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Mikhail Kulikov: “We are ready to continue making furniture for retail chains, which are replacing IKEA”

In 2023 over 70 million furniture items were manufactured in Russia, domestic producers managed to beat a ten-year record by results of the last year, according to an industry association. Their turnover grew by one-third, bringing about RUR 0,5 trillion to domestic companies. At the same time the market supply of foreign furniture is rapidly dwindling. Who is replacing the popular Swedish brand? This question and many others by BM.Moscow Foresight are answered by Mikhail Kulikov, director of Lastra, a major Russian furniture factory, which has supplied its products to IKEA over many years.

Why, do you think, IKEA is still so popular with Russians?

IKEA is a trade mark, specializing in production and retail of furniture and household goods, with over 500 stores in 60 countries, with the majority of these stores located in Europe. Scandinavian design and streamlined product range gives its furniture extra charm, highly valued by customers.

Currently furniture makes up for about 50% of the product offer of the Swedish brand, the rest are associated household goods. Its product catalog has expanded in parallel with growth of the number of new markets. Higher manufacturing volumes drove changes not only in the product range, but in the offer of provided services.

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Moreover, IKEA sought to manufacture 40% of products, let’s say, in the modular furniture category, in its host country. These goals were set for Russia as well. And this idea was implemented back in 2010. A team of employees of the company, including me, proposed to open a factory in Russia for manufacturing furniture for IKEA, thus avoiding previous imports of components from all over the world for the stores. The management of the corporation, for which I had worked for 17 years by that time, gave its OK.

The background story was as follows: why look for a third party manufacturer, when we could build a homegrown enterprise, headed by a person who knows how to work with IKEA.

And of course it was you who had found a suitable production facility in the vicinity of Moscow?

We started out by locating and buying an operating furniture factory in Semyonov town of Nizhny Novgorod region and set up production of goods for IKEA.

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Why was this factory chosen, considering its remote location away from Moscow?

This was a regular Soviet-style factory, located just 500 km away from Moscow. But we had already known that Nizhny Novgorod region is rich in forests, and for this reason local furniture production uses locally produced timber, among others. Moreover, making modular furniture in Semyonov turned out to be much cheaper than in those regions closer to Moscow. Now Lastra is looking for an industrial site in Moscow to reduce its logistics costs and to set up its own furniture hub in Moscow.

We have implemented new production technologies in line with international standards. We have purchased new production lines in Germany, Italy and Poland, taking the enterprise with a rich history to a new development phase.

At the same time, our production facilities, the factory in Semyonov, which we had called Lastra, was always independent from IKEA. We had a long-term contract with the Swedish company, and we provided high-quality performance with uninterrupted deliveries.

Lastra became a regular supplier of modular furniture to IKEA. A significant portion of kitchen furniture, which customers saw in Moscow's IKEA stores, was supplied by our factories.

The top management of IKEA was happy with our products, these were store hits, enjoying huge demand.

What was the professional human resources situation in the new location? We always had shortages of professionals. Some were local employees, who had worked for the previous owner, some were hired directly in Semyonov, a few highly skilled professionals were invited to come from other cities. As you can understand, it's not always easy to hire a suitable employee. The key requirement was for a person to be ready to work and simultaneously learn furniture making skills.

Indeed, it is still not easy to hire employees, but now many issues are resolved with the help of additive technologies and automation. We are implementing high-tech equipment in our manufacturing to increase production volumes, maintain high quality and reduce costs. If previously we had four-five persons operating a machine unit, then now each of these employees can manage several machines at once. We have opportunities to ramp up our production not by quantity, but by quality of our staff.

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Do you think IKEA is gone from Russia for good or do you expect its “triumphant return” to our market?

As far as I know, IKEA has closed its last office in Khimki just recently, in April. Nevertheless, it is known that IKEA sold its manufacturing assets to those companies that it had cooperated with previously, that it was familiar with. Probably, the Swedes are most likely leaving open a buyback option for these production assets and space, should the company return to the Russian market after an end of the special military operation (SMO).

Formally, the Swedes left Russia for political reasons due to the SMO and Western sanctions. There have been some visible background causes for closure of stores of the Swedish brand in Russia during the pandemic. The thing is that COVID significantly disrupted the global logistics of delivery of products to stores. Imagine, specific components come to us from China, Vietnam or Poland, and fittings are delivered to a sorting center in Slovakia, and then in Russia all these are packed into a box and transported to Moscow. And all this is done only to fill out a store in Khimki near Moscow, but there were many more stores across the country. This caused a plunge in the corporate profits, and this factor also impacted the decision to leave the Russian market. There is a view that there were two reasons for leaving: 60% of it caused by politics and 40% by disrupted global logistics.

How does your business feel without IKEA? Where do you sell your products?

I recall, back in 2012 I told my former colleague from Austria about a furniture project with IKEA. He said at the time: “You need to look for a different target market, because IKEA might have other projects”. It gave me some food for thought…

Since that time we have been developing other sales channels for our products. We have set up operations with major domestic retail chains, started active production of kitchen counters, modular kitchens, cupboards, racks etc. If we look at the retail spaces, located in Moscow near MKAD ring road, we have been either cooperating with many of these locations or are still working with them today. We had a hard time after IKEA had left, but Lastra was quick to find a balance in the new business reality of the furniture market. The company still turns a profit and actively ramps up production volumes.

We have completely abandoned European raw materials. Our products are by 95% made from domestic components. We cooperate with foreign partners in China and Turkey.

Our furniture is eagerly purchased by major retail chains across Russia, for instance, by Hoff corporation. Working with large volumes of manufactured products is our strong suit. Along with development of marketplaces we started selling racks, kitchen

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counters, kitchen cabinets, tables, almost a complete range of modular furniture through Ozon, Wildberries, Yandex and Megamarket. Long story short, now we are using all available sales channels for our extensive product range. Starting with small local stores, marketplaces and finishing with major furniture retailers, we also run special projects for outfitting apartments and residential complexes in Moscow and other regions.

The pandemic accelerated sales at marketplaces. This is a new sales channel for many manufacturers, brought about by the period of the coronavirus pandemic. But this channel, let me say, has its own specifics. Very often, if you want to buy a big cabinet at a marketplace, you will have to pay either for high logistics costs, because marketplaces charge extra money for large-sized, odd-sized products, or we will have to cut long details into several parts to meet packaging requirements of marketplaces.

I could say that lastra is a digital furniture company, judging by its sales structure and revenues, but those retail chains, which sell furniture and household goods offline, will still be around for a long time. Moreover, there are still regional dealers, smaller stores, ordering furniture from us and taking delivery of our products. We are loyal to all our buyers and customers.

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Could somebody replace IKEA in Russia?

If you think of Lastra, then for now it is more than the company can manage. Our business is making furniture, supplying it to wholesale buyers, increasing volumes, maintaining consistent high quality and affordable prices. Now we are positioning ourselves as a supplier to those companies that are replacing IKEA. However, Lastra has plans to reach out to foreign markets

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via online commerce and to develop yet another breakthrough project, which is still a secret.

But still, the market has multiple views – which companies have come close to replacing essentially “irreplaceable” IKEA in Russia?

Domestic furniture and household goods hypermarkets have started largely replacing the Swedes, having developed new floor layouts and brand positioning, and also have expanded their product mix. Manufacturers are keeping up with retailers and are vigorously increasing production volumes, expanding their investment programs. In the next 5 years domestic manufacturers will completely cover the need for IKEA due to intensive development of the internal market and imports from friendly countries. It is highly questionable, whether the Swedish brand will be able to come back in the future.

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