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MODERN STATUS OF FURNITURE INDUSTRY DEVELOPMENT IN KAZAKHSTAN

Abstract

The article reveals the main problems faced by the Kazakh furniture industry, reveals the features of the furniture industry functioning. The analysis of the Kazakh furniture industry allowed to identify the features of the domestic furniture market, which are as follows: saturation of furniture production and sales channels of furniture products in Almaty; price imbalance in the manufacturing regions; the decision to choose products by the client according to the «price – quality» parameters; with consumer behavior that determines the seasonality of furniture sales; lack of branding of domestic furniture products. As practice shows, despite the fact that all domestic enterprises of the furniture industry are actually in identical external conditions, among them there are those that have adapted to the external environment and are working successfully. The key to success is a change in the orientation of the production management doctrine: from production probabilities to customer satisfaction, which is one of the most modern methods of enterprise management that helps ensure the survival of the company in a competitive environment. In modern conditions, the development of the furniture industry is determined by such priority areas as increasing the output of products with high added value, increasing the export potential and using the investment and innovative opportunities of the enterprise. Implementation of these goals provides operational management of production , which allows us to solve the problem of strengthening competitive advantages by updating the technological equipment of the industry with the use of new innovative technologies.

Key words: furniture market, export potential, branding, originality, competitive advantages, suppliers, analysis.

The practice of transforming the economy of Kazakhstan shows that underestimation of microeconomic opportunities for growth in the real sector of the economy can lead to a negative impact on economic development, to significant losses of sources and an increase in the duration of transformations. Domestic furniture enterprises, for the most part, do not orient their performance indicators, the quality of the products to the requirements of customers, which grow as a result of the availability of imported analogues. In the Soviet Union, a planned economy operated based on the production and needs of the country, based on the production doctrine, focusing on maximizing output and reducing the cost of goods and services, applying a centralized design of enterprises for long periods of time (5 years), applying severe administrative methods of management, without a competitive environment. Often, domestic furniture enterprises continue to use the remaining theses management of the Soviet period, guided by production probabilities. Enterprises are trying to produce more to reduce the cost of production and improve the performance of equipment. This causes the gravitation of “pushing” to the market as much as possible of its products, the need for which is often reduced or absent. There is a need to reduce prices, sales, provide discounts when receiving large volumes of products, which worsens financial performance. At the same time, some of the unclaimed products deteriorate and become obsolete.

Many domestic manufacturing enterprises, including furniture industry enterprises, faced constraints on the solvent domestic demand of buyers of products and were not competitive in comparison with manufacturers of similar imported products. In these conditions, the choice of the optimal assortment policy is a main hitch, from the solution of which depends the level of prosperity of both the enterprises themselves and the directions. Consequently, operational management of production affects the state and probability of successful operation of the furniture industry enterprises with ease.

The current potential of the Kazakhstan furniture market is estimated at $ 3,5 billion. In the Soviet era, only its volume was estimated at about $ 1,3 billion a year. Now the annual expenses of Kazakhstan on the purchase of industry products on average are approximately $ 10–15. In developed countries – $260. However, despite the decline in production in the woodworking industry over 10 years, approximately 32 times, this market is now extensive. Moreover, for the outstripping growth of this sector at the present stage, there are all the opportunities, thanks to the formation and development infrastructure of the centers of Kazakhstani oil production – Karachaganak and Aktau port, development of the capital of Kazakhstan – Astana, Expo–2017, growth of tourist and roadside infrastructure, etc. All these facilities require large volumes of furniture industry products; of course, today the actual volume of the market is smaller than its potential. Growth in consumption of furniture products is constrained by the purchasing power of the population, but it is [1].

