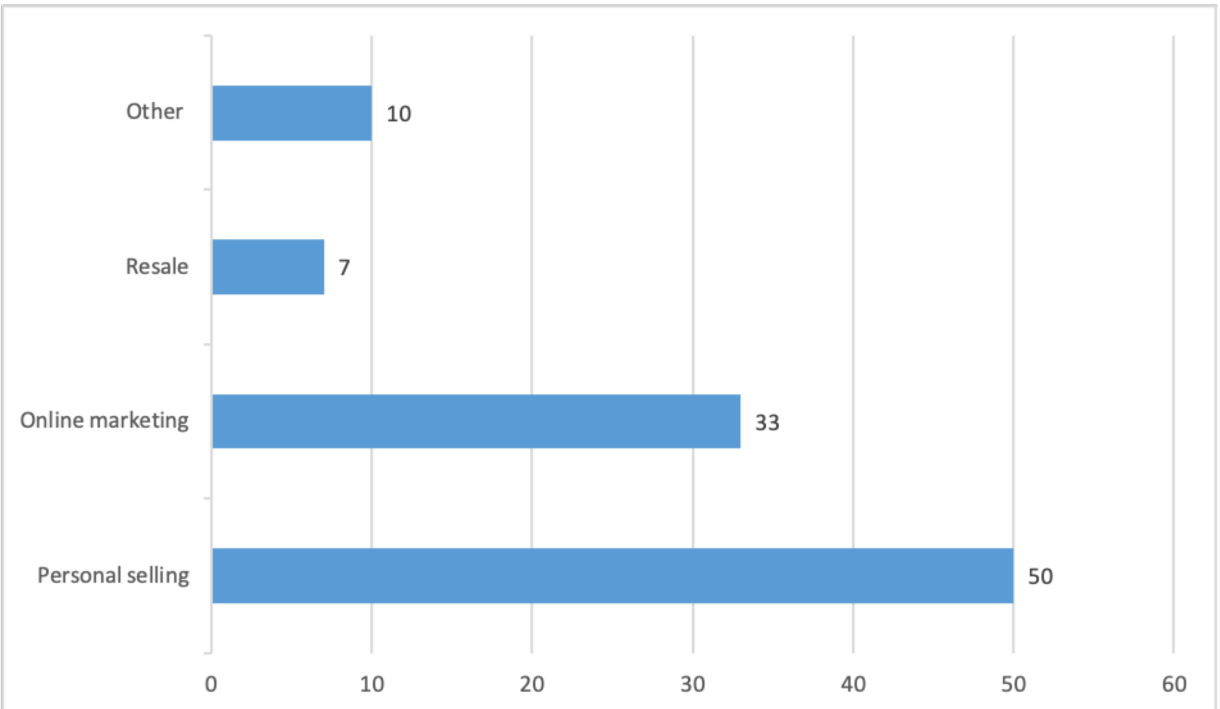


**Figure 2**. Implementation of furniture sales by different marketing communications, %
*Source: composed by authors*

According to the Figure 2, 50% of potential customers adhere to the traditional choice of furniture (specialty stores, exhibitions, etc.); 33% of customers use Internet resources (online sites, catalogs, websites);

and 7% of customers are looking for furniture on Avito, Yula, etc. to make a deal type C2C.

The furniture industry in Russia has an individual nature of placement – the consumer determines the place in the market, the share, and success of the company, etc. Potential consumers of the furniture market – adults working people. Therefore, we can conclude that the number of consumers of the furniture market corresponds to the number of working-age population, and the revival of the furniture market is closely related to the volume of construction, which tend to increase (Gromyko, 2016).

The changes in the furniture market following the changes in the housing market. There is a trend for transforming furniture, so creating a kind of «furniture constructor» which allows combining a bedroom, kitchen, work area, dressing room and hall within a limited space (Shostko, 2021).

The main factors of the domestic production development are both an increase in housing construction and the share of already furnished apartments.

The study highlights the main factors of competitiveness of furniture products from the consumer's point of view (Fig. 3).

