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## Formation, Operation and Development of Local Markets: A Case Study

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Denisova N.I.<sup>1</sup>, Dubinina M.A.<sup>2</sup>, Erok A.D.<sup>3</sup>, Shtezel A.Yu.<sup>4</sup>

**Abstract:**

*The article illustrates the author's approach to the search, formalization and utilization of technical, technological and organizational factors of corporate competitiveness in local furniture markets.*

*The analog and digital (economic-mathematical) model of the local market is introduced and described, the promising approaches to the formation of regional production circuits, taking into account the specific structure of local marketing systems, are disclosed.*

**Keywords:** local markets, analog model of the local market, digital model of the local market, management of the development of local markets

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<sup>1</sup>Ph.D., Associate Professor, Department of Trade and Foodservice, Krasnodar branch of Plekhanov University of Economics, Krasnodar, Russian Federation, e-mail:

[denisova@mail.ru](mailto:denisova@mail.ru)

<sup>2</sup>Ph.D., Associate Professor, Dean of the Trading Faculty, Krasnodar branch of Plekhanov University of Economics, Krasnodar, Russian Federation, e-mail: [dubinina@mail.ru](mailto:dubinina@mail.ru)

<sup>3</sup>Postgraduate, Department of Marketing and Trade, Kuban State University, Krasnodar, Russian Federation, e-mail: [erok@mail.ru](mailto:erok@mail.ru)

<sup>4</sup>Ph.D., Senior Lecturer, Department of Trade and Foodservice, Krasnodar branch of Plekhanov University of Economics, Krasnodar, Russian Federation, e-mail

[shtezel@mail.ru](mailto:shtezel@mail.ru)

## **1. Introduction**

The relevance of the research topic is connected with the need to achieve the leading goals of long-term socio-economic development of the territories of the Russian Federation's regions, based on systematic marketing and reproduction processes ensuring efficient circulation, export-import and localized consumption of the most important economic benefits within specific locations (Zedgenizova and Ignatyeva, 2017; Tyaglov *et al.*, 2017).

Despite the declaration of the principles of the market model of priority segments' management and targeted development, the national economic efforts are poorly substantiated by the local market conditions and therefore have insufficiently developed prospects for increasing the scale of regional production. In the absence of a long-term territorial strategy for the socio-economic development of the regions of the Russian Federation, the local market system is currently an underdetermined and poorly managed object of regional national economic attention. Its capacity in terms of the development of MS (market systems) is greatly underestimated.

Modern economics has not yet been able to offer an adequate methodological and methodological approach to determining the boundaries, volume, structure and development opportunities of specific local markets, which is primarily due to the difficulty of fixing market transactions using the attributes of regional affiliation of transaction participants (Ermakova *et al.*, 2016).

At the same time, the starting point that largely determines the adequacy and feasibility of any strategic initiative for the socio-economic development of a specific territory, is local market activity. Its scale of the intensity and management depends on the effectiveness of regional economic efforts both in terms of finding reserves for creating territorial "points of growth" and for achievement of threshold values of economic efficiency and sustainability of operation.

## **2. Authors' approach of identifying and studying local markets**

Retrospective theoretical and methodological developments do not unequivocally answer the question of the role and importance of local markets as a structural element of the regional economy, allowing only to classify the subject composition of marketing activity participants in specific locations and assess the extent of their endogenous / exogenous market activity.

It is necessary to note the multiplicity and the absence of the only correct theoretical and methodological definitions in terms of identifying local markets as independent, objectively existing and specifically localized marketing systems. At the same time, we consider the theoretical development which allows using specialized research tools to provide monitoring, analysis and evaluation of real market processes within specific geographic locations, which may or may not coincide with the territories of specific

regions (be either smaller or larger than the regional dimension, depending on the scale of the specific search task).

The authors' approach to understand the nature, role and significance of local markets as a system institution for the development of a regional economy includes the following: consideration of local markets from the point of a systematic approach to ensuring sustainable and balanced development of a regional economic system, characterizing the specifics of the formation and performance of a local market system as a development institution, supply and testing of an analog model of the local market based on the matrix 'Local / foreign consumers - local / foreign producers' well as the author's vision of sources of local markets interaction of adjacent territories.

The system of local markets of a specific territory has significant potential in terms of optimizing the composition of the subjects of the MS entering into marketing interaction within a specific territory, and interconnections between them, which can be realized through the implementation of innovative functions (admission to the market of economic benefits, meeting established standards of consumption, infrastructural support of local market exchanges, elimination of unscrupulous entities of the MS, adaptation of the product range and price of local market's matrix for endogenous production capabilities and features of the local consumption model, ensuring sustainability and development of local reproduction processes based on system coverage and realizing the potential of local demand, import substitution, diffusion of innovations).

