

her salary on her toddler even as she scrimps on other purchases. “My son remains my priority,” she says.

It’s consumers such as Krutevich that Detsky Mir is counting on after a Feb. 8 stock offering that valued the company at almost \$1.1 billion. While Russian consumer spending has plunged, Detsky Mir—the name means “children’s world”—has opened more than 200 stores over the past two years, boosting its 2014 revenue of 45.5 billion rubles (\$795 million) by almost 30 percent annually while increasing gross profits per square meter of floor space. The chain plans an additional 250 stores over the next three years, bringing the total above 700, and online sales are booming.

The 70-year-old retailer, which for decades had its flagship across the street from the KGB’s headquarters, reinvented itself in the early 2000s to focus on the emerging middle class. Today, it offers everything from strained carrots to bicycles to frilly party dresses in stores that often feature entertainment areas where kids play with Lego and Nerf balls. That formula has gotten parents to spend even as a recent Nielsen poll found that 84 percent of Russians say, “This isn’t the best time to spend money.”

There hadn’t been a major initial public offering by a Russian consumer company in almost three years. The Detsky Mir IPO, which raised \$355 million and has been trading near its offering price, suggests investors are ready to come back to Russia. Billionaire Vladimir Evtushenkov, chairman of Sistema, the chain’s parent, shelved an IPO for Detsky Mir in 2014 after Russia’s annexation of Crimea spooked investors. But today, the economy is recovering, and chilly relations between Moscow and Washington are warming up with Donald Trump’s presidency.

Children’s retailers have fared better than others during the downturn in part because of rising birth rates, nudged by a government “maternity capital” program that pays women as much as 453,000 rubles for each child after their first. And Russians, even in hard economic times, “are willing to

spend a larger share of income on their children” than parents in many other countries, says Yulia Bychenko, head of research at the Ipsos Comcon survey group in Moscow.

One worry for investors is that big-box stores could start eating into Detsky Mir’s business, as the likes of Walmart and Target did to Toys “R” Us in the U.S. Fallout from other business dealings involving Evtushenkov, who in 2014 spent several months under house arrest in a murky dispute over an oil company deal, could also affect Detsky Mir’s prospects. And even consumers like Krutevich say they’re being cautious with spending. “I need to be more selective,” she says, noting she now tries to buy clothing only when it’s on sale.

Morgan Stanley analysts, though, are bullish on the company. They say Detsky Mir’s scale lets it negotiate deals with suppliers and landlords, helping the chain keep prices lower than those at smaller rivals. While the weak ruble,

which has lost almost half its value against the dollar since 2014, forced Detsky Mir to raise prices on imported goods, some foreign-branded products such as Procter & Gamble’s Pampers diapers are produced in Russia.

The chain has diversified beyond toys, which fell to 28 percent of sales in 2016 from 39 percent in 2010. It’s repositioned some higher-priced items, such as Lego blocks, as “educational and developmental” aids, guessing correctly that parents might spend more on such products. Through a 2012 acquisition, Detsky Mir owns 45 Early Learning Centres specializing in educational games and toys. And just as important, it benefits from its Soviet legacy, says Oleg Kuzmin, strategy director at Landor Associates, a branding consultant in Moscow. “It was *the* brand for children,” he says. In children’s retailing, “consumers want to know who they’re buying from, and trust is very important.”

—Carol Matlack and Ilya Khrennikov

The bottom line Children’s products retailer Detsky Mir’s \$355 million IPO could be a harbinger of better times for Russia’s consumer companies.

B Edited by James E. Ellis and David Rocks
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Consumer

Toys ‘R’ Russia? Retailer Detsky Mir Says, ‘Da’

► A successful IPO for a kids’ chain augurs an economic recovery

► Russians “spend a larger share of income on their children”

Anna Krutevich looks over the displays of diapers, Hot Wheels, and baby food at **Detsky Mir**, a children’s emporium in Moscow’s Aviapark shopping mall, then pulls juice and milk from a shelf. Although the past two years have been tough as Russia has slogged through a recession, she still spends 15 percent of