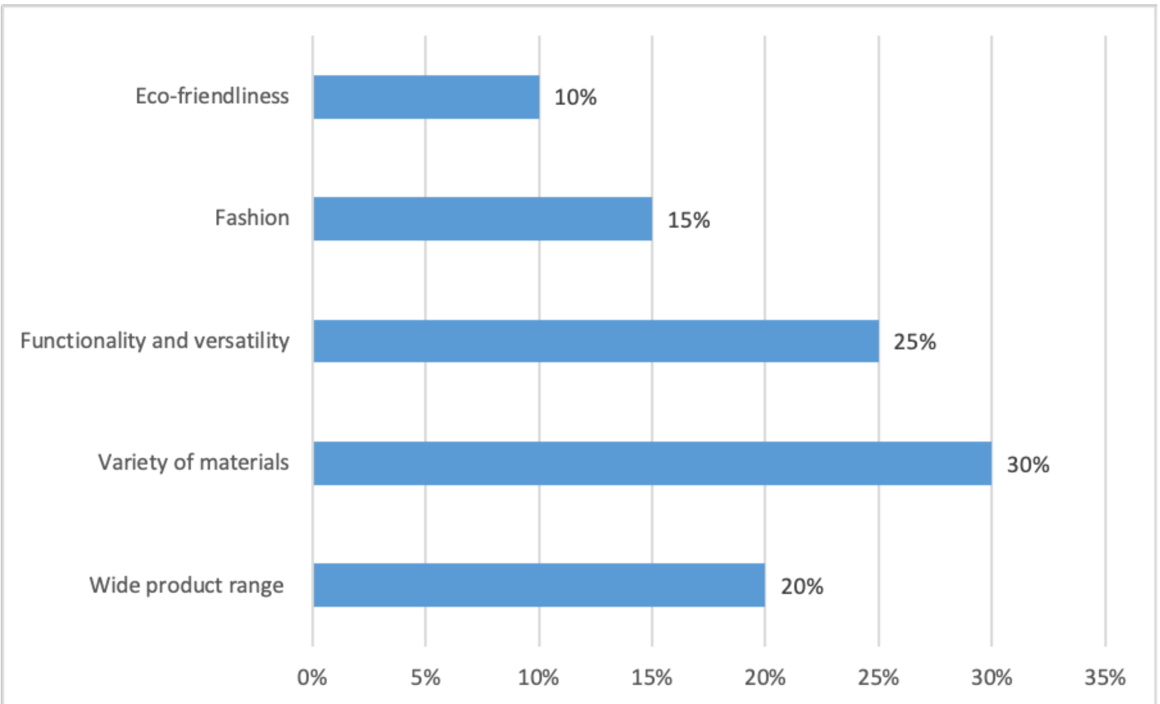


**Figure 3**. Factors of competitiveness of furniture enterprises products, %
*Source: composed by authors*

According to Figure 3, the most important for consumers is the variety of materials used, the versatility of application, and the ability to choose the products; less of a priority for buyers are the parameters of fashion conformity, and eco-friendliness of products.

The furniture market in Russia, according to estimates by Tebiz group (2022), increases rapidly in 2021 due to a significant increase in imports (an increase of over 30%) and domestic production (over 7%), and reaches 4.9 bn USD. Undoubtedly, the main demand for furniture is formed by the consumers, and the volume of production will depend to a greater extent on their real income and the volume of housing.

Before the SMO, the Russian payment service «Yukassa» and furniture company «Hoff» conducted a study. By the results of this study, total furniture sales for January-November 2021 increased by 27% year-on-year, and compared to pre-demand 2019, the increase was almost 35%. Nowadays, furniture products belong to the luxury segment. They are too expensive for the most citizens, so Russian consumers reoriented to domestic goods. As consumers have become more inclined to save, to save for non-urgent purchases, indicators of competitiveness such as high quality and acceptable price, as well as brand recognition and credibility, have come to the fore.

The Kostroma region is of particular interest in assessment of the competitiveness of furniture enterprises.

