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**MARKET POTENTIAL FOR FINNISH SENIOR AND  
CHILDREN'S FURNITURE IN KARELIA AND SAINT  
PETERSBURG IN THE B2B CONTEXT. CASE: KITEEN  
HUONEKALUTEHDAS**

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<p><b>Title</b> Market potential for Finnish senior and children's furniture in Karelia and Saint Petersburg in B2B context. Case: Kiteen Huonekalutehdas</p>	
<p><b>Abstract</b></p> <p>The aims of the thesis are to investigate the demand for Kiteen Huonekalutehdas' furniture for seniors and furniture for children in Saint Petersburg and Karelia and to clarify organizational preferences regarding their products.</p> <p>The theoretical framework introduces consumer behavior in the B2B context and tools used in external business analyses. The theoretical knowledge is implemented into practice with the help of a case study example, Kiteen Huonekalutehdas, which is interested in the possibilities on the Russian market in a B2B context.</p> <p>The empirical section includes a review of consumer behavior in Russia and in the Russian furniture industry, the nature of competition and an evaluation of the current situation on the Russian market, the results of the qualitative research. The opinions and attitudes of potential customers are analyzed with the help of in-depth interviews conducted by phone and email in January 2015. The sample consisted of five non-governmental children's support funds and five private retirement homes in Saint Petersburg and Karelia.</p> <p>The research revealed that there is potential for Kiteen Huonekalutehdas' products in the near future. Two non-governmental children's support funds showed interest in the company's products. However, the company should not consider immediately entering the market due to the economic situation in Russia and as a consequence the increased level of competition.</p>	
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# **1 INTRODUCTION**

## **1.1 Background**

Russian markets attract more and more producers from other countries. There are push and pull factors which make, especially, Finnish producers choose the Russian market as a potential one. Firstly, the Finnish market is rather small and saturated. Secondly, the Russian market has a tendency to grow and the level of competition is moderate. The geographical proximity and some similarities in the cultures are also beneficial for businesses. (Larimo 2007).

Even though Russia is an attractive market for penetration, some risks might occur due to market dynamics. According Schwab & Sala-i-Martin (2014, 320) the main economic phenomena that might cause problems while entering and operating on the Russian market is the high level of corruption and poor access to financing.

The Russian furniture market is attractive at the moment. According to Makeeva (2013), the Russian furniture market is growing rapidly and is highly dependent on imports from other countries: the share of imports in retail is around 60%.

## **1.2 Aim of the thesis**

The goal of this research is to explore possibilities for a small Finnish manufacturer, Kiteen Huonekalutehdas (KH), on the Russian market. The company has chosen two lines for the export: senior furniture and furniture for kids. KH is currently interested in two Russian regions: Karelia and Saint Petersburg.

The most sufficient way for the company to enter Russia is by using the B2B market scheme. In case of KH, the most relevant distribution channel is direct contact with non-governmental organizations and private retirement homes. The private sector is not affected as strongly as governmental institutes by economic and political factors. (PestleAnalysis 2013).

The aim of the thesis is to discover the demand for KH senior furniture and furniture for kids. Another goal is to find out if Saint Petersburg and the Karelia Region are potential markets for the products. Additionally, detailed information about nature of competition is requested.

The research questions can be summarized as following:

1. What are the perceptions among target groups (non-governmental organizations, funds connected to the kids support and non-governmental retirement homes) of the products of Kiteen Huonekalutehdas?
2. What is the nature of competition in the furniture market in Russia?
3. How attractive are the Saint Petersburg area and Karelia regions as potential markets in the near future?

### **1.3 Outline**

The structure of the thesis is divided in theoretical and empirical parts. The theoretical framework introduces consumer behavior in the B2B context and tools used in external business analysis. The empirical section includes a review of consumer behavior in Russia and more specifically in the Russian furniture industry. The nature of competition, an evaluation of the current situation on the Russian market, and the results of the qualitative study are also presented in the research. Opinions and attitudes of the potential customers are analyzed with the help of in-depth interviews. Finally, a conclusion and recommendations are made.

#### **1.4 Case company: Kiteen Huonekalutehdas**

KH specializes in the bedroom furniture manufacturing. The material used is birch. The furniture can be described as “Finnish, natural and individual”. (Kiteen Huonekalutehdas Oy 2013 a).

Kiteen Huonekalutehdas Oy was established in 1990, but it continues the tradition of the furniture manufacturing of a previous company, which began in 1920. Today the company employs 20 workers in the factory. The factory is located in Kitee, and its products are sold in over 400 shops all over Finland. (Kiteen Huonekalutehdas Oy 2013 a). The turnover of the company in 2013 was €1.4 million (Largest Companies 2015).

The company currently operates only in Finland, but it is constantly looking for potential resellers abroad. KH has had attempts on the Russian market. KH participated in the project Functional Home in St. Petersburg, and their products were exhibited in a rehabilitation center on Vasilevsky Island with other Finnish companies. (Itsenäisen Suorittumisen Innovaatiokeskus 2012). Additionally, the company has managed to have a successful deal with a nursing home in the Komi Republic. It also has two agents in Moscow and Saint Petersburg. They try to discover future possibilities for the company in Russia.

KH has two separate lines apart from regular furniture: senior and kids’ furniture. The company has chosen these two furniture lines to penetrate the Russian market.

Picture 1 displays the samples of the senior furniture and Picture 2 shows the furniture samples of the kids’ furniture. The main idea of the senior furniture line is multi-functionality and convenience. Furniture for kids has to have certain characteristics: it has to be made out of environmentally friendly material, it has to be practical, and it is supposed to be fun. Furthermore, furniture has to be solid and easy to clean. (Ibenma.com 2013).



Picture 1. Examples of the senior furniture (Kiteen Huonekautehdas 2013b).



Picture 2. Kids' furniture samples (Kiteen Huonekautehdas 2013b).

## **2 THEORETICAL FRAMEWORK**

### **2.1 Business-to-Consumer and Business-to-Business markets**

In the context of this research it is important to understand the differences between Business-to-Business (B2B) and Business-to-Consumer markets (B2C), due to the fact that the main target customers of KH are organizations.

The Business-to-Consumer (B2C) model can be described as a market where organizations sell and offer the services directly to the end consumer (Intersection consulting LTD 2010). The delivery of the product to the final user might be direct or indirect. An indirect marketing distribution chain involves intermediaries, but in direct delivery - no third parties take part in the process. (Wright 2004, 2).

Business-to-Business (B2B) marketing can be described as a set of activities of any organization which interacts and has a relationship with other organizations (Ellis 2010, 6). Buyers in B2B marketing are sophisticated, and the products might be more complex than in B2C markets (Intersection consulting LTD 2010). Moreover, B2B marketing provides products for governments, institutions, agencies, organizations and authorities (Dacko 2007, 69). In the case of KH the main target group consists of organizations and funds related to the children and senior support and private retirement homes.