The specifics of the formation of a local market system as part of the MS consists in the openness of the system and its accessibility to the participation of exogenous economic entities (both from adjacent / non-adjacent MS and from other levels of the economic system (i.e. macro and mega levels). These entities imply the need to configure local markets basis of the system of external and internal barriers, as well as their effective administration. They consider the possibility of migration of marketing entities beyond the MS and the need for effective application of the complex regulatory, restrictive and incentive measures and instruments for the harmonization of local market processes with the goals and objectives of sustainable functioning and development of local and regional areas.

The essence of the authors' approach is to build an analog model of local market processes in the reasonable segregation of local transactions in the matrix 'Local / foreign consumers — Local / foreign producers (representatives)', which allows us to identify and characterize four basic segments of local marketing activity (segments of local transactions, import and export from the territory of the location, transit transactions).

The interaction of local markets of adjacent territories can be characterized from the point of interregional export-import transactions of economic goods implemented within specific locations, but affecting the activities of foreign economic entities

(producers, intermediaries, consumers). The strategy of balanced and sustainable development of local market systems implies the need for an integrated management impact on all existing factors and reserves of the growth trajectory and should take into account the actual “cohesion” and active interaction of market entities of adjacent territorial locations.

The economic and mathematical model of functioning and development of adjacent local markets with the possibility of territorial maneuver of products is based on a forecast of the conjuncture of adjacent local markets, which is possible in four options (both markets are deficient - both markets are surplus, the first market is characterized by a shortage of supply, the second is on surplus or vice versa). The model reveals the managerial possibilities of interaction between local markets of adjacent territories, reflecting the need for systematic marketing activities and network activity of producers, at least within the boundaries of adjacent market systems that have the potential for an economically efficient commodity maneuver.

Prospects for sustainable and balanced development of the territory of Takhtamukaysky district of the Republic of Adygea for 2018-2024 on the basis of using the potential of the local interregional market of furniture and related products, provide a strategic result in the form of creating an interregional furniture cluster using the potential of the local market and export-oriented factors and growth elements (products, services, developments).

### **3. Modern approaches to manage the development of local markets**

The authors' analysis of modern management concepts of those who studied the possibilities of managing regional / local markets, indicated the following:

- the considered approaches there have a lack of analysis of subjects, objects and methods of organization, functioning and development of local markets;
- the role and importance of local markets as one of the key mechanisms of the regional economy (which is essential for the growth of its efficiency and competitiveness) has not been disclosed in those developments;
- in fact, local markets today are a kind of chimera, a virtual economic phenomenon confirmed mainly by the guesses and hypotheses of researchers, rather than quantitative information confirming the presence of specific volumes and structure of market exchanges within specific territorial locations.

The author's approach to the development of organizational and economic support of the development management system for local markets is presented by:

- the economic and mathematical model of the functioning and development of adjacent local markets with the possibility of territorial maneuver of products;
- a characteristic of managerial opportunities for the development of a local market as a justification of the prospects for the modernization of the regional economic system.

The proposed model will allow to predict the operating result and economic efficiency of producers in the system of adjacent local markets, overcoming the assumption of predecessors about the need to consider the local market system as a set of isolated marketing segments. The authors' approach considers the qualitative difference in the local market conditions with a shortage / surplus of supply within market locations, allows predicting the basic options for its development scenarios and determine their corporate and aggregate economic efficiency.

In accordance with the specifics of segmentation and promising marketing opportunities of local markets, we consider it expedient to study the four circuits of the regional reproduction process (local, import-substituting, transit, export), which should be implemented through the creation of open, spatially oriented economic systems capable of effective functioning and development on the basis of current and future capacity of local markets.

#### **4. Empirical results of the study of national and local furniture markets**

The authors' assessment of the dynamics, factors and trends in the development of local consumer markets of the Russian Federation and federal districts was as follows:

- in the absence of the real strategy for the spatial and territorial development of the Russian Federation, the main economic activity is concentrated in the cities of the federal centers (Moscow and St. Petersburg). The indicators of local retail markets, food and paid services in these locations are hundreds times higher than the average Russian level with a trend of stagnation, while similar estimates for remote areas (Siberian Federal District, Far East Federal District) are systematically and steadily lower than the average Russian ratings;
- the period of 2015-2017 became extremely successful for the socio-economic development of St. Petersburg (at the same time, in this location there were no breakthrough innovations in the development of a spatially localized economic system, and the growth was associated primarily with a decrease in the scale of the shadow economy and the fixation of shadow economic processes by the official statistics);
- it is extremely prudent to evaluate the efforts made in terms of managing the development of the territories of specific districts of the Russian Federation. In fact, the period of 2015-2017 is the time of development of individual urban agglomerations and federal centers, as well as subsidized territories with priority allocation of budget funding (Chechnya, Crimea, Kaliningrad), while the systemic socio-economic effect that should have been demonstrated by local markets, seems to be insufficient;
- in the period 2015-2017 the local markets of the Central Federal District and the North-West Federal District acted as the growth centers. It is premature to speak about the effective functioning of the marketing systems of the territories and the formats of priority development within the peripheral locations of the country.