Its industrial policy is aimed at creating a highly efficient industrial complex with a rational composition and structure, which will be able to ensure the production of competitive products, employment, stable revenues to the budgets of all levels.

The code RCEA 31.0 «Furniture Manufacture» allows assigning this RCEA as the main type of activity or as an additional code of economic activity of the newly created organization. The analysis of the furniture industry in the Kostroma region allows us to conclude that the most common is RCEA 31.0 «Production of furniture». – 23 companies in the region, RCEA 31.09 «Manufacture of other furniture» – 12 companies in the region, and RCEA 31.02 «Manufacture of kitchen furniture» – 8 companies in the region.

The main participants in the furniture market are large players involved in the production of furniture for more than a year. Table 2 shows a list of 5 large furniture production organizations in the Kostroma region by revenue and assets.

**Table 2** – Rating of furniture organizations in the Kostroma region

| Place | Organizations | Industry, RCEA code | Indicators, mln. rub. | |
|---|---|---|---|---|
| | | | revenue | assets |
| 1 | «Furniture Factory No. 7», LLC | 31.0 Manufacture of furniture | 2 415 | 1 067 |
| 2 | «Delta-ko», LLC | 31.01 Manufacture of furniture for offices and trade companies | 1 845 | 0.11 |
| 3 | «KS-Oktyabr», JSC | 31.01 Manufacture of furniture for offices and trade companies | 999 | 659 |
| 4 | «KS-Sreda», JSC | 31.01 Manufacture of furniture for offices and trade companies | 617 | 323 |
| 5 | «Nrava», LLC | 31.09 Manufacture of other furniture | 405 | 281 |

*Source: SBIS, 2022*

The expansion of the range of products, the reorientation of markets, the development of new types of production in order to improve production efficiency have necessitated the enterprises to diversify the business. In fact, since the above presented LLC or JSC are components of large furniture organizations, the comparative assessment (Table 3) conducted for a single organization, in turn consisting of several companies (which also does not allow to analyze large well-known furniture factories on certain financial parameters).

The most famous furniture companies in the region are:

1. «Furniture Factory №7», LLC (This company produces furniture under the brand «Mr. Doors»). «Mr. Doors» company has been working on Russian furniture market since 1996 and for the last two decades has become a real leader in production of custom built-in and case goods furniture.

2. «Vash Den» Factory. Factory «Vash Den» was established in 1994. It is located in Kostroma, and is currently the leading enterprise in Russia for the production of seating furniture.

3. «INTERA», LLC (the company manufactures its products under the «OGOGO Obstanovochka» brand), which specializes in the production of case goods and seating furniture. The history of the company has more than 110 years, starting with a timber factory, reorganized into a JSC «Kostromamebel», and then – into «INTERA», LLC.

The authors conducted a comparative assessment of the enterprises-leaders competitiveness in five parameters: assortment, price, PR, fame and reputation, based on expert evaluations (Table 3). We involve six experts, industry specialists, and the Department of Economic Development of the Kostroma region in this assessment (Shamilova, 2018).

By Table 3, the furniture factory «Vash Den», which is the leading Russian enterprise in the production of case goods and seating furniture, has the highest rates. Project «Vash Den» successfully competes with the giants of the Russian and European markets. For 27 years of fruitful work and improvement of production the brand «Vash Den» has become the one of the leading manufacturers in the furniture market in Russia. The company confidently holds the leadership producing furniture, using high-tech Italian and German equipment.

**Table 3** – Comparative assessment of the competitiveness of furniture enterprises in the Kostroma region

| Indicator name | «Furniture Factory No. 7», LLC | «Vash Den» Factory | «INTERA», LLC | «Itana» Factory | «Kedr» Factory | «Takos» Factory | «Shellen» Factory |
|---|---|---|---|---|---|---|---|
| Range of products | 5 | 5 | 5 | 4 | 3 | 3 | 4 |
| Pricing policy | 3.5 | 4.5 | 3 | 5 | 3.5 | 4 | 3.5 |
| Marketing policy | 3 | 4 | 4.5 | 2.5 | 3 | 2.5 | 3 |
| Brand awareness | 4 | 5 | 5 | 3.5 | 2.5 | 3.5 | 2 |
| Reputation | 4.2 | 4.1 | 4.3 | 4.9 | 3.8 | 3.8 | 3.2 |
| Total score | 19.7 | 22.6 | 21.8 | 19.9 | 15.8 | 16.8 | 15.7 |
| Place among the competitors | 4 | 1 | 2 | 3 | 6 | 5 | 7 |