Concerning the main differences, the market size of each market has to be analyzed. In general B2B markets are small vertical markets, mostly focused on a specific niche. On the contrary, B2C markets cover broad markets with thousands of sales prospects. (MyMarketingDept, Inc. 2015).

Additionally, the purchasing process in B2B markets is more complex and requires a significant amount of time, which sometimes can be measured in months and years. However, in B2C markets decisions are made quickly and strongly affected by the emotions and individual preferences of the customers. (MyMarketingDept, Inc. 2015).

In B2B markets direct contact and establishing a lifetime relationship with the customer is crucial. Understanding a customer's needs and developing a trustful relationship are the key elements of the successful business while operating in B2B market. In B2C



markets, the pull factors are mostly used to convince a consumer that he/she experiences a need in a certain product. (MyMarketingDept. Inc 2015).

Another difference lays in importance of the brand. According to Kotler, Michi & Pfoetsch (2006) in B2C markets brands represent a strong asset; this is one of the key drivers of a company's success. In B2B markets branding does not have significant impact on the company's sales and customer loyalty. The decision making process is not strongly affected by brand recognition. Brand image is rather important for the companies who operate in both B2B and B2C markets. (Kotler, Michi & Pfoetsch 2006, 2).

In the case of KH, it is crucial to focus on assets (e.g. high quality and modern design) other than brand recognition. The company does not have a brand image on the Russian market, and the main target customers are organizations. In this case KH should not invest resources to increase the brand recognition in Karelia and St. Petersburg.

Various reference groups and families have an effect on the decision making process of an individual consumer. In a B2B market the decision-making unit or the buying centers are the key participants who influence the final decision. (Blythe & Zimmerman 2013). For KH, operating in a B2B context is more complex due to the fact that the final decision is influenced by various members of the organization.

In conclusion, understanding the differences between B2B and B2C markets will help KH to pursue the correct marketing strategy. Understanding the needs of the target market, developing a clear B2B marketing message, choosing relevant distribution channels and marketing campaign is different while operating in a B2B market. Moreover, utilizing large consumer marketing strategies is not cost-efficient and effective in delivering the desired message to the target market. (MyMarketingDept. Inc 2015). Focusing on high-quality and design will be the main assets for KH to design the strategy and to establish relationships with customers.

## 2.2 Consumer behavior

### 2.2.1 The role of individual consumer behavior in the B2B context

While operating in B2B markets all downstream and upstream participants of the chain need to be taken into account. Firstly, KH is targeting its furniture towards various organizations, e.g. retirement homes. The customer is the retirement home, but the final user of the furniture is a person who will utilize the furniture. In this case, preferences of the final user have to be considered. Understanding behavioral patterns and consumer perceptions will help to gain a clear image of the final consumer (Askergaard, Bamossy, Hogg & Solomon 2006, 36-46).

The selling process with a retirement home can be an illustration of the individual consumer's role (Figure 1). KH sells its products to the retirement home, but the final user is the senior. The preferences and perceptions of an individual consumer have to be taken into account by retirement home and the furniture company.



Figure 1. Individual consumer behavior in context of Kiteen Huonekalutehdas and retirement home.

In the case of KH, it is vital to understand individual consumer behavior. In the future, the company may expand to the consumer markets in Russia, and an understanding of consumer behavior's patterns will help to determine the proper marketing mix (Sandhusen 2000, 217). Moreover, as Figure 1 shows, the role of the final consumer is pivotal in the context of KH.

### 2.2.2 Organizational consumer behavior

Organizational consumer behavior differs from that of the individual. An organizational purchase is more complex and involves many participants and various departments. Members from different levels of the organization take part in the decision making process to determine the most effective selection of a product. (Kotler, Michi & Pfoertsch 2006, 25).

Factors influencing the organizational consumer behavior, can be divided into four groups: environmental, organizational, group and individual forces (Hutt, Speh 2012, 42). Figure 2 graphically presents the forces.

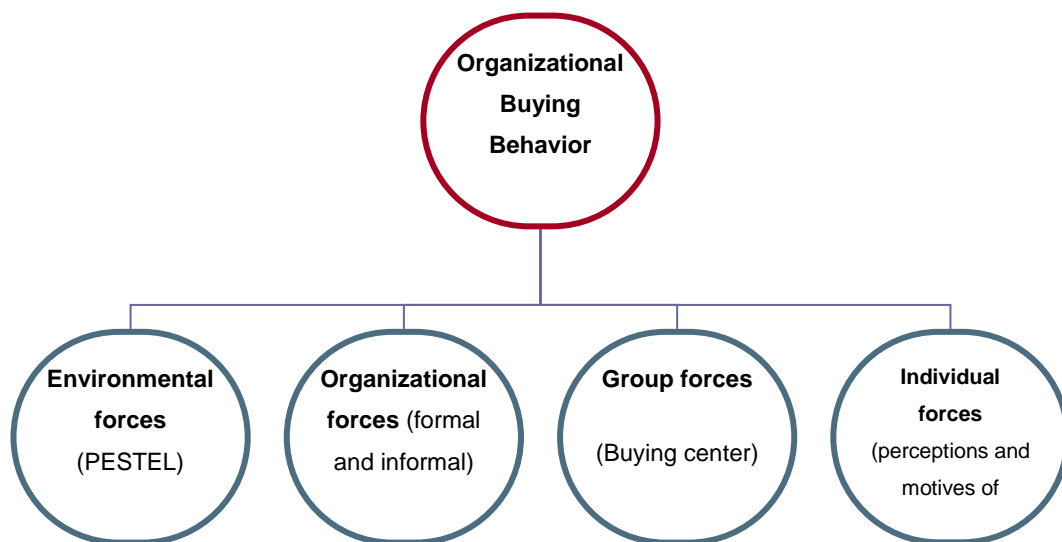


Figure 2. Forces influencing organizational buying behavior.

Environmental forces include various sub forces which might affect the business conditions of an organization. Economic, political and technological are the major environmental factors which require attention and can be analyzed by a PESTEL analysis in detail. (CIMA 2007). Additionally, rapid technological changes require the organization to pay close attention to R&D (Hutt & Speh 2012, 42).

Organizational factors (policies, structure, systems) are based on the firm's corporate structure. The company's structure might influence the decision making process. It can be divided into two categories: formal and informal. Formal structure shows the organization of the company and the main tasks of the workers. Informal structure gives

the general understanding of behavioral patterns of different members within a firm. (Blythe & Zimmerman 2013).

