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Detsky Mir Opens Russia's Largest Toy Store in Moscow

By Delphine d'Amora

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A man dressed as Russian cartoon character Cheburashka holding balloons at the opening of Detsky Mir's new store in Moscow on Wednesday.

The largest toy store in all of Russia opened to the public in Moscow on Wednesday with an explosion of golden confetti, as beloved Soviet, Russian and Disney characters mingled with their young admirers in vast marble halls just minutes away from the Kremlin.

The opening of Detsky Mir's new flagship store could appear ill-advised in a country whose economy has been crippled by political tension and flagging economic growth, but Russia's iconic leading children's goods retailer, whose name translates as "Children's World," knows that if there's one thing Russians are willing to spend on, it's their kids.

"People in Russia don't scrimp on their children. This sets us apart from other countries. If we look at the last [financial] crisis, in 2008, the market of children's goods didn't fall at all," said Vladimir Chirakhov, Detsky Mir's chief executive officer.

Even as the Russian economy shrank by 0.1 percent in June and 0.2 percent in July year-on-year, the market of children's goods has continued to grow.

Detsky Mir's revenues in the first half of this year reached 18.1 billion rubles ($500 million), a 27 percent increase compared with the same period last year, with total profits rising by about 25 percent to $175 million, according to the company.

As for the industry, 11 percent growth for the year is now well within reach, said Antonina Tsitsulina, president of the Children's Goods Industry Association.

Unfazed by falling consumer confidence, Detsky Mir has continued with ambitious plans to add more than 50 stores to its network over the course of the year, topping 300 stores nationwide and seizing 10 percent of the market by New Year's.

The opening of the store on Ulitsa Vozdvizhenka, which aspires to become the Russian equivalent of such beloved retailers as Hamleys in London or FAO Schwarz in New York, also reveals a confidence that vital ties with foreign business will remain strong.

The market of children's goods in Russia is deeply and visibly globalized. Disney's Mickey Mouse and Snow White rubbed elbows at the event with such Soviet icons as big-eared Cheburashka and his crocodile friend Gena, while foreign majors like Lego, Disney and Barbie took pride of place.

About 25 percent of Detsky Mir's product assortment will come from abroad in 2014, Chirakov said — a dependence that would seem to place the company at risk as Russia and the West exchange blows over the crisis in Ukraine.

Toys are a particularly vulnerable point: Only 17 percent of toys on the market are made in Russia, compared with about 60 percent of cribs and other such furniture and 90 percent of baby food, Tsitsulina said.

But asked how the sanctions have affected business, Chirakhov said the market is as safe as it can be.

"Children's goods don't end up under import limitations. At least that has never happened in the industry," Chirakhov said.

New Face

Detsky Mir's 57-year history has run parallel with the wider evolution of Russia's children's goods industry, from the centralized production of the Soviet era to the increasing segmented and specialized landscape of today.

The first Detsky Mir opened its doors in Moscow in 1957 and grew to become the Soviet Union's largest and most recognizable purveyor of toys and entertainment.

But the fall of the Soviet Union dealt a harsh blow to Russia's children's goods industry, as producers were abruptly privatized and lost years of development to the economic ravages of the 1990s.

"The modern industry is only 20 years old," Tsitsulina said, adding that serious growth didn't begin until the mid-2000s.

The spur to Detsky Mir's zealous expansion came in 1996, when Russia's largest diversified holding company, Sistema, purchased a share in the company that it later expanded to a 70.5 percent majority stake, bringing with it capital and the will to transform the classic brand into a successful modern enterprise.

After the financial crisis of 2008-09, Detsky Mir and other market leaders launched into a vigorous process of rebranding and expansion in a drive to win out over Russia's street markets, which still hold a strong share of the trade in children's goods.

Hundreds of new stores have sprung up across the country as old ones are re-equipped to offer the playful interactive model popular in Russia and abroad.

But the industry's most interesting times are still to come, Tsitsulina said.

"Creating a pretty store won't be enough, [market leaders] will have to think about how to communicate within the store, how to show that they're the best. The competition will get much stronger," she said.

Demographic Driver

Along with Russians' willingness to pull out their checkbooks for their children, the market has another trend in its favor: The birth rate has risen, from 1.17 children per woman in 2000 to 1.54 in 2011, according to research by the World Bank. There are simply more babies around.

Thanks to the free preschool education that the state is sworn to provide to Russian children, the number of kindergartens is also rising along with the birth rate.

More than 10,000 new kindergartens are opening each year across Russia, and each needs to be equipped with toys, furniture and other products, Tsitsulina said.

This boom is expected to recede in the coming years, as women born in the baby drought of the 1990s hit maternity age and the number of births falls with them.

But in a peculiar way, even Russia's troubling demographic problems can serve to strengthen the market, Tsitsulina said.

"The demographic situation isn't very favorable, and so children get more and more attention. As an object they will be very valuable, and so spending on children is going to grow," she said.

Contact the author at d.damora@imedia.ru

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