*Source: composed by authors*

Indeed, the regional factories have existed for quite a long time, but with the support of the region it is possible to develop the furniture industry. The region has all the resources for development, which especially affects the quality of materials, since the region belongs to the leading producers of wood in the country.

In assessing the level of competitiveness of Russian furniture manufacturers in the new environment we need to pay attention to the serious dependence of furniture production on imports. Assessment shows that a quarter of the required components purchased were produced domestically, with Asian countries producing 5-10%. The most of the materials and components – almost 2/3 – came from Europe and the United States. Experts believe that most of them can also be made in Russia. But it will require some time, and can cause the quality issues.

So far no high-quality decorative materials are produced in our country, e.g. thermoplastic, artificial stone, which is used in the production of table tops. Manufacturers are looking to Brazil, Hungary, China, Turkey and Russia to replace them.

As for equipment, the leading Russian enterprises have modern machines with a sufficiently long service life, and for a certain period they do not need to be updated. But, due to the fact that they are very expensive, then start uppers cannot have such costs, which is clearly not conducive to the development of competition in this market.

There is an opinion that the production of quality accessories is not such a serious problem, but this view is deeply wrong. Western companies, which have invested millions in equipment and engineering, are careful to protect their technology. Russian companies prefer not to copy but to import the accessories. For example, Chinese manufacturers copy them because of their large market. But in Russia the market is not so large. In the conditions of the import substitution and sanctions restrictions, we can see that Russian furniture producers have mastered the production of certain simple components. Also there is the development of the production of paints and coatings. For example, particle boards (fiberboard) in the early 2000s, with changes in import duties it turned out more profitable to organize the production of these products in Russia, as a result of which the need for them is completely covered by domestic producers.

In the summer of 2022, the Association of Furniture and Woodworking Industries (AFWI) predicted the drops of the sales by half by next year. However, due to changes in suppliers and the process of strengthening the national currency, experts estimate the size of the decrease at the level of 4-5% in physical terms, almost without reducing the volume results.

By the end of 2022, prices of the furniture products decreased by 10%. The reasons were: a reorientation from European to Turkish and Chinese manufacturers (who have lower prices); the lower prices of Russian materials (for example, particleboard).

Since, the final product of domestic kitchen furniture production largely consists of imported components, the cost of products is very strongly influenced by the volatility of the ruble. And, of course, due to changes in logistics processes, transportation costs are becoming markedly higher.

**Conclusions**

We should note that our country still imports the significant amounts of furniture from Western countries, while the export of Russian goods to Western countries has been completely stopped. Those manufacturers who previously supplied goods, particularly to IKEA, are now targeting consumers on the Russian market.

One of the managers of a large furniture factory believes that «the departure of IKEA is, first of all, the departure of convenient service for customers». And since most of the goods sold in this network were produced by domestic enterprises. Many industry leaders try to present adequate modern solutions to the customer, using this interesting foreign experience as well. Marketing formats for furniture directly from stock, as individual items for self-assembly are being explored.

Such experience is gradually accumulating in the domestic furniture industry. For example, the module «case – bed – sofa» is available in the assortment of Ascona, the largest manufacturer of mattresses. A variety of the modes of transformers for eight years produces the company Olisys, as well as furniture factory Guter Mobel, which uses its own transformation devices. The most notable work in this direction is carried out by the company «Duma Mebel», which is the successor of the firm «Umnaya Mebel», established in the early 90s. The experience in the manufacture of seating furniture (own retail network, supplies to 20 regions of the country), extensive competence in the field of production technology – ensure the competitiveness of this company in the market of transformable furniture.

