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LIGHT INDUSTRY GOODS MARKET IN KAZAKHSTAN: CURRENT TRENDS AND OPPORTUNITIES FOR GROWTH

The article describes the current status and the trends at the light industry market in Kazakhstan. In particular, volume, capacity, and structure of the market, entrance barriers and risks faced by market participants are analyzed. Based on the research of consumer factors that influence consumer behavior and demand have been identifed. Performance of Kazakhstan's enterprises operating at this market has been investigated, the causes for their low competitiveness are revealed and the ways to improve it are suggested.
Keywords: *light industry; market; competition; market structure; demand; consumer preferences; competitiveness.*

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РИНОК ТОВАРІВ ЛЕГКОЇ ПРОМИСЛОВОСТІ КАЗАХСТАНУ: СУЧАСНІ ТЕНДЕНЦІЇ ТА МОЖЛИВОСТІ РОСТУ

У статті розглянуто сучасний стан і тенденції розвитку ринку товарів легкої промисловості Казахстану. Зокрема, проаналізовано обсяг, ємність і структуру ринку, вхідні бар'єри та ризики, з якими стикаються ринкові гравці. На підставі дослідження споживачів визначено чинники, що впливають на споживчу поведінку та попит. Розглянуто діяльність казахстанських підприємств, які діють на даному ринку, проаналізовано причини їхньої низької конкурентоспроможності та запропоновано шляхи її підвищення.
Ключові слова: *легка промисловість; ринок; конкуренція; структура ринку; попит; споживчі переваги; конкурентоспроможність.*
Табл. 2. Рис. 1. Літ. 12.

Светлана Э. Епанчинцева

РЫНОК ТОВАРОВ ЛЕГКОЙ ПРОМЫШЛЕННОСТИ КАЗАХСТАНА: СОВРЕМЕННЫЕ ТЕНДЕНЦИИ И ВОЗМОЖНОСТИ РОСТА

В статье рассмотрены современное состояние и тенденции развития рынка товаров легкой промышленности Казахстана. В частности, проанализированы объем, емкость и структура рынка, входные барьеры и риски, с которыми сталкиваются рыночные игроки. На основании исследования потребителей определены факторы, влияющие на потребительское поведение и спрос. Рассмотрена деятельность казахстанских предприятий, действующих на данном рынке, проанализированы причины их низкой конкурентоспособности и предложены пути для ее повышения.
Ключевые слова: *легкая промышленность, рынок, конкуренция, структура рынка, спрос, потребительские предпочтения, конкурентоспособность.*

Problem setting. The modern light industry goods market is very competitive. In this context, domestic enterprises of the branch face a problem of a raising competitiveness. In this situation, there is a need for new approaches and ideas to solve the problem.

Latest research and publications analysis. A number of publications are devoted to the state of contemporary light industry in Kazakhstan. Most researchers point out

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the need of state support of the branch (Kirbetova and Tyrysbekov, 2012; Program on development of light industry..., 2010; Khudova, 2011; Khudova, 2012), in particular, pursuit of relevant tax and customs policies (Yesmagulova, 2012). To lead the light industry in Kazakhstan out of the crisis, it is necessary, as many authors believe, to increase innovation activities of enterprises (Program on development of light industry..., 2010; Khudova, 2011; Khudova, 2012) as well as to solve the problems of manpower (Operational report on monitoring of the state program..., 2012; Khudova, 2012) and material supplies (Kirbetova and Tyrysbekov, 2012; Khudova, 2011). An effect of various factors on the consumer demand and assortment policy formation was studied in (Marketing in the field of sewing industry, 2009). In Review of the clothing market in Kazakhstan (2012) the general market trends and the positions of Kazakhstani brands were analyzed. The study (Textile Technology Seminar, 2012) is devoted to the fashion marketing and the attitude of customers to fashion trends.

Unresolved issues. The existing researches in this field consider, as a rule, general theoretical aspects of the situation arisen, often in terms of governmental influence on the branch. However, there is no detailed analysis of the volume and capacity of the market of light industry goods, entrance barriers, risks, and consumer preferences. Reasons for the low demand for the domestic light industry goods remain unexplored.

The study objectives are to review the light industry goods market in Kazakhstan, reveal market trends, to analyze consumers behaviour, and determine new ways to enhance the competitiveness of the domestic producers, operating in the branch.