Table 1 – Dynamics of economic indicators of furniture production

Indicators	2014	2015	2016	2017	2018	2019*	Change in 2019 in % to	
							2014	2018
Industry – total, billion tenge	18 531,8	14 925,2	19 026,8	22 790,2	27 218,1	29 103,0	157,0	107,0
Production volume furniture, billion tenge	33,8	30,3	36,0	43,5	38,6	37,9	112,1	98,1
The share of products of the furniture industry in the total volume of industrial output, %	0,2	0,2	0,2	0,2	0,1	0,1		
Number of enterprises and productions – total	287	288	292	315	360	358	124,7	99,4
Number of enterprises and industries – total	252	246	249	272	308	300	119,0	97,4
including: with the main type of activity	1564	1288	2683	1423	3713	3587	2.3 times	96,6
Profit (loss) before taxation, million tenge	6,1	5,3	7,8	2,9	9,8	9,5	155,7	97,0
Profitability, %	1011	2130	1312	3056	1936	1666	164,7	86,1
Investments in fixed assets, million tenge	102,3	2 раза	58,9	218,2	58,4	55,3	54,0	95,0
Note – Compiled from the source [1]. *Preliminary data.								

As can be seen from table 1, the volume of industry from 2014 to 2019 has a tendency to grow if you compare 2019 with 2014, the increase was by 57% or by 10571,2 billion tenge, and compared with the previous year 2018 – an increase of 7% or by 1884,9 billion tenge. The volume of furniture production in 2019 amounted to 37.9 billion tenge, which is 12,1% more than in 2014, but compared to the previous year 2018 decreased by 1,9%.

The largest volume of furniture production is in 2017 – 43,5 billion tenge this is due to the large-scale construction of housing, development of Astana, implementation of major investment projects in the mining sector, as well as the holding of EXPO–2017. However, from 2018 to 2019, the volume of furniture production has decreased; this is because Kazakh producers here, as in other industries, face increasing competition in their own market with imported products. We can note that this is due to the insufficient level of investment in the furniture industry, it depends 100% on imported raw materials and components, a significant part of which is still subject to customs duties.

Let consider the production of furniture in physical terms (Table 2, p. 120).

Table 2 data shows that the production of furniture in the category «Seating furniture and its parts» in 2019 amounted to 9346,8 million tenge, which is 448,3 million tenge more than in 2014 or 5%, and compared with the previous year 2018, this product category increased only by 1,3% or 122,4 million tenge.

Production of «Office wooden furniture» in 2019 compared to 2014 increased by 4,1 thousand pieces, or 1,6%, but compared to 2018, the volume of production in this category decreased by 0,4%, or 1,1 thousand pieces. Production of products in the category «Kitchen furniture» in 2019 amounted to 203,3 thousand units, which is 13,3% lower than in 2014 and decreased by 2% in 2018. But it should be noted that the volume of production of «Wooden furniture for the bedroom, dining room and living room» in 2019 amounted to 165,7 thousand units, which increased by 7,5% or 11,7 thousand units compared to the previous year 2018.

Table 2 – Production of furniture in the Republic of Kazakhstan in physical terms

Indicators	2014	2015	2016	2017	2018	2019*	Change in 2017% to	
							2014	2018
Furniture for sitting and its parts, million tenge	8898,5	7535,7	7769,3	7974,3	9224,4	9346,8	105,0	101,3
Office wooden furniture, thousand pieces	249,4	194,5	244,1	259,4	254, 6	253,5	101,6	99,6
Kitchen furniture, thousand pieces	234,5	192,4	210,5	178,8	207,6	203,3	86,7	98,0
Wooden furniture for bedroom, dining room and living room, thousand pieces	134,5	161,4	247,3	148,0	155,8	167,5	124,5	107,5
Note – Compiled from the source [1]. *Preliminary data.								

The Kazakhstan furniture market is experiencing a large shortage of production materials, which the countries of the Customs Union import. Many firms find a solution in establishing ties with foreign manufacturing companies, buying the necessary building materials from them, which in turn increases the price threshold of the furniture produced by 15–20% [2].

The growth of the furniture market will invariably depend on the level of income of the population and, if it grows, it will be insignificant. Relatively low population, seasonal sales, where the peak sales of furniture falls in December, and in January and May – a decline in sales volumes, as well as weak conditions for the development of medium and large enterprises affect the development of the furniture industry is not for the better. Large and medium-sized producers, as a rule, have their own outlets, small ones are much more difficult to master in the market.

