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GAIN Report #EZ0009

Czech Republic

Retail Food Sector

2000

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Report Highlights:

The most significant trend in the Czech retail sector is its concentration. Gas station food marts are expanding, 24-hour operations have arrived, and food product marketing is rapidly approaching Western levels. About 25 percent of food products are imported.

Includes PSD changes: No
Includes Trade Matrix: No
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Summary:

The most significant trend in the Czech retail sector is its concentration, which started several years ago. The concentration was kicked off by the arrival of some international food retail chains and their battle for market share, including Ahold, Tesco, Globus, Delvita, and Carrefour. Customers are changing their buying habits from daily purchases to once-a-week-supermarket shopping of larger quantities.

The level of services provided by retailers has risen recently, resulting in 24 hour operation, home deliveries, and clerk assistants helping customers put their goods in the plastic bags. Nonexistent in 1989, food product marketing has skyrocketed in the last few years, including the appearance of house brands, flyers, and extensive promotions. These chains are in a position to impose various concessions on suppliers.

Also new are gas marts, which are usually open 24 hours and are combinations of a service station and a convenience store.

Small, traditional grocery stores are disappearing from the market due to the appeal of the hypermarkets.

About 25% of food products are imported, mainly from the EU. Of the American products available, some have no competition (e.g. microwave popcorn, Tex-Mex foods) and some have domestic (past with sauce, rice mixes) and/or international (wine, spirits, canned produce) competition.

SECTION I. MARKET SUMMARY

- The Czech retail sector is highly developed and comparable to many West European standards in terms of product quality, product category management, product diversity and merchandising sophistication
- the value of overall retail food sales is \$8 billion
- roughly 25% of food products are imported

Concentration trend and the number of retailers

- in the last few years the retail sector has concentrated (greatest acceleration was in 1997/98), especially with the proliferation of supermarkets and hypermarkets
- the concentration trend continues to be strong this year and is expected to slow down in 2001
- the average retail space per capita was 365 square meters in 1989, and 10 years later it was 800 square meters
- in 1999 the turnover of the 10 largest companies (37% of the market) was \$3.4 billion, whereas in 1998 it was only \$2.3 billion, which is a 50% year-to-year increase
- the number of food retailers (and total shopping space) went up from 15,000 (1.1 mil. sq. meters) in 1989 to almost 35,000 (2.6 million square meters) in 1999

Prices and food consumption

- even though farmers' prices are rising slightly, the largest retailers still dictate food prices and keep them at a relatively low level
- food prices in the Czech Republic are in general at a price level half of the OECD average (cereals: 34%, fish: 42%, dairy products: 51%, oils: 71%, meat: 61%, fruits and vegetables: 62%) and are expected to increase to western price levels following EU accession
- food consumption grows by 1.2% - 2% a year and significant change is not expected

Distribution

- most retailers do not import directly, but through specialized importers or wholesalers
- shortly after 1989 the large state owned companies split into small, private, either share-holding or limited liability companies which specialize in imports of certain commodities (e.g. meat, nuts, fruits, etc.)
- today the trend is more toward focus on the customer than on the product (e.g. importer Hopi supplies cash-and-carry Makro with most of its products)

Services

- larger supermarkets and hypermarkets offer home/office delivery (e.g. Tesco)
- Tesco was the first retailer to start 24-hour retailing in its hypermarkets this April
- there are no restaurants or other businesses located in the supermarkets; however, there are usually many stores and fast food restaurants right outside the large hypermarkets in shopping malls
- most hypermarkets and supermarkets sell some ready-to-eat items at the deli counter (fried fish, fried chicken, sandwiches, etc.), the larger hypermarkets sell rotisserie chickens and parts and offer a range of uncooked seasoned meats and meat mixed with vegetables.

| Advantages | Challenges |
|--|--|
| Retail sector is not only growing very fast, but is also changing its structure (from small stores to supermarkets and hypermarkets) and more and more resembles Western shopping malls with fast food restaurants and a wider range of food products. | Tariffs - some food items have lower import tariff rates if they come from the EU - e.g., dairy products and some fruits and vegetables. |
| The Czech Republic and especially Prague are visited by millions of tourists each year who are used to buying products they know. About 7,000 Americans live in the Czech Republic all year round and in summer the number doubles to about 15,000 Americans who come for several weeks/months and are potential buyers of U.S. food products. | U.S. products are imported by small trading companies, which have a very difficult negotiating position with large retail chains (except Tesco, retail chains do not import directly) |
| The Czech economy is emerging from a recession and is slowly recovering, which will allow increased food consumption. Even though price is still the critical factor, in the future customers will demand higher quality products as their incomes grow. | Price is still the most important factor when making a purchasing decision. Supermarkets and hypermarkets constantly offer discounts and advertise promoted products in leaflets, which are distributed into households and influence consumers more than customer loyalty cards, etc. |
| Change of lifestyle - people have less time and more money, have better equipped households (microwaves, freezers), which results in more purchases of prepared meals, frozen meals, etc. | Meat and meat products including poultry cannot be imported to the Czech Republic due to Czech veterinary requirements that are not yet approved by USDA. |
| Willingness to try new products; customers enjoy the fast development in the retail sector and are open to changing their buying habits - purchases in new stores and buying new items. | Appreciation of USD which results in more expensive imported products (12% in the last three months) |
| Cultural influence (movies etc.) increases consumption of “typical” American food. | Lack of brand awareness and customers’ brand loyalty. |

SECTION II. ROAD MAP FOR MARKET ENTRY

A. SUPERMARKETS AND HYPERMARKETS