Key research findings.

I. Market trends. The light industry has the following features that make it attractive:

- low capital requirements;
- relatively low production costs;
- dynamic turnover of capital;
- the ability to be rapidly renewed by its assortments.

The market of light industry goods is characterized by the steady growth due to increasing population and thus increased demand for its products. Also it became prestigious to dress well and to look trendy. Consumption level of the light industry holds a second place, behind which is the food industry only.

Currently the share of the light industry in total retail trade turnover of non-food goods is 15%, which exceeds the automobile sector (7%), the pharmaceutical (3%), and cosmetic (3%) ones (Industry of Kazakhstan and its regions, 2007–2011, 2012). This confirms the fact that a demand for goods of the branch will always be relevant.

Table 1 presents the official data on the retail market of the light industry goods. The data show that there is a positive trade dynamics in this commodity group. Despite the slight contraction of the market of non-food goods in 2009 (due to the economic recession), the market of light industry goods has increased by 5%. In the post-crisis period, in 2010, there was a sharp increase in the market by 37%. The demand for children's clothing did not decrease even during the crisis, indicating its stability connected with an increased fertility. If maintaining the positive macroeconomic trends in the forthcoming years, there is an expectation of a continued growth in trade turnover of light industry goods.

Table 1. **Volume of retail trade in light industry goods,** *KZT*

	2007	2008	2009	2010	2011	structure of 2011, %
retail trade turnover of non-food goods	1,403,534.9	1,623,168.4	1,621,609.5	2,146,975.2	2,639,944.2	100
light-industry goods, incl.	206,585.6	241,655.1	254,272.1	348,377.4	406,049.7	15
clothing	116,865.2	137,299.0	123,924.8	200,684.6	243,391.4	9
textile goods	33,011.9	42,144.3	63,572.8	53,686.6	53,457.5	2
footwear	56,708.5	62,212.0	66,774.5	94,006.2	109,200.8	4

Note: Compiled by the author based on (Industry of Kazakhstan and its regions 2007–2011, 2012).

According to official statistics, the market of light industry goods amounts to 406 bln KZT. However, according to the Association of Light Industry Enterprises of Kazakhstan (ALIE), the illegally imported goods make about 80% of the market volume (Khudova, 2012). The real market volume is thus 2,030 bln KZT. According to the ALIE, the market capacity exceeds the market volume by 10–15% in average, which gives potential possibilities for an entrance of new market participants and production of new goods.

The market of light industry goods is characterized by an active competition – it is full of goods, mostly of foreign origin. People have a possibility to select products in a wide price range and of acceptable quality and design. The light industry of Kazakhstan satisfies not more than 10% of the domestic demand (the threshold of economic security is 30%) (Khudova, 2012). The remaining 90% are the imported goods. The "made in China" goods have been holding the largest weigh of the market for the relatively long time. However, their competitiveness is gradually falling due to the loss of advantages in expenses. At the same time, the imports from another countries – Turkey, Kyrgyzstan, the Republic of Korea and European ones – have increased.

The light industry is characterized by low barriers to the entrance to the market, since the beginning of a business requires low capital. The exception is the textile segment, which requires large investments into the equipment.

While analyzing the risks which been faced by producers of light industry goods, one can draw a conclusion that the following ones have the most effect:

1. The high competition level that entails difficulties for an entrance of an enterprise to the market, or a loss of its market position, or an inability to expand its production.

2. The risk related to the availability of raw materials, as well as rising prices for those. In Kazakhstan, 90% of raw materials are exported and there is practically no production of auxiliary materials and accessories. This can lead to disruptions in supply and an increase in production costs.

3. Risk of changes in fashion trends and consumer preferences, which can cause a loss of resources and inability to sell the goods.

Exploring the price structure of the market, one can note that 50% of it is the so-called "mass-market", i.e. products of low price segment. 40% of the market is the goods of middle price segment ("middle-market"). Luxury goods have 10% of the market share. This share has been remaining unchanged since 2007. After the crisis in 2009, there occurred an increase of the share of mass-market goods from 45% in 2008 to 50% in 2011 due to a decrease in consumer spending on clothing, footwear and textile.