The strengths of domestic manufacturers are directed, as a rule, to the production of office furniture and furniture for sitting (chairs, sofas, chairs, etc.), just as there is a distribution of market demand.

In the general structure of the Kazakhstan furniture market, domestic products have almost the same share with imported products, thus not covering the needs of consumers fully.

This situation is due to several reasons. This is the underdevelopment of the production base, the low quality of products, the lack of sufficient assortment for the satisfaction of demand, and simply the desire of consumers to purchase furniture of foreign production. Due to these factors and for a number of other reasons, furniture imports to Kazakhstan increase annually.

The volume of exports of furniture products in January 2019 compared to the same period in 2018 in monetary terms increased by 4,3 times and amounted to $ 1,1 million USA. More than half of the export volume is made of plastic furniture, and the volume of imports of furniture products in January 2019 compared to the corresponding period of 2019 in monetary terms decreased by 1,1% and amounted to $ 1,1 million. USA. The third part of imported products is other wooden furniture [3, 4]. Export and import data are shown in table 3.

Table 3 – Volume of exports and imports of furniture products in Kazakhstan

Indicators	2014	2015	2016	2017	2018	2018 January	2019 January
Exports in millions of dollars USA	1,7	4,8	5,7	3,5	5,7	0,3	1,1
Imports in millions of dollars USA	477,2	319,4	239,9	306,3	274,8	18,3	18,1
Note – Compiled from the source [3, 4].							

Over the past five years, the import of furniture to Kazakhstan has tended to decrease in value terms, so in 2018, compared to 2014, the volume of imports decreased by 42% and 12% compared to 2017. In 2014, the greatest value was achieved, that is, the volume of imports amounted to 477,2 million dollars, and subsequent years, and the data show a decline. This is due to the growing share of «cheap suppliers», such as China, Thailand and other countries in the Asian region. In Figure 1, we consider the countries the main importers of furniture in the Republic of Kazakhstan are reflected. According to Figure 1, we can note that Russia is one of the major importers of furniture products in the RK; it occupies 30% of the total supply structure. Next came Ukraine – 22% and China with 20% in the overall supply structure. In addition, the main furniture suppliers in the republic are Belarus, Italy, Turkey and other countries. The list of furniture importers is listed in the order of 40 countries of different continents.

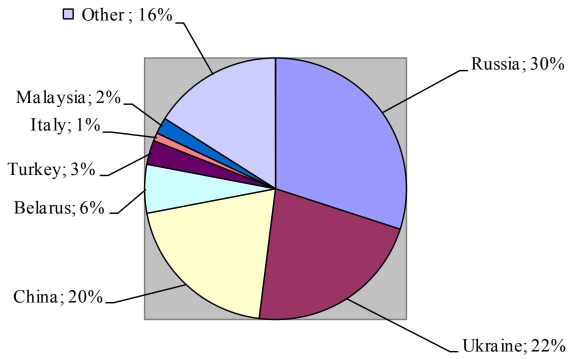

Figure 1 – The main importers of furniture in the Republic of Kazakhstan

Note – Compiled by source [5].

In these countries, the furniture industry is well developed and there are quite large enterprises-holdings equipped with the latest technology and high labor productivity. Due to the result of the scale, they are able to produce products cheaper than our Kazakhstan furniture makers, which remains the sector of furniture production under the order, which is not produced serially. In Turkey, China, South Korea and some other countries there are special industrial zones in which, with the assistance of the state and industry associations, favorable data have been made for the development of furniture production. Entrepreneurs working in such special areas are provided with state-owned production facilities on highly contracted terms. All communications are delivered to the buildings, interest-free long-term loans and tax incentives are provided [6].

Further, for a full disclosure of the problems of the furniture industry and according to the conceptual model (resource block), a PEST review of factors affecting the establishment of the furniture industry in Kazakhstan is presented (Table 4).