Group forces are another factor which influences decision making and consumer behavior. Organizational buying behavior is formed by the decision making and behavior of several individuals. Individuals are formed into the various groups, and each group member has a different involvement in the decision making process depending on the set hierarchy in the group. The buying center is the most important element which has a strong impact on the total decision making of group forces. The buying center consists of individuals who are eligible to take risks arising from the purchasing decision. (Hutt & Speh 2012, 52).

According to Webster and Wind (1972), the buying center includes members who play different roles: users, gatekeepers, influencers, deciders and buyers. The term “user” as is implied from the name, is the one who “uses” the product. Users might have a certain impact on the decision making process and even develop the product specifications. The main task of the gatekeeper is to control the information flow. Influencers have a strong impact on the decision making process by gathering information and the comparing future purchases with possible alternatives. R&D and quality control departments are the most common influencers in the firm. Deciders are the actors who make the list of characteristics which a buyer has to meet during the actual buying process. The buyer is an implementer of all the actions described above. (Hutt & Speh 2012, 54).

Organizational behavior might also be influenced by individual behavior. The motives and perceptions of an individual participant have some impact on the final collective decision. (Hutt & Speh 2012, 42).

In conclusion, it can be said that even though the organizational buying behavior is rather rational (Dacko 2007, 69), there are still many forces which affect the decision making process.

In the case of KH, understanding the key forces influencing organizational consumer behavior helps to determine the relevant marketing mix. Due to the fact that company mostly focuses on B2B operations, specifically on organizations and funds which are related to children and senior support, understanding the differences between individual

and organizational consumer behavior is crucial. It is even more important to understand organizational decision making in the target group.

## 2.3 Marketing tools in B2B

### 2.3.1 Marketing communication tools

It is critical for any company to utilize relevant marketing tools. Furthermore, marketing tools used in B2B markets differ from those used in B2C markets. B2B communications involve individual and face-to-face meetings (Fill 2010, 15). Table 1 displays the relevancy of the marketing tools (advertisement, sales promotion, PR, personal selling, and direct marketing) in the context of B2B's and KH.

Table 1. Key characteristics of marketing communication tools and their relevance in B2B and KH contexts. (Adopted from Fill 2006, 18, based on Trehan & Trehan 2014; Doyle 2011 and Fill & Fill 2005).

Marketing Tool	Relevancy	B2B context	KH's context
<b>Personal selling</b>	Relevant if: selling expensive goods, the message is complicated, the target market is small	Relevant: B2B communications involve individual and face to face meeting, the message is complicated, the target market is rather small	Relevant: the target market is rather small (involves a limited amount of organizations and funds)
<b>Direct marketing</b>	Relevant if: involves direct contact with the customers	Relevant: direct contact is highly important with the customers	Relevant: direct contact is highly important with the customers
<b>Advertising</b>	Relevant if: targeted at large masses, brand recognition is high	Not relevant: B2B market consists of a small number of potential customers	Not relevant: target market is rather small (involves a limited amount of organizations and funds from two sectors)
<b>Sales promotion</b>	Relevant if: used to add value to the existing offer, attract new customers	Relevant: sales promotion is used in both B2B and B2C markets	Relevant: in the future important to attract new customers and make special offers to the existing ones
<b>PR</b>	Relevant if: the trust among customers is of high importance	Relevant: In B2B relationships loyalty of customers is of high importance	Relevant: loyalty of customers is of high importance in the future

According to Table 1 the most relevant marketing tools in the B2B context are sales promotion, PR, personal selling, and direct marketing.

Sales promotion and PR are actively used tools in B2B markets. The main aim of sales promotion is to add value to the existing offer, to attract new customers and to encourage constantly purchasing of products. PR generates trust among customers, but the level of control by management is low. (Fill & Fill 2005). Additionally, raising the popularity of social networks makes companies increase focus on content marketing. (Content Marketing Institute 2015).

Concerning personal selling, a B2B company should focus on this marketing instrument in case of selling expensive goods, the message to deliver is rather complicated, and the target market is small (Trehan & Trehan 2014).

Direct marketing involves personal contacts with customers, which is highly important in B2B markets. Customers can be reached by email, phone, and personal interviews. (Doyle 2011, 145).

KH plans to operate in a B2B context; as a consequence the most suitable tools will be sales promotion, PR, personal selling, and direct marketing. Sales promotion and PR can be considered as the tools of secondary importance, and the company should focus on them after appearance on the Russian market.

In the case of KH, advertising is not a suitable marketing instrument. B2B communication involves personal contact, and using advertising to reach the target customers is not relevant.

### **2.3.2 Cold calling**

Cold calling is one familiar approach in direct marketing. It can be defined as “the practice of making a sales call on a client without an appointment” (Doyle 2011, 83). The cold calling technique can be implemented in person or by phone. It might not be considered as the most successful marketing instrument, but it might be used as a part of market research. It helps to understand customers’ attitudes towards a product, the trends on the market and the nature of competition on the market. (Doyle 2011, 83).

It is fundamental to understand cold calling techniques before starting the actual process, Schiffman (2013) emphasizes that it is crucial to realize what message a sales person wants to deliver to a customer. Questions have to be prepared in advance. Additionally, email can be used as a cold calling tool. The email techniques are similar to the actual call techniques, but messages have to be clear because a potential customer can interpret them differently. (Schiffman 2013).

## **2.4 Tools for designing the strategy**

### **2.4.1 PESTEL analysis**

Various analytical tools are used to study the business environment and to design the strategy (e.g. PEST analysis and SWOT analysis) (CIMA 2007). In this research analytical tools are used to determine KH’s potential on the market and evaluate the main competitors. The business environment is analyzed with the help of PESTEL and Bowman’s clock.

A PESTEL analysis helps to determine key external macro-environmental forces which have certain impacts on the operations of organization. The analysis displays the influences of political, economic, social, technological, legal, and environmental environments on the company. PESTEL gives hints on which path a company should pursue, and evaluates the potential of the existing market. (CIMA 2007).

It is critical to understand the role of the government in the economy of the country. The degree of governmental intervention can be measured by foreign trade policies, labor laws, environmental laws, trade restrictions, etc. (Professional Academy 2014).

Economic factors represent the impact of external economic influence which can have an effect on a company's sustainability and success. Matters to take into consideration include exchange rates, economic growth, and inflation. (Business News Daily 2014). Moreover, economic forces can impact the company's operations on macro and micro levels. Macro-economic forces deal with the generation of demand in the industry. Meanwhile, micro-economic forces are related to the consumer income expenditure. (Professional Academy 2014).

Socio-cultural aspects are related to individual/organizational preferences, values, attitudes and common beliefs (CIMA 2007). These factors include population growth, consumer attitudes, age distribution, and lifestyles (Professional Academy 2014).

