

# OFFICE FURNITURE IN RUSSIA AND UKRAINE



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**T**he world economic crisis hit the Russian and the Ukrainian office furniture industry around the end of 2008, when the first real signs of it started appearing in the form of delayed payments, less orders, delayed deliveries, shorter trade credit terms or 100% advanced payments demanded even to established clients.

Many players on the market were damaged to the point of bankruptcy including manufacturers, importers and distributors, indeed the weak demand of Russian market, that represents not only the biggest customer for Russian office furniture manufacturers, but also the main destination markets of the Ukrainian office furniture manufacturers (especially office seating manufacturers), affected the performance of the two countries' office furniture consumption, which decreased by over 47% in 2009, performing worse than the leading economies of the Euro zone whose consumption of office furniture in 2009 slumped by 25% at current prices.

## RUSSIA TRADITIONALLY FOCUSES ON DOMESTIC MARKET...

Russian production is mainly destined toward the domestic market, which absorbs 96% of the total. The reason lies

in Russia's planned economy of the past and in a low international competitiveness of Russian furniture, which has never been one of the country's strongest productive sector, despite plenty of available wood resources.

Nowadays, the situation is gradually changing, and some larger companies are known to have interest in expanding to Western Europe.

## ...AND IT IS ATTRACTED BY WESTERN EUROPEAN "PRODUCTS"

On the other side, Russia has become a top export destination for many European office furniture companies, also because most imported furniture are not in direct competition with Russian furniture, for the reason of different price segments.

Indeed, the Russian office furniture industry is still dependent on imported supplies, though the Russian customs import tariffs on ready-made furniture from solid wood and wooden boards raised in late 2008 from 30% to 45% of the declared goods value.

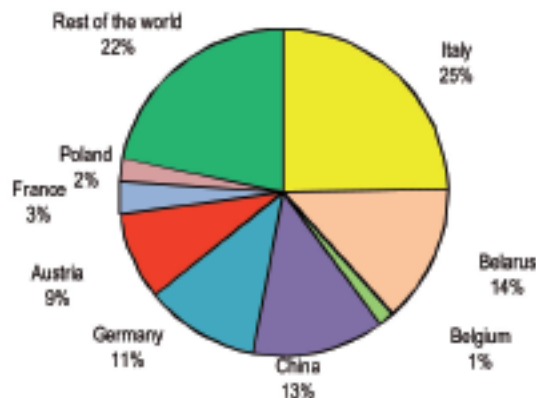
## UKRAINE IS A DYNAMIC OFFICE FURNITURE EXPORTER

Despite the 2009 decline, Ukraine's exports have witnessed constant growth over the last decade. Exports in 2008 were in fact roughly three times higher than they were in 2003 and growth was recorded each subsequent year until the 2009 decline when exports decreased by 53%.

Ukraine exports mainly to Russia, which absorbs 64% of total exports but in the last decade the exports to Asia and Pacific increased at the expense of exports to Russia. In fact, the neighbouring emerging markets, mainly Kazakhstan, Moldova and Belarus, have been growing rapidly, increasing at an average annual rates of over 70% and offering numerous opportunities in the office furniture segments. Exports to Belarus, which were almost negligible in 2000, were more than 12 times higher in 2008.

It is worth mentioning that the Ukrainian office furniture industry can rely on easily accessible raw materials, whereas,

RUSSIA. IMPORTS OF OFFICE FURNITURE BY COUNTRY OF ORIGIN, 2009.  
Percentage values.



Source: CSIL processing of official data.

regard to components and accessories, local manufacturers mostly use imported goods from Germany, Turkey and China, because the furniture supplying industry is not sufficiently developed in Ukraine. This partial dependence on foreign supplies obviously makes the industry vulnerable to rising international prices and currency fluctuations, both of which have an impact on end-user prices.

### ENTRANCE DOOR MOSCOW... BUT NEW REGIONS ARE EMERGING

Although the 2009 crisis has led to even higher prices for imported furniture and some importers were forced to leave the market, the upper-medium and premium price segments are still dominated by imported furniture from Italy, Germany, Spain and Scandinavian countries. The retail system in the Russian Federation

has always been a complicated one, and, despite several attempts to modernize it, distribution is still suffering from low quality, poor offer and little infrastructure.

Distribution costs in Russia are still very high. Indeed, for a company is easier to cut costs in production than in distribution. The entrance door to the Russian Federation is still Moscow but the growth of the retail sector in Moscow has placed in recent years around 20%, while the growth in the regions reached between 75 and 100%.

The highest rate of growth is taking place so far in the Urals (Ekaterinburg) in the North-West, in South (Krasnodar, Rostov-on-Don), on the Volga (Volgograd) and in Western Siberia (Novosibirsk).

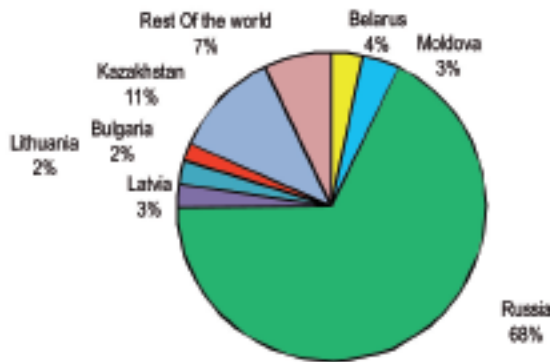
According to experts, if the growth pace is maintained over a period of 4-6 years, the development of the retail system in these areas will resemble that of Moscow and St. Petersburg. As a matter of fact, in recent years, many international brands such as IKEA have started to operate in some of these cities, as Moscow and St. Petersburg began to saturate.

### UKRAINIAN RETAIL SECTOR HIGHLY FRAGMENTED

The Ukrainian retail sector is highly fragmented and continuously changing; therefore the channels most used to reach office furniture consumers are basically direct sales from the furniture factories and the network of specialized dealers; both independent or belonging to the manufacturers.

Only the biggest office furniture manufacturers manage their own stores and dealer networks, because setting up these distribution channels requires a huge investment. For this reason, the small firms rely mainly on direct sales. However, new distribution strategies are developing such as franchise networks and sales over the Internet.

UKRAINE. EXPORTS OF OFFICE FURNITURE BY COUNTRY OF DESTINATION, 2008.  
Percentage values.



Source: CSIL processing of official data.

A standard composition of an executive space in Russia.