Table 4 – PEST analysis of factors affecting the development of the furniture industry in Kazakhstan

Factors	Probability	Impact
Political		
Changes in the legislation. Adoption of new technical regulations for components and furniture products.	High	There may be inconsistencies in the output of the new requirements.
Kazakhstan's accession to the WTO.	High	High competition will create negative prerequisites for domestic producers and can drive them out of the market.
Increase in the volume of import of components (raw materials, materials) and furniture products.	B High	The threat of geopolitical security of the Republic of Kazakhstan
Economic		

Table 2 (continued)

Change in foreign exchange rates.	High	Losses from changes in exchange rates.
High level of inflation.	Average	The fall in demand for products. Changes in consumer preferences (forced transition to products with lower prices).
Change in prices for utilities expenses of enterprises.	High	Increase in the cost of production.
Change in interest rates on loans.	High	Increase in the cost of production.
Social and cultural		
Changes in incomes of the population	High	Changes in the preferences of consumers (the emergence of interest in innovative and new products, or forced transition to cheap products).
Increase of consumer education for furniture production.	B High	Changes in the preferences of the population (increasing demand for quality products).
Технологические		
Low expectations of a technological breakthrough in the industry.	High	Losses, simple production capacity.
Preference of consumers of design to technological properties of products.	Average	Low aspiration of manufacturers to pay attention to research and development and the newest technologies.
Industry		
Oscillation of demand for components and furniture products (depending on the season).	High	Losses, simple production capacity.
Changes in the transportation and quality of raw materials.	High	Issue of poor-quality furniture products, loss of consumer confidence.
Change in the market price of raw materials and materials	High	Increase in costs for the production of furniture products.
Note – Compiled by the authors.		

Thus, the review made it possible to identify the main features of the domestic furniture market.

1. The saturation of furniture production and channels for the sale of furniture products in the central region – mainly in Almaty.

2. Price imbalance in manufacturing regions and regions where there are potential customers of furniture products.

3. The client made the decision of the choice of products based on comparing the homogeneous products according to the “price-quality” parameters.

Therefore, in order to compete with products from Russia and China, which account for the bulk of imports, domestic furniture products should have the best performance in the designated parameters.

4. Associated with the purchasing behavior that determines the seasonality of furniture sales.

As noted above, the peak of furniture sales is reported for December, and for January and May – the decline in sales volumes. In such cases, an elastic system of discounts or bonuses is required (for example, discounts on furniture purchased or subsequent purchase, a ticket for free dry cleaning) will allow furniture companies to stimulate sales of products during the recession. The highlighted specificity is also important to consider when creating stocks for holidays, planning payments on loans and borrowings, wages to employees, repayment of accounts payable.

5. Lack of branding of domestic furniture products.

The brand should be understood as “a unique and attractive image of consumption made with the help of communicative influence”, under branding – “the process in which a product, becoming a brand, acquires a value exceeding the retail price”.

Furniture products are sold through shopping centers. For the client, the shopping center is the seller. Advertising in the domestic media “promotes” shopping centers. In fact, there is no advertising, representing the domestic manufacturer. As a result, furniture itself is a brand; the brand is not understood by the client and is not taken into account when choosing.

In connection with this reason, one of the factors of furore in the furniture market is the sale of products through branded salons, advertising a trade mark, as well as participation in domestic and international furniture expositions. The lack of branding is manifested in the low culture of post-sales service, and the client is interested in providing related warranty and service services. The above features of the furniture industry need to be taken into account by the external user in evaluating the results of the activities of furniture manufacturing organizations in the medium and long term, because these features form competitive advantages and firm positions in the furniture market. The task of operational management is to ensure the calculation of indicators reflecting the specific features of the furniture market.

As practice shows, despite the fact that all domestic enterprises of the furniture industry are actually in identical external conditions, among them there are those who have adapted to the external environment and work absolutely safely. The key to the furore is the change in the orientation of the production management doctrine: from production capabilities to customer satisfaction, which now is considered one of the most modern and elastic implementations of enterprise management techniques that allows the firm to survive in a competitive environment.

It should be noted that the imperfection of special technologies, low efficiency of labor and other factors do not allow to ensure the intensity of production and to achieve an especially optimal application of all types of sources. These factors reduce the competitiveness of domestic goods, which, under the conditions of the Customs Union and the Global Trade Organization, may lead to the displacement of local manufacturers from the markets and an increase in the share of imports.