Technological forces are various changes and improvements in different areas of operations (Professional Academy 2014). It is important to keep up with a constantly changing environment; it helps the company to remain competitive and more efficient on the market.

Environmental force is a factor which helps to evaluate the effect of the environmental changes on the company. Climate changes and various laws regarding the environment can be considered as examples. (PestleAnalysis 2013).

Legal forces include various laws and regulations which are crucial to know while operating in the other country. Examples of the factors to consider are health and safety regulations, consumer rights, advertisement standards, and product safety regulations. (Professional Academy 2014).

Ethics is a new force which has been recently gaining popularity. The term "ethics" can be defined as a system of moral principles and actions which are the key drivers of the decisions and behavioral patterns of an individual or a group of people. This factor can include the code of conduct and corporate social responsibility. (Oxford Learning Lab 2012).



### 2.4.2 Porter's generic strategies and Bowman's clock

Porter has identified three major generic strategies which companies use to remain competitive on the market: cost leadership, differentiation, and focalization (Porter 2008). All three strategies are presented on the Bowman's clock diagram (Figure 3). Figure 3 displays the interdependence between the value which the producer or service provider is able to offer and the price which consumer is willing to pay. (Differentiate Your Business 2011).

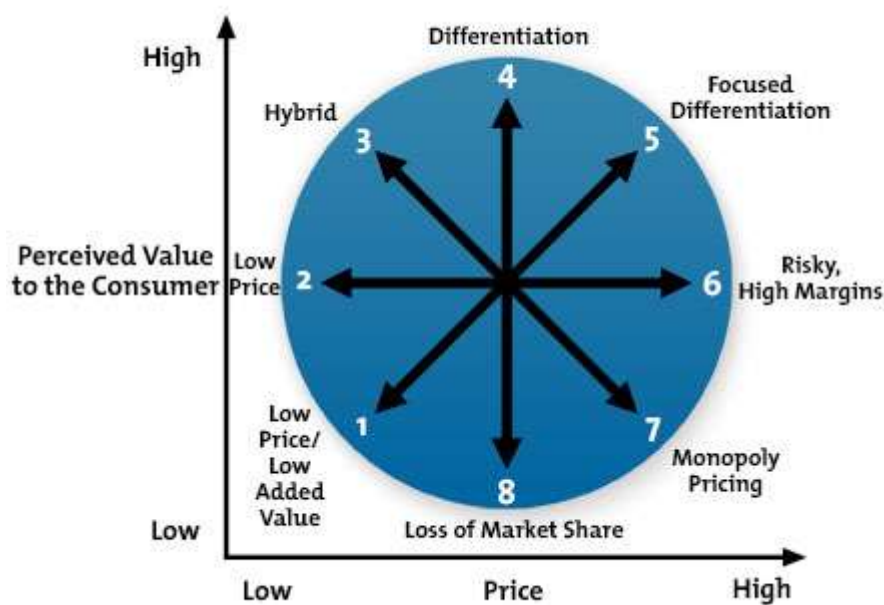


Figure 3. Bowman's clock (Mind Tools 2013).

Low cost strategy intends that the firm is eligible to sell the products at the lowest cost. Differentiation strategy implies that a firm has unique features of the product and differentiates itself from the competitors. Finally, creating and targeting the niche is the key action of the focus strategy. (Porter 2008).

In context of this research, Bowman's clock helps to determine and analyze the nature of competition (Mind Tools 2013). Additionally, Porter's generic strategies provide the nature of the market and potential of the market in the near future (Porter 2008).

### 3 RESEARCH METHODOLOGY

#### 3.1 Research questions

Table 2 provides information about the research questions, required data to give a proper answer to the question, and the sources of the data.

Table 2. Research questions and the sources of information.

Question	Needed Information	Source of information
What are the perceptions among target groups (non-governmental organizations, funds connected to the kids support and non-governmental retirement homes) towards the products of KH?	1) Attitudes towards KH's products, furniture characteristics'  2) Preferences in organizational buying decisions	Primary data (interviews of ten organizations)
What is the nature of competition in the furniture market in Russia?	1) Trends in the Russian furniture industry,  2) Information about competitors in Karelia and Saint Petersburg	Primary data (visits to the furniture stores)  Secondary data (books, articles and reports on trends in the Russian furniture industry, and on competition in Russia)
How attractive are the Saint Petersburg area and the Karelia Region as potential markets in the near future?	1) Attitudes and perceptions towards KH products;  2) Business environment in Russian market (Nature of competition, PESTEL)	Primary data (interviews of ten organizations) Secondary (books, reports, and articles on nature of competition, and on business environment in Russia)

### 3.2 Methods

The data was collected from primary and secondary sources. Primary data was the opinions about the KH products, furniture characteristics and the decision making process. Secondary data was mostly utilized to analyze the potential of the market, to determine the nature of competition and to understand the trends and consumer behavior in the Russian furniture market. The main sources of information include articles, reports and books on consumer behavior, the furniture market in Russia, and the political and economic situation on the Russian market.

The research sample was created based on the guidelines of KH: a) location in Saint Petersburg or Karelia; b) range of activities focused on kids' and seniors' support; c) private source of funding, d) interest in KH's products. Only organizations which met all the requirements were included on the list.

A database of non-governmental kids' support organizations and private retirement homes was generated from different databases of kids' support organizations, private retirement homes and an interview with a specialist from the kids' support industry in Petrozavodsk (Medvedeva Luibov 2014).

The organizations were analyzed in accordance with the following criteria: a) location in Saint Petersburg or Karelia; b) the range of activities focused on kids' and seniors' support; c) private source of funding. Only organizations which met all the requirements were included on the list.

Kids' support funds and retirement homes were contacted by phone and by email on the 10<sup>th</sup> -14<sup>th</sup> of January 2015 to determine their willingness to participate in the research. The cold calling technique was the main tool for contacting the organizations and conducting the interviews.

The researcher prepared in advance the leaflets, which contained information about KH's products. The leaflets were sent by email at the same time or after the phone call, depending on the availability of the contact information. Additional information was sent only if the organization was interested in participating in the research. The organizations were contacted once again within 24 hours to collect the answers. A limited number of organizations (Perspektivi and Karelian regional branch of the

Russian Children's fund) was able to answer the questions and evaluate the products simultaneously.

The text in the leaflet covered the following points: a) short company history and product range; b) raw materials used; and c) pictures with the samples of KH's products. The text was presented in Russian language. The pictures samples were different for retirement homes and children's funds.

After contacting 30 organizations, the final sample included 2 children's funds in Petrozavodsk, 3 children's funds in Saint Petersburg, and 5 private retirement homes in Saint Petersburg. Appendix 2 provides information about those funds and private retirement homes who participated in the interview during the research.