Table 2. **Barriers to the entrance to the light industry goods market**

Entrance barrier	Effect
Institutional barriers	They do not significantly obstruct the entrance to the market. On the contrary, the state supports domestic light industry enterprises with investment, benefits, credits etc. There are currently no import quotas, no control over prices, and no protectionist measures. Lately customs control over illegal import was strengthened.
Foreign competition	The largest barrier to the entrance to the market of light industry goods. An important role is played by an amount of expenses which are significantly lower for already operating participants as compared with entering ones.
Barriers related the scale effect	Objective barriers are created for potential competitors due to saving of expense related to the production scale. The effect of the barrier is inconsiderable because of low level of monopoly power concentration.
Decrease in demand	The barrier can be caused by a significant saturation of the market with goods and low paying capacity of customers. Most of these have no adherence to a particular brand of light industry goods. An effective demand has a positive trend, so the influence of the barrier is inconsiderable.
Capital expenditures	Light industry is characterized by relatively low capital requirements and dynamic turnover of capital.
Vertical integration	A vertically integrated firm has more market influence and many advantages in expenses and control over sales of final goods. The effect of the factor is small because most enterprises are concentrated on a narrow segment of the chain of added value. Primary production, manufacture of fabrics, production of finished goods, their distribution are usually performed by different agents.
Strategic barriers	These are created consciously in such forms as conclusion of long-term contracts, obtaining of licenses, introduction of innovations, advertisement expenses, market researches, making an enterprise image and so on. They currently have an effect but inconsiderable.

Note: Compiled by the author.

II. Consumers. The main areas of a consumer research are the determination of the consumption structure, consumer segmentation, identification of consumer behavior motives.

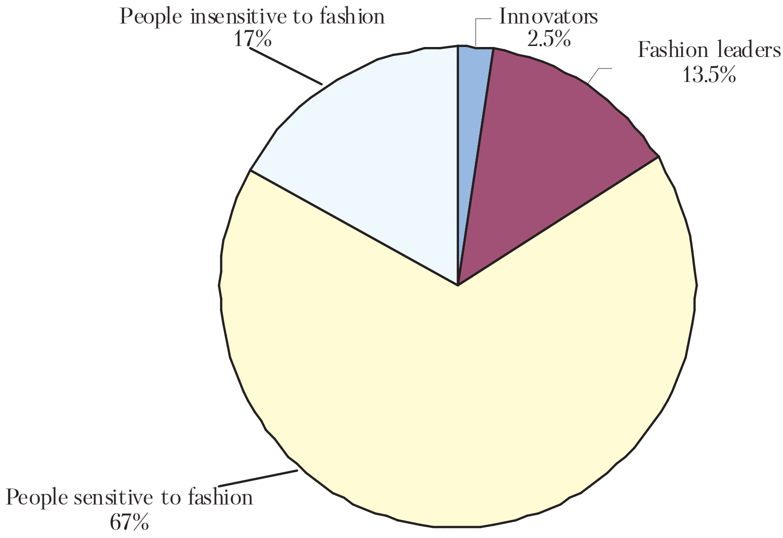
According to (Operational report on monitoring of the state program..., 2012), the largest consumption of light industry goods (93%) is made by individual buyers. As for the rest, it is divided among projects connected with force ministries (3.2%), priority national projects (0.8%), technical textiles (2.1%), and others (0.9%).

It is expedient to differentiate consumers of light industry goods by their geographic, behavioral, psychographic, and sociodemographic characteristics. Consumer preferences may significantly vary depending on the set of certain conditions. A promotion of goods is more effective when a producer figures its potential consumer most clearly.

On the basis of a consumer survey the following hierarchy of factors which influence on the purchase of light industry goods was built:

1. Quality of goods. Most respondents put this factor in the first place.
2. Conformity to fashion. Fashion can be defined as a set of habits and preferences, prevailing in a particular social environment at a certain time (Textile Technology Seminar, 2012). On the basis of the analysis of the study results, it can be concluded that most of the respondents keep up with the fashion trends (83%). Although, a fashion sensitivity decreases with age. Consumers can be divided into the following categories depending on their respect to the fashion (Figure 1):

- Innovators. They are adventurous, aspire to purchase the most recent novelties. It is important for them to stand out from the rest. These are usually young people, or people with high income.
- Fashion leaders. They carefully keep up with fashion trends and all the novelties. They are well-versed in the fashion and highly dependent on advertising.
- People sensitive to fashion. They keep up with fashion trends, more often under the pressure of the environment and society, rather than because of their desire to be noticed. They can be affected by experienced salesmen and information obtained from the fashion leaders.
- People insensitive to fashion. They are skeptical about fashion, prefer classic traditional goods. These are usually old people, or people with low income.