The target study of the formation, functioning and interaction of local markets was carried out by the authors on the example of local consumer furniture market, which carries a very significant capacity for regional and interregional industrial and socio-economic development.

The key characteristics of the local furniture market system in the Krasnodar Territory were as follows: For the period of 2017, the retail trade turnover in the Krasnodar Territory increased by 2.022 times compared to 2010 (by 4.7% compared to 2016), reaching over 1.306 trillion rubles in 2017. At the same time, the share of furniture in 2017 accounted for about 1.4% of total retail turnover (we note that this ratio remained more or less stable over the reviewed period), which made possible determining the scale of the regional furniture market as of 2017, amounted to 18.296 billion rubles (with the growth of the indicator from the level of 2010 by 1.863 times, but a decrease from the level of 2016 by 2.3%).

The per capita consumption of furniture in the Krasnodar Territory in 2017 amounted, according to our calculations, to more than 3.265 thousand rubles per person (with the growth rate from the level of 2010 by 1,739 times, but a decrease from the level of 2016 by 4.9%). At the same time, the peculiarity of the reviewed market is the excess of per capita consumption in the Krasnodar Territory over the average Russian level (in 2017 it was 16.3%, although in 2010-2014 this figure was significantly less than the national average).

The specificity of the model of consumer behavior in local furniture markets, revealed in the course of the authors' research, was as follows:

- when determining the key characteristics of the consumption model in the local markets of the Krasnodar Territory, the majority of respondents (64.4% and 59.6%) were convinced of the acceptable quality of furniture produced by Krasnodar and other Russian regional manufacturers, 86.6% of respondents reported that regional offers were more reasonable that affected the priority when choosing equal offers: in equal conditions, 83.6% of respondents were ready to give preference to the offers from the Krasnodar Territory;
- analysis of the experience of purchasing furniture for personal / family consumption revealed that respondents were very active in choosing and purchasing furniture, not limited to traditional sales channels: the majority of respondents (22.4%) made the last purchase of furniture in a general store / shopping center, another 10.8% of respondents relied on e-commerce services, 9% purchased furniture as an accompanying product in the building goods supermarket, and only 13.4% purchased furniture in a specialized furniture store / shopping center;
- assessment of the respondents' readiness to go beyond the location of residence when choosing and purchasing furniture for personal / family consumption revealed that 64.4% of respondents planned to examine the furniture supply in the region in one way or another, 59.6% were ready to go beyond its limits, 55.2% considered the additional transport costs justified at the next purchase of furniture if they are justified

by a lower price in another location, 53% is due to a higher quality of goods in another location;

- when forecasting the purchase of furniture for personal / family consumption in the remaining period of 2018, 73.4% of respondents planned additional purchases of furniture for personal / family consumption, 33.4% of respondents wanted to make their next purchase from manufacturers of Krasnodar (35.2% of the Krasnodar Territory), 79.6% of the respondents were ready to go to another location / region to select furniture when making their next purchase, another 55.8% had already planned a similar migration based on consumer experience.

## **5. Authors' recommendations**

The study allowed us to make the following suggestions: As a conclusion to the study of the furniture cluster initiatives as a promising format for the mobilization of the reproduction potential of local markets, it is necessary to note the lack of real successful regional practices that created the grounds for sustainable and balanced regional development. At the same time, in the Republic of Adygea, a multifunctional localized economic system based on the functioning of the local interregional furniture market has been actively developed, and its core is just the chain of value creation of furniture production.

We consider the creation of a full-fledged production and trading system competitive in both local and regional, as well as national and international furniture markets due to the factor of lower cost of basic resources for entrepreneurship as the the key socio-economic opportunities for clustering a spatially localized economic system that uses the potential of the local interregional furniture market.

The assessment of the national economic efficiency of the clustering project of a localized production and trading system indicates the possibility of a significant increase in basic indicators of the socio-economic development of the economy in terms of increasing the number of people employed in the furniture industry of the region, increasing the scale of furniture production in the region and the indicator of the balanced financial result for enterprises within the localized system as well as the positive dynamics of budget efficiency indicators.

## **6. Conclusion**

We emphasize the existence of a real opportunity to use the capacity of the investigated local market as the basis for clustering the localized production and trading system of the Takhtamukay area of the Republic of Adygea, which allows for obtaining a comprehensive, valuable national economic effect based on increasing the sustainability and balance of local and regional economic development.

This statement confirms the fundamental importance of the processes of formation, functioning and development of local markets as an objective basis for targeted

territorial development using the methodology of growth centers and poles, taking into account the  $\phi\psi\phi\psi\psi\psi\psi\psi$  and growth reserves of specific locations.

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