The interviews were focused on two topics: a) organizational buying behavior and b) opinions about products of KH. The topics were chosen according to the theoretical background presented in the research. The interviews were semi-structured, which allowed the interviewer to adapt to the situation. The interview results were translated into English afterwards.

### **3.3 Validity and reliability**

The research method included collecting primary information by interviewing representatives of kids' support organizations and private retirement homes.

There were several issues with the implementation process. Firstly, only 10 organizations were willing to participate in the research study out of the 30 contacted. Additionally, some organizations answered only specific questions. The reasons for that reaction are due to the organizations and the chosen research method. In general, organizations were not interested in KH's furniture due to several reasons: "cannot evaluate if KH's products respond to the requirements", "do not purchase furniture often". Due to the low participation rate and small sample, there is reservation for the generalization of the results.

Contacting organizations by phone and by email was not the most suitable technique. The most reasonable method for contacting the companies is KH's participation in trade

fairs and exhibitions. In this case, the organizations would be able to ask questions and have an opportunity to see and touch the product in reality. It would help the organization to determine whether the products respond to requirements.

## **4 RESULTS OF THE RUSSIAN MARKET RESEARCH**

### **4.1 Consumer behavior in Russian context**

Russian consumers are very loyal to premium and luxury brands. It takes a while for the company to build trust with a Russian consumer. Additionally, nowadays, low prices are not the main factor influencing the consumers' choice. Such features as constant product availability, good quality to price ratio and high quality services are the most important ones in enhancing the shopping experience of a Russian consumer. (Pesu 2013).

Russian consumers have a tendency to purchase luxury goods. According to the research by Kaufmann, Manakova & Vrontis (2012, 13), "Consumers' brand perceptions of quality affect purchasing of Russians towards luxury brands". Russian customers prefer to show everyone the brand due to the fact that the brand strongly correlates with social status. (Kaufmann, Manakova & Vrontis 2012).

Additionally, Russian attitudes towards foreign goods can be described in the following statement: "You have to realize that the idea of 'saving for a rainy day' is frowned upon here. Russians believe that if you keep money for a rainy day, you'll catch the rain. Instead, they think you should go out and buy a pair of Manolo Blahniks. Nobody allows a rainy day to happen to a girl in such shoes" (Chicherova 2006, 6). Basically, the statement expresses the main attitude of a Russian female consumer towards luxury, but due to the mentality specifics it is appropriate for any consumers and for the other goods.

The tendency of Russian consumers to purchase luxury trends is relevant to KH due to the fact that the furniture produced by the company can be considered as of premium quality and rather expensive.

## 4.2 Consumer behavior in European furniture market

The European furniture market plays a significant role in the global furniture industry. It has a dramatic influence on the future design trends, and the market size also attracts companies. (International Tropical Timber Organization 2012).

Even though the recession stage in 2008-2010 influenced the furniture industry in EU, the consumption is still rather high. Figure 4 displays that significant share of the EU furniture market is taken by Spain, France, UK, Italy, and Germany. Moreover, local European manufactures still dominate the market, due to the quality of the products and sophisticated marketing campaigns. These actions have boosted the loyalty of consumers. (International Tropical Timber Organization 2012).

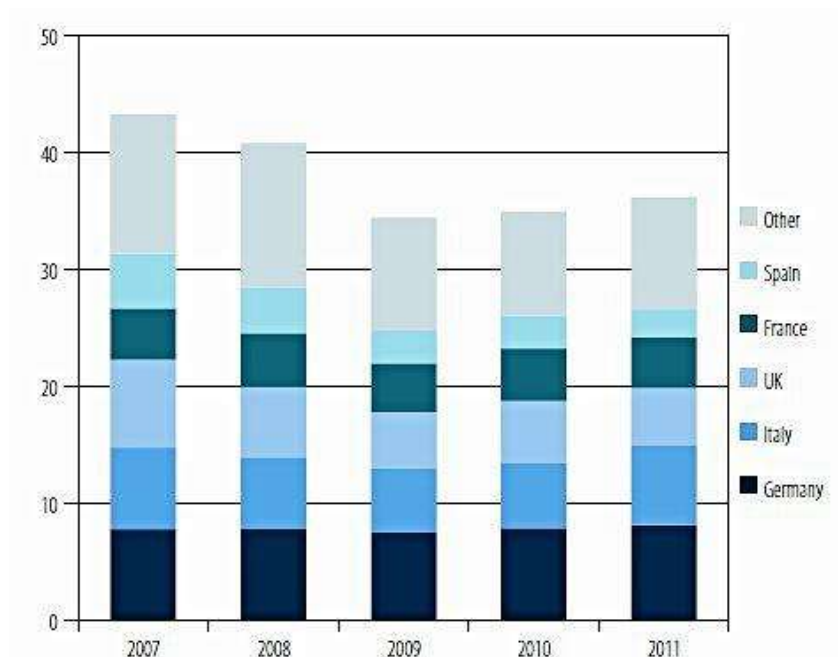


Figure 4. EU wooden-furniture consumption (billion €) (International Tropical Timber Organization 2012).

EU furniture companies are relocating their production lines to countries with lower production costs due to the phenomenon. The key success factor of IKEA is Swedwood Way of Production (SWOP). The main idea is to keep costs as low as possible by focusing on the efficiency of production and reducing the waste from manufacturing. The SWOP strategy helps the global furniture giant to remain the leader in robotic automation furniture manufacturing. (International Tropical Timber Organization 2012).

China is starting to gain position on the furniture market. It lost its positions due to the financial crisis, but it is expected to gain it back in the next years. (International Tropical Timber Organization 2012).

Another trend which has a dramatic impact on the European furniture industry is multi-functionality. Nowadays, people would like to utilize space more efficiently. Additionally, furniture might combine several elements in one, e.g. the combination of a night table and a dog bed in one furniture piece. (Newport Furniture Parts 2009).

These European trends might have a presence on the Russian market in the near future. Unique furniture design trends are gaining importance on the market. Furniture needs to be personal and have a significant individual signature of the company. Minimalism is another important trend on the Russian market; furniture needs to combine three functions in one good: “luxury, elegancy and functionality”. (Makeeva 2013).

Eco-design and Scandinavian style are two trends which are slowly gaining popularity. But Russian perceptions of eco-design and Scandinavian styles differ from the European understanding. Eco-design is mostly understood as using natural materials and plants in interior design. Scandinavian style is mainly understood as laconic and minimalistic, but the adjective “simple” is the least suitable word to describe the trend. (Makeeva 2013).

Additionally, Russians prefer to buy furniture on sale. Especially during the financial crisis and the significant drop of the ruble, Russian customers try to plan their budgets carefully. This economic issue influences both organizational and individual consumer behaviors of Russian customers, and the decision making process does not take as long as it took before. (Financial Lawyer 2012).