Analysis of the peculiarities of the current stage in the development of the furniture industry made it possible to single out its priorities, such as increasing the output of final products with high added value, using options for increasing the export potential, unlocking domestic sources of economic and production development, increasing the investment and innovation potential of economic entities, etc. Realization of these goals, we believe, provides operational management of production, resolving to solve problems Gain a competitive edge on the basis of the current industrial policy branch; orientation to renew the technological structure of the industry, accelerated establishment of enterprises using new innovative special technologies.

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Аңдатпа

Мақалада қазақстандық жиһаз саласында кездесетін негізгі проблемалар ашылған және оның жұмыс істеу ерекшеліктері анықталған. Жүргізілген талдау отандық жиһаз нарығының ерекшеліктерін анықтауға мүмкіндік береді, олар мыналардан тұрады: Алматы қ. жиһаз өндірісінің және жиһаз өнімдерін өткізу арналарының қанықтығы, даярлаушы өңірлерде бағалардың теңгерімсіздігі, жиһаз сатудың маусымдылығын айқындайтын сатып алу тәртібі, отандық жиһаз өнімдерінің брендингінің болмауы. Тәжірибе көрсетіп отырғандай, жиһаз өнеркәсібінің барлық отандық кәсіпорындары іс жүзінде ұқсас сыртқы жағдайларда орналасқанына қарамастан, олардың ішінде сыртқы ортаға бейімделіп, табысты жұмыс істеп жүргендері бар. Өндірістің басқару доктринасының бағдарын өзгертуі табыс кепілі болып табылады: өндірістің мүмкіндігінен клиенттің талаптарын қанағаттандыруға, бұл фирманың бәсекелестік ортада өмір сүруін қамтамасыз етуге ықпал ететін кәсіпорынды басқарудың ең заманауи әдістерінің бірі болып табылады. Жиһаз саласын дамытудың қазіргі заманғы жағдайларында қосылған құны жоғары өнім шығаруды ұлғайту, экспорттық әлеуетті арттыру және кәсіпорынның инвестициялық және инновациялық мүмкіндіктерін пайдалану сияқты басым бағыттарымен айқындалады. Осы мақсаттарды іске асыру жаңа инновациялық технологияларды қолдана отырып, саланы технологиялық жаңарту негізінде бәсекелестік артықшылықтарын күшейту міндеттерін шешуге мүмкіндік беретін өндірісті жедел басқаруды қамтамасыз етеді.

Тірек сөздер: жиһаз нарығы, экспорттық әлеует, брендинг, бірегейлігі, бәсекелестік артықшылықтар, жеткізушілер, талдау.

Аннотация

В статье раскрыты основные проблемы, с которыми сталкивается казахстанская мебельная отрасль, выявлены особенности ее функционирования. Проведенный анализ позволил выявить особенности отечественного мебельного рынка, в частности, насыщенность мебельного производства и каналов реализации мебельной продукции в г. Алматы, дисбаланс цен в изготавливающих регионах, покупательское поведение, определяющее сезонность продаж мебели, отсутствие брендинга отечественной мебельной продукции. Как показывает практика, несмотря на то что все отечественные предприятия мебельной промышленности находятся фактически в идентичных внешних условиях, среди них есть те предприятия, которые адаптировались к внешней среде и работают успешно. Залогом успеха становится смена ориентации доктрины управления производством: от вероятностей производства к удовлетворению требований клиента, что является одной из самых современных методик управления предприятием, способствующей обеспечению выживания фирмы в конкурентной среде. В современных условиях развитие мебельной отрасли определяется такими приоритетными направлениями, как увеличение выпуска продукции с высокой добавленной стоимостью, наращивание экспортного потенциала и использование инвестиционных и инновационных возможностей предприятия. Реализация этих целей обеспечивает оперативное управление производством, позволяющее решать задачи усиления конкурентных преимуществ на основе обновления технологической оснащенности отрасли с применением новых инновационных технологий.

Ключевые слова: мебельный рынок, экспортный потенциал, брендинг, оригинальность, конкурентные преимущества, поставщики, анализ.