It is important to emphasize the high quality of the company's components – the company buys fittings and mechanisms made in Germany, and adjustable struts made in Italy. The share of these imported components reaches half of the total costs. The company's competitive advantages include not only high quality and safety, but also customization, and the individual needs of the consumers.

An important issue of competitiveness is raised by experts, referring to the reaction and actions of the state as a response to sanctions from Western countries. According to the executive director of a large furniture company Angstrem, domestic manufacturers are not on equally with partners from Western countries. The appreciating ruble led to greater efficiency in importing furniture to Russia than its exports to other countries. Since, in the opinion of this leader, Russian furniture production, as well as that of friendly countries, entirely satisfies the needs of the population, a proposal is made to completely ban imports from these states (Grammatikov et al., 2022).

**References**

1. *Executive Order on Russia's national development goals through 2030.* (2020). Retrieved from http://en.kremlin.ru/events/president/news/63728 (in Russian).

2. Freeman, C. (2002). Continental, National and Sub-national Innovation Systems–Complementarity and Economic Growth. *Research Policy, 31*(2), 191–211. DOI: 10.1016/S0048-7333(01)00136-6.

3. Carlsson, B. (2006). Internationalization of innovation systems: A survey of the literature. *Research Policy, 35*(1), 56–67.

4. Cooke, P., & de Laurentis, C. (2010). Platforms of innovation: Some examples In P. Cooke, C. de Laurentis, S. MacNeill, C. Collinge (Eds.). *Platforms of Innovation: Dynamics of New Industrial Knowledge Flows* (pp. 271–310). London: Edward Elgar Publishing.

5. Baumol, W. (2003). *Prize Lecture.* Retrieved from https://www.e-award.org/wp-content/uploads/William-J-Baumol-Prize-Lecture.pdf

6. Klimanov, D., & Tretyak, O. (2019). Linking business model research and marketing: New network-based approach to business model analysis. *Journal of Business and Industrial Marketing, 34*(1), 117–136.

7. *Digital Attaché Program Information.* (2016). Retrieved from https://www.trade.gov/digital-attache-program-0

8. *Digital Platforms: A Brief Introduction.* (2021). Retrieved from https://www.bmc.com/blogs/digital-platforms/#

9. Geliskhanov, I. Z., & Yudina, T. N. (2018). Digital platform: a new economic institution. *Quality–Access to Success, 19*(S2), 20–26.

10. FTC. (2020). *FTC Sues Facebook for Illegal Monopolization*. Retrieved from https://www.ftc.gov/news-events/press-releases/2020/12/ftc-sues-facebook-illegal-monopolization

11. *Kudrin told where the Russians should go to work*. (2021). Retrieved from https://news.mail.ru/economics/48185549/?frommail=1&exp_id=943 (in Russian).

12. *Xiaomi is ditching humans in favor of robots*. (2021). Retrieved from https://gadgettendency.com/xiaomi-is-ditching-humans-in-favor-of-robots-the-company-is-building-a-fully-robotic-smartphone-factory/

13. Simachev, Y., Fedyunina, A., Yurevich, M., Kuzyk, M., & Gorodny, N. (2021). New Strategic Approaches to Gaining from Emerging Advanced Manufacturing Markets. *FORSAYT, 15*(3), 6–21 (in Russian).

14. Sberbank. (2023). *Sberbank digital ecosystem*. Retrieved from https://www.sberbank.com/ru/eco (in Russian).

15. Obukhova, E. (2021). Head of Marketplaces. *Expert,* (31–34), 78–79 (in Russian).

16. *Online clubbers drive booze sales in China*. (2020). Retrieved from https://www.warc.com/newsandopinion/news/online-clubbers-drive-booze-sales-in-china/43463

17. AI Russia. (2023). *AI Russia Works*. Retrieved from https://ai-russia.ru/library/ (in Russian).

18. UNCTAD. (2023). *How COVID-19 triggered the digital and e-commerce turning point*. Retrieved from https://unctad.org/news/how-covid-19-triggered-digital-and-e-commerce-turning-point

Received 12.10.2022
Revised 16.11.2022
Accepted 08.12.2022