Moreover, Russian customers nowadays give more preference to Russian manufacturers than to imports. The volume of sales of Russian furniture has increased by 24% since 2012. Russian customers are ready to pay for quality. Additionally, Russian customers prefer custom-made furniture, and the custom-made furniture trend is gaining popularity. (B2Blogger.com 2013).

In conclusion, the mentality of a Russian consumer is rather different from the European one. The key success factors to remain on the Russian furniture market are to



use high quality raw materials for production, and the design of the furniture has to combine modernity and functionality.

### **4.3 Nature of competition in Russia**

The furniture market in Russia is attractive for foreign companies as it is highly dependent on imports. The major importers represent the luxury furniture segment. A significant amount of furniture comes from Italy (23%), China, Belarus, Poland and Germany. Imports from China have a strong tendency to grow (+24% per year). Finnish exporters of furniture experience major difficulties on the Russian market, and the market share had been decreasing. (Makeeva 2013). Russian furniture manufactures mainly focus on middle-class segment or cheap furniture (Makeeva 2013).

The competition in the kids' furniture sector is medium: practically every furniture producer has a furniture line for children. But Russian furniture manufacturers might not be strong competitors for KH: the majority of the Russian furniture producers focuses on rather cheap furniture (Makeeva 2013), and KH products have a higher quality and are more expensive.

The Russian market is still highly dependent on imports (Makeeva 2013). Imported furniture manufacturers occupy a significant market share and have to be considered as the main competitors for KH.

Russian customers have a possibility to purchase specialized furniture for kids. "Growing" furniture for children was presented at a Siberian educational exhibition on 20-22 of August, 2014. The idea behind "growing" furniture is the ability to adjust it to the height of the child. Moreover, it is multi-functional and easily transformable into other furniture. The furniture at this exhibition was produced in Germany, South Korea, Russia and Taiwan. (Pedsovet 2014). As a consequence, it can be said that specialized and "healthy" furniture starts to grow in popularity in Russia.

According to the author's observations, based on visits to the furniture stores and contacting seniors, senior furniture is not popular in Russia. There are certain websites which provide furniture for seniors online; e.g. alibaba.com offers furniture for seniors,

but the furniture is strongly related to medical care. Moreover, the design is not the key element while producing this type of furniture; functionality is the most important feature in these cases. “SeatUp” is a Swedish product available in Russian furniture online-store, La Casa. The store also has its physical location in Moscow, where all the products can be tested. It is a specialized armchair which the main point to increase the comfort of a senior person. (La Casa 2010).

#### **4.4 Nature of competition in Karelia and Saint Petersburg**

Karelia and Saint Petersburg are located close to each other and have similarities in terms of nature and competition.

Concerning kids’ furniture, there is a significant number of companies which offer kids’ furniture. Almost every furniture company has a special line for children; as a consequence kids’ furniture is in high demand both in Karelia and Saint Petersburg.

According to personal observations, based on visits of the furniture stores, a significant number of the companies offer custom-made furniture. This furniture type is more expensive than pre-made, but it totally matches the tastes and materials desired for the clients. Custom-made furniture companies use sketches of the clients to manufacture the custom furniture.

These companies are important competitors for KH for several reasons: a) Russian customers start to prefer “individual” furniture design (B2Blogger.com 2013); b) the prices are lower than the products of KH; and c) this market niche is highly occupied by Russian manufacturers both in Karelia and Saint Petersburg.

Additionally, there is a significant number of Russian companies offering products of similar type and design for a lower price. These companies might cause serious competition for KH due to the fact that Russian customers prefer to purchase products on sales and for the lower price. (B2Blogger.com 2013).

A large part of Russian customers are still loyal to the expensive brands, and the Russian furniture market is still dependent on imports (Makeeva 2013). However, in the current situation in the country, (high inflation, weakening exchange rate of ruble, trade

restrictions) Russian customers might change their priorities (Radio Free Europe Radio Liberty 2015).

The nature of competition can be summarized with the help of a Bowman's clock (Figure 5). The competitors in the furniture market pursue either cost-leadership (low priced furniture and imported low priced furniture, IKEA) or focus on differentiation strategy (high-quality imported furniture, custom-made furniture).

Due to the financial situations and weak ruble, imported furniture has become more expensive. This emphasizes the role of Russian manufacturers as the main competitors. All Russian furniture companies presented on the Russian market (low priced furniture, medium-priced imported furniture, and high-priced custom made furniture) still offer lower prices than high-priced imported furniture. KH belongs to the last category.

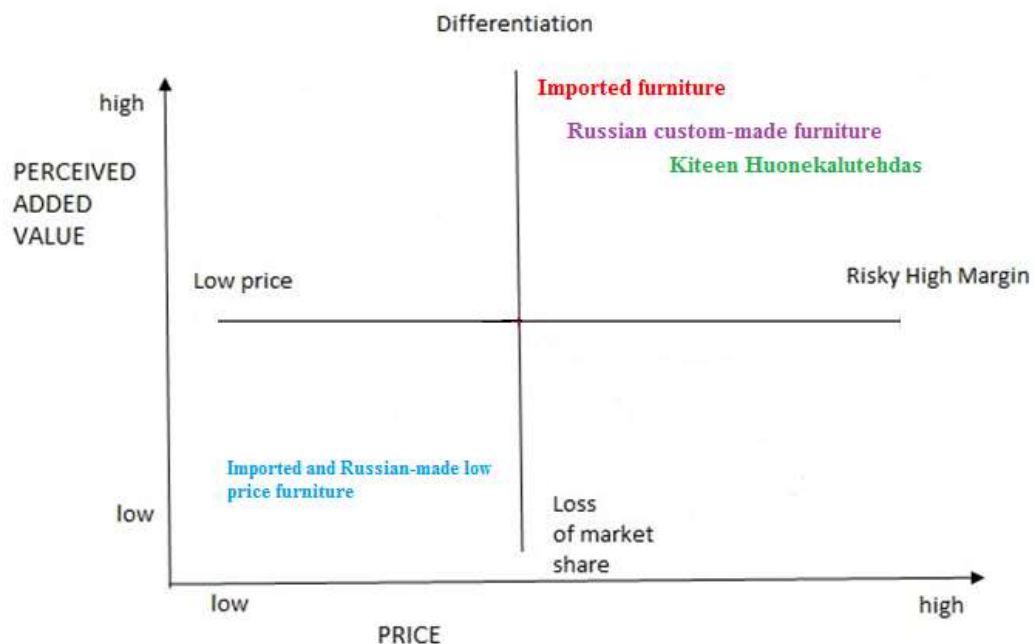


Figure 5. Competitive environment of KH.

