

# Putin's Baby Boom Spurs Importers

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A baby going for a ride in a city park. Sales of children's goods like his carriage are soaring as the birthrate rises. **Vladimir Filonov**

Thanks to a demographic blip and some help from the state, the birthrate is rising in Russia, and the market for children's products is following suit, with imports playing the dominant role.

The market is growing by 15 percent a year, said Antonina Tsitsulina, president of the Children's Goods Industry Enterprises Association. Imports account for 65 percent of all sales, while the biggest overall segment is clothes and shoes, which make up 44 percent of total sales.

"Russia's positive socio-economic development and its state policy on the family and children are directly reflected in the development of the children's goods market," Tsitsulina said, adding that the market is now worth \$14.5 billion.

Tsitsulina's optimism differs radically from demographic discussions of even five years ago,

when concerns over the aging population and falling birthrate were so high that they were the main topics addressed in President Vladimir Putin's 2006 state-of-the-nation speech.

There was a demographic spike in the Soviet Union between 1980 and 1987, Tsitsulina said. People born during that time will be at their peak reproductive age between 2007 and 2015, resulting in a growing number of young families.

In 2009, the birthrate in Russia showed a 2.8 percent increase over the previous year, according to the Health and Social Development Ministry, and that trend is continuing. Putin noted in June that the birthrate had risen by 1.3 percent in the first four months of this year alone.

The turnaround has been encouraged by the government's Maternal Capital program, which began at the end of 2006.

Women giving birth to or adopting a second child, if that child is a Russian citizen, are eligible to apply for a one-time payment from the state. The size of the grant was set at 250,000 rubles at the beginning of the program. Due to indexing for inflation, it has grown to 343,278 rubles (\$11,400) in 2010.

The average annual income in Russia as of April of this year was about \$7,500, according to the State Statistics Service.

In addition to Maternal Capital, the federal and regional governments have for many years given mothers monthly stipends, but they tend to be relatively low.

Maternal Capital money can be put toward housing and education or it can be added to the mother's pension account. Single fathers have also won the right to participate in the program.

The resulting boost to disposable income may explain another phenomenon noted on the market since the beginning of the economic crisis.

"It is a peculiarity of the Russian mentality. Consumers have economized on everything except the children's retail segment," said Ivan Fedyakov, head of INFOLine information agency.

The crisis has even had positive side effects on the children's goods market, Fedyakov said, by allowing children's retailers to expand into commercial premises left vacant by other failed businesses and into regions where they had previously not been present.

The challenge they face now, Fedyakov said, is competition from large discount chains that have entered the promising market.

Russia's largest seller of children's goods is the Detsky Mir chain, which has 130 stores in 68 cities and is owned by Sistema.

While the company did experience a drop in sales during the financial crisis, it saw a 9 percent increase in 2009 and expects a 12 percent increase this year, Detsky Mir public relations director Yelizaveta Totunova said.

"The orientation toward foreign producers is largely connected with the greater functionality of foreign clothing," Totunova said.

Russian industry is beginning to catch up.

"Detsky Mir sells a collection of its own production, under the Futurino brand name. It is a good alternative for price and quality and is in high demand from buyers," Totunova said.

Baby food is another market dominated by foreign companies. Nestle has the biggest presence in Russia, with more than 25 percent of the market.

"The Russian market for baby food is constantly growing," said Denis Voityuk, Nestle regional director for baby food. "That growth did not stop even during the economic crisis because parents do not economize on food for their children and they try to provide them with quality food from well-known producers."

"It is hard to overcome the dominance of global brands in Russia today," said Oleg Ochinsky, chief executive of Nutritek Group, which occupies fifth place among domestic baby food manufacturers. "The buyer's choice is often tied to aggressive promotion more than quality. Global corporations have colossal financial resources."

"Demand is on the rise, as is interest in domestic goods and the low-end segment. The buyer is paying more attention to the quality and affordability of products," he said.

The Votkinsk Factory in the Udmurt region, famous for ballistic missiles and mini-washing machines, also produced the most popular baby carriages during Soviet times. A company spokeswoman said they now almost exclusively sell carriages imported from China, and have concentrated their own manufacturing resources on children's furniture.

"The [children's furniture] market is improving and our assortment is improving as well," said the spokeswoman, who did not identify herself.

Kimberly-Clark opened a \$170 million plant in Stupino, outside Moscow, to produce Huggies disposable diapers in June of this year. The American company has been active in Russia since 1996. "[The company] has increased its sales 10 times in 10 years in the region," chief executive Thomas Falk said last summer.

The major competitor for diapers is Pampers, which Procter & Gamble has produced in Russia since 2005.

Alexei Vershinin, a Muscovite father of four, confirmed the market boom, but bemoaned the prices.

"You can get almost everything, from clothes to toys, locally," Vershinin said, "if you have enough money. But prices are several times higher than in the U.S. or Europe, which is why we buy over the Internet. Even with shipping fees, we save a lot."

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