Note: Compiled by the author.

Figure 1. **Categories of consumers depending on their respect to the fashion**

3. Price of goods. In (Marketing in the field of sewing industry, 2009), it is noted that the price is the most important factor in making the purchase decision for the majority of consumers (71%). At present, the value of this factor has decreased, and only 15% of those interviewed pointed out the cost of goods as a decisive factor. On the one hand, this refers to the increased solvency of population. On the other hand, at present there is an opportunity to buy clothing of acceptable quality at a reasonable price. Nevertheless, the role of a price is still high – most of consumers take it into account when making a purchase.

4. Functionality and durability. These factors are important for people with low income. Purchase of quality and functional things allows them to save for some time on buying clothes, and to transfer their expenses into current consumption.

5. Uniqueness of the model. It is an insignificant factor. For consumers it is more important that the outfit should conform to fashion.

6. Producing country. It has not a significant influence on the decision of purchase. This is explained by the large number of goods from Central Asia. However, the

majority of respondents would prefer to purchase clothing, textiles, or footwear produced in Turkey or European countries. It should be noted that many respondents (57%) are suspicious of local brands and prefer to buy imported clothes.

7. Brand. The study found a little effect of brands on a choice of light industry goods. This indicates a low sensitivity of customers to marketing tools. At the same time, the global experience shows that, by using properly, a brand is one of the main tools of the marketing system. The weak influence of the brand can also be attributed to the willingness of consumers to experiment.

Over the past few years of post-crisis recovery of the economy, it is observed that there was a gradual transition of consumers from "no-name" clothing and footwear to the branded products of medium and high price segment. There are also changing consumer preferences concerning the place of purchase. 51% of respondents prefer to buy light industry goods in specialized stores (in 2009 there were 49% (Review of the clothing market in Kazakhstan, 2012)). But such trends are true for large cities only. In rural areas, people still prefer to buy non-branded clothing on flea markets at lower prices. According to experts, the share of counterfeit goods of "luxury" class in the market of Kazakhstan is about 40% (Review of the clothing market in Kazakhstan). Customers purchase them willingly with a view to economy. If having a corresponding possibility, consumers try to buy clothing (especially of branded "luxury" class) abroad, since its cost there is 2–3 times lower than that of similar models in Kazakhstan.

III. Producers of light industry goods. Competition is an integral part of the market environment – it is a necessary condition for the development of production in light industry. The study of participants in the light industry goods market showed the absence of monopoly in it, which is caused by a low share of local production in gross sales.

The light industry of Kazakhstan provides only 2.5% of its GDP and covers a small part of the domestic demand. Foreign producers are still the main market participants. Asian manufacturers have strong positions in the low-price segment. The medium and premium segments are occupied by the European producers. Those of Russia, Belarus and the Ukraine provide about 30% of the market (mainly of the medium price segment) with clothing and textiles that are of much higher quality than the Chinese ones.

Recently there is a tendency of increasing the role of Kyrgyzstan producers which now can provide products of acceptable quality at reasonable prices. A forthcoming accession of this country to the Customs Union will increase their advantages. But there are risks for the light industry of Kyrgyzstan too, because practically all its clothing production depends on imported raw materials. Upon the accession to the Customs Union, import duties on raw materials will increase, therefore the products of clothing companies will lose their cheapness.

Domestic enterprises are not the key participants in the market of light industry goods. The total number of registered companies amounts to 536. 54% of those are enterprises of sewing clothing, 31% manufacture textiles, 9% produce leather and footwear, and 6% make clothing of leather and fur (Khudova, 2012). The total number of large-scale and medium enterprises is 79: these manufacture textiles (42), clothing (32), and leather and associated production (5) (Operational report on monitoring of the state program..., 2012). As for the geography, the highest specific weights of light industry are in the City of Almaty (21%), South Kazakhstan (21%), and Almaty Regions (13%).

The following limited partnerships can be noted among the large-scale producers in Kazakhstan. "Kazakh Russian Textile Alliance" is a joint Kazakh-Russian enterprise operating in the textile cluster. It is a major industrial holdings. "NimexTextile" is the largest producer of cotton yarn and fabrics. "Texti-Line" specializes in the manufacture of knitwear. The products of this factory are successfully sold in the local market and abroad. "Semiramida" sews outer clothing. "Zibroo" entered into an agreement with the French representatives of alpine skiing regarding sewing of ski suits in 2011. Of the footwear enterprises, "Gekko" and "Alpamys" should be noted but they have a little market share. The main activities of many light industry companies operate to satisfy corporate demands, production of clothing and footwear under the orders of industrial enterprises and public authorities. However, more than 90% of the consumption of light industry goods accounts for individual customers (population). Therefore, to increase the volume of sales and to expand production, some efforts should be made for the conquest of this group of consumers.

In recent years there has been a rapidly growing market of fashion in Kazakhstan. Each season the "Kazakhstan Fashion Week" is being held. In the shows famous designers from Kazakhstan are involved: Aida KaumeNOVA, Kuralai, Aigul Kasymova, Salta, LaRiya, ZhaZira and many others. These designers offer clothing at quite a high price (30,000 KZT, or 200 USD in average). Designer clothing is not intended for mass consumption, it is not always practical. This is the reason why the producers of "mass-market" with a wide range of products often take an advantage. Of all the designers mentioned above, only LaRiya and Salta make clothing regularly, the rest mainly work under individual orders.

Some common shortcomings in the operation of domestic light industry enterprises, which are the reasons for their low competitiveness, should be noted:

1. The scarce of stores. Some enterprises sell their goods through their own small boutiques, but often sales are left to intermediaries. An advantage is gained by those market participants, which carry out the sales and service in addition to production.

2. An absence of a marketing system in most companies. Special studies are not conducted, marketing decisions are based on information received directly from customers during sales, an assortment policy is developed by business owners. This can lead to losses at an incorrect assessment of consumer preferences, seasonable fluctuations, and fashion trends. Marketing activities in light industry should be directed not only to production of new goods, but also to studies of the products markets, raw materials and accessories, consumers, to assessment of consumer preferences and competitiveness, as well as the advertising, pricing, analysis and forecast of demand, decision making on the positioning of goods.

3. Difficulties in obtaining information. It is necessary to note about the low advertising activities of light industry enterprises. More than 40% of those do not advertise their goods at all. Most of light industry enterprises in Kazakhstan have no websites, so it is hardly to find any information about them. But now more and more information is obtained by consumers via Internet. The number of people buying clothing and home textile via Internet increases annually (with the exception of

footwear – most people hesitate to purchase it without trying on). For this reason, one of the promising areas for domestic organizations may be an opening of Internet shops. In this case there are possibilities of a cooperation of enterprises and a creation of a single site.

Conclusions:

1. Light industry is an attractive sector of the economy, since it is characterized by the steadily growing demand for its products. The light industry market in Kazakhstan is saturated by 85–90% that makes a potential opportunity for an appearance of new goods and producers. At the same time it is a risky business. The rate of changes in fashion trends can lead a producer to unexpected losses connected with its inability to sell the goods. A skill in rapid response to changes in fashion is therefore one of the key success factors. The most important entrance barrier to the market is specified by the active competition from foreign producers which have cost advantages.

2. On the basis of an assessment of consumer preferences one can point out the following key success factors: 1) quality of goods; 2) conformity of those to fashion; 3) reasonable price.

To achieve the most tangible competitive advantage it is necessary to develop the following areas: 1) functionality of the product; 2) combination possibility of clothing; 3) work on the image of the brand; 4) use of modern materials.

At present, more and more importance is attached to the quality of service. Therefore, companies are encouraged to develop their own distribution networks.

3. Currently the light industry enterprises of Kazakhstan are not the key participants in the domestic market. Foreign competition is fierce, so now the active steps should be taken to improve the competitiveness of the domestic enterprises. This requires a new approach to industrial and organizational structures of management. At the enterprises there must be organized marketing activities that would provide:

- ability to receive reliable, timely and accurate information about the demand dynamics, market structure, consumer preferences;
- production of new goods that meet the market requirements in the best way;
- necessary effect on demand, consumers and the market for the best control over sales.

Future research in this area might be the following: 1) the study of goods movement channels and development of criteria for selecting the most appropriate one; 2) the study of systems of advertising and sales promotion of light industry goods; 3) the development of recommendations for the branding and the use of trademarks for light industry enterprises.

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