KH's furniture belongs to luxurious products for customers with vast income elasticity. This fact emphasizes that the competition on the market in the focused-differentiation niche is rather high, but due to the positively growing trends there is high potential for entering the market in the future.

## 4.5 Potential clients

Private organizations and funds were chosen as a main target customer due to the fact that governmental organizations are highly dependent on the government's financing. This selection restricts the target group to non-governmental organizations and funds connected to the kids support and non-governmental retirement homes.

Governmental organizations could also be considered as potential clients, but there might be some difficulties. According to Sala-i-Martin (2014) one of the main problems which the companies face while penetrating the Russian market is the inefficient government bureaucracy. Additionally, the high level of corruption makes cooperation with governmental organizations hard and ineffective. Moreover, a poor diversion of public funds makes the governmental organizations suffer from the lack of the essential budget. (Sala-i-Martin 2014). On the other hand, KH was successful in previous operations with governmental organizations – a Nursery Home in the Komi Republic, and as a consequence the governmental organizations can be considered as a future possibility.

In the next chapter the potential customers in Karelia and Saint Petersburg are studied.

### 4.5.1 Karelia

There are several organizations which support the children, but the most suitable ones in the context of this research are Karelian branch of Russian Children's fund and Karelian Union for the Child Welfare.



Picture 3. Logo of Russian Children's Fund (Rossiiskii Detskii Foundation 2014).

Karelian Children's Fund (Карельский детский фонд) is Karelian regional branch of the Russian Children's Fund. It mainly supports the kids with disabilities, orphans, and kids from dysfunctional families. The most successful attempt of the fund was to find sponsors to build a playground for children on the territory of the children's department of the Republican Tuberculosis Dispensary in Petrozavodsk. (Rossiiskii Detskii Foundation 2014).

This fund is actively interested in improving the living conditions of the children possibly, providing the new furniture for the families in need. The activities of the fund have a positive impact on the society and increase the volumes of charity donations to improve the living conditions of the children. (Rossiiskii Detskii Foundation 2014).

The interview of Vera Dronova, the deputy chairman of the board of Karelian branch of the Russian Children's Fund, provides detailed information about the organization's decision making and perceptions of furniture.

According to Dronova (2015), the fund supports concrete children and organizations in need. Concerning previous furniture purchases for various organizations, it has bought the individual desks for disabled children (musculoskeletal system malfunction) for State budget organization of Republic of Karelia "Boarding School №21" (ГБОУ РК "Школа Интернат №21") of Petrozavodsk.

Additionally, Dronova (2015) expressed her opinion about the main required features of the furniture: "The first adjective that comes to mind is "ecologically friendly". Furniture has to be made out of ecologically friendly and natural materials. Also, the functionality of the furniture is not the least important matter.

The decision making process depends on the operational budget of the organization. "Sometimes it takes only 24 hours to make the decision" (Dronova 2015). The key decision making organ is Bureau of the Presidium of the fund management of Karelian branch of the Russian Children's Fund. The decision making group consists of sponsors and the board of the fund. The fund mainly uses the financial resources of various sponsors and other funds. (Dronova 2015).

Concerning KH's furniture, "The products seem to be of high quality and responds to the all required characteristics. The fund will be interested to cooperate in the future, as soon as we have enough financial resources." (Dronova 2015).

The main role of Karelian Union for Children's welfare (Карельский союз защиты детей) is to develop various support programmes for kids. The project "Orphanages of Karelia" (Детские дома Карелии) is the program which actively supports orphans, for instance by providing financial support for additional education services, social support of graduates from orphanages, and material/financial support. Karelian Union for Children's welfare gets financing majorly from two funds, "Victoria" (Виктория) and "Save the Kids" (Спасите детей). (Karel'skii Souz Zaschiti Detei 2010). This fund can be considered as a possibility for further cooperation.

Concerning private retirement homes, there are no private senior organizations in Karelia.

#### **4.5.2 Saint Petersburg**

The "Perspectives" fund is one of the largest organizations in Saint Petersburg. The main goal of the fund is to create a suitable living environment for children with disabilities. It incorporates several individual families and boarding schools. The main partners of the fund are Axel Motors, an official BMW dealer in Russia, Amway, and RECO (Russian insurance company). (Perspektivi 2014.)

The representative of the fund mentioned that "the furniture seems of high quality, and this seems as an interesting opportunity, the message is forwarded to the decision-making team to analyze all pros and cons. The decision making process might take several months. (Yagus 2015).

According to results, the majority of the funds related to the kids support "constantly support orphanages and boarding schools" and at least once bought the furniture for the other organization (Umanec 2015).

In terms of decision making, decisions are made "collectively" (Umanec 2015) and various members of the organizations participate. Additionally, it is constantly influenced by individual participants. The decisions in the interviewed organizations are made "rather fast". (Alesha's representative 2015). But the decision making depends on the availability of the funding; sometimes it takes only 24 hours to make the decision.

Concerning the furniture characteristics, according to the one of the respondent's opinion furniture should combine: "durability, ergonomics and esthetics" (Umanec 2015). The term "ergonomics" can be explained as the characteristics of product's design which ease the usage of the item (Merriam-Webster 2014). Additionally, this term can be referred to as the multi-functionality of the product. (Newport Furniture Parts 2009).

The majority of the retirement homes did not show interest in cooperating with the company or with interviewer. The organizations prefer to buy "basic beds" (C'est la vie representative 2015), or "medical equipment beds" (Inspiration representative 2015).

#### **4.6 Evaluation of the Russian market potential**

In order to evaluate the company's potential on the Russian market, external forces have to be considered. A PESTEL analysis is a suitable tool to summarize all the business environmental forces which have an impact on KH.

Political forces have high level of influence on the market at the moment due to the political situation in the world. Various sanctions and trade restrictions might occur and dramatically affect trade and operations of the company on the Russian market. If the other restrictions follow, it might have a negative impact on the other business spheres, e.g. furniture importers.

Exchange rate is one of the key economic forces which influence operations of a company on the Russian market. It is not suitable for the company to enter the Russian market now, due to the increased competition and low governmental budget. (Radio Free Europe Radio Liberty 2015).

During the financial crisis in 2013-2015 and significant weakening of the ruble, Russians prefer to buy furniture on sale. Russian customers try to plan their budget carefully. (Financial Lawyer 2012). KH's furniture can be considered expensive; as a consequence it might affect the sales of the company in Russia.

Concerning the economic situation in KH's target groups, the organizations and funds try to plan their budget more carefully and they also have a tendency to purchase Russian products to reduce costs. Decision making takes more time, and resource allocation is carefully planned. (Financial Lawyer 2012).

Nowadays Russian customers give more preference to Russian manufacturers. The volume of sales of Russian furniture has increased by 24% since 2012 (B2Blogger.com 2013). This factor might negatively affect the sale volumes of KH.

An important social trend is that today Russian households are ready to pay for quality, and the decision making process does not take as long as it took before (B2Blogger.com 2013). KH offers high quality products, and this social force has a positive effect on the company.

The interviews revealed that two organizations out of the ten interviewed showed interest in the furniture of KH. These organizations were the Karelian Branch of Russian Children's Fund and the fund "Perspektivi" in Saint Petersburg.

One of the positive trends is that the Scandinavian style is getting popular on the Russian market (Makeeva 2013). KH's furniture can be described as laconic and minimalistic. These two characteristics exactly describe the Russian understanding of the trend. (Makeeva 2013).

Multi-functionality is the socio-technological furniture trend which occurred due to technological progress and altering customers' expectations in the furniture industry. Nowadays people would like to utilize space more efficiently. (Newport Furniture Parts 2009). This trend has a positive influence on KH's furniture due to the fact that the senior furniture which the company offers is highly multifunctional and corresponds to several needs of the seniors.

Concerning environmental factors, Russian customers have a different understanding of eco-design. The Russian perception of eco-design is connected to the natural materials and plants in interior design. (Makeeva 2013). This trend has a positive impact on KH, as it uses birch as the main raw material to manufacture furniture.



Table 3 summarizes the impact of the trends in the Russian business environment on KH.

Table 3. Level of impact of external forces.

<b>Force</b>	<b>Level</b>	<b>Justification</b>
Political/Legal	High	Negative: political and trade restrictions
Economic	High	Negative: weak ruble exchange rate, high level of competition, lower governmental budget
Social	High	Positive Social trends: Multi-functionality, Scandinavian Style, Eco-design, Preference of High quality products Negative Social trends: Furniture on Sale, Preference to Russian manufacturers
Technological	Medium/Low	Positive Socio-technological trend: multi-functionality
Environmental	Medium	Positive: Understanding of Eco-design is different in Russia

Even though a significant amount of trends is negative for the company at the moment. The Russian market has potential in the near future. Moreover, multi-functionality, high quality and minimalism are gaining popularity among Russian consumers, and these are all positive signs for KH.

## 5 CONCLUSION

In this thesis the demand for KH's senior furniture and furniture for kids was discovered. Moreover, Karelia's and Saint Petersburg's markets and the potential for KH on the Russian market were analyzed. Additionally, detailed information about the nature of competition was studied.

The study revealed that the organizations prefer durability, ergonomics, environmental friendliness and multi-functionality. The theoretical aspects of the organizational buying behavior were supported in the interviews: the decision making is more complex, rational, and requires a significant amount of time.

Moreover, in terms of organizational preferences the Russian market has potential. The organizations show interest in Scandinavian design and are eager to pay more for the quality. KH combines these main characteristics in its products.

KH should not consider entering market now due to the economic situation in Russia and as a consequence the increased level of competition. The weak ruble benefits Russian manufacturers and furniture producers, but foreign companies experience high competition and loss of market shares. Moreover, political restrictions might negatively affect the operations of foreign companies.

Two organizations (Karelian Branch of Russian Children's Fund and Fund "Perspektivi") showed interest in KH's products. To explore other Russian segments (Omsk, Yaroslavl, and Moscow) further research is needed. Moreover, the senior furniture segment is not highly occupied yet. The company should conduct more detailed research to explore the potential of this niche. Furthermore, potential clients might be more enthusiastic to contact and negotiate with the company directly without third parties.

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## INTERVIEWS: TOPICS AND QUESTIONS

### **Topic 1: Consumer behavior**

- 1) How actively do you support the organizations? (funds)
- 2) How often do you purchase furniture for the organization(s)?
- 3) Which are main features do you emphasize that the product needs to have?
- 4) Describe the decision making process in your organization? How the decisions are made?
- 5) How long does it take to make a final decision?

### **Topic 2: Furniture of Kiteen Huonekalutehdas**

- 1) What do you think about the products?
- 2) Do the products respond to all of the required characteristics that you have mentioned previously?
- 3) Would you be interested in buying these products for the kids'/senior organizations?
- 4) Would you be interesting for the further cooperation with the company?

## LIST OF THE CONTACTED ORGANIZATIONS BY REGIONS

**Karelia**

<b>Name translation</b>	<b>Address</b>	<b>Contact information</b>
Karelian Branch of Russian Children's fund/ Карельское отделение Российского детского фонда	prsp. Lenina, 24a, room 127 185035 Petrozavodsk, Karelia	Phone: (814-2) 78-00-56 Email: <a href="mailto:detfond@sampo.ru">detfond@sampo.ru</a> Dronova Vera Vasil'evna
Karelian Union for the Child Protection/ Карельский союз защиты детей	Prsp. Lenina, 22a, room 3 185035 Petrozavodsk, Karelia	Phone: (8142) 76-10-85 Email: <a href="mailto:npavlova@karelia.ru">npavlova@karelia.ru</a>

**Saint Petersburg: kids' support funds**

<b>Name of organization</b>	<b>Address</b>	<b>Contact information</b>
Fund of Perspective/Фонд «Перспективы»	Saint Petersburg, ul. Ruzovskaya, d. 9, lit. A., pom. 7H	Phone: +7 (812) 320 - 0643 Email: <a href="mailto:office@perspektivy.ru">office@perspektivy.ru</a>
April/Апрель	Saint Petersburg, Baskov per. 25	Phone: +7 (812) 9400608 Email: <a href="mailto:mail@april-deti.ru">mail@april-deti.ru</a>
Alesha/Алеша	Saint Petersburg, Novoizmailovski pr, 48,	Phone: +7 (812)9471572 Email: <a href="mailto:info@aleshafond.ru">info@aleshafond.ru</a>

**Saint Petersburg: private retirement homes**

<b>Name of the organization</b>	<b>Address</b>	<b>Contact information</b>
Cherry Orchard/ Вишневый сад	Saint Petersburg	Phone: +78124253966
Inspiration/Вдохновение	194362, Saint Petersburg, Pargolovo, ul. Lomonosova, 3 lit. B	Phone: +78129474745 Email: <a href="mailto:vdoxnovenie.dom@gmail.com">vdoxnovenie.dom@gmail.com</a>
Like home/Как дома	Saint Petersburg, naberezhnaya reki Fontanki, 24	Phone: +78129606469 Email: <a href="mailto:fjodorovavictoria@gmail.com">fjodorovavictoria@gmail.com</a>
C'est la vie	Saint Petersburg, Suворovskii prospect, 38	Phone: +79110356209 Email: <a href="mailto:cestlavie2014@mail.ru">cestlavie2014@mail.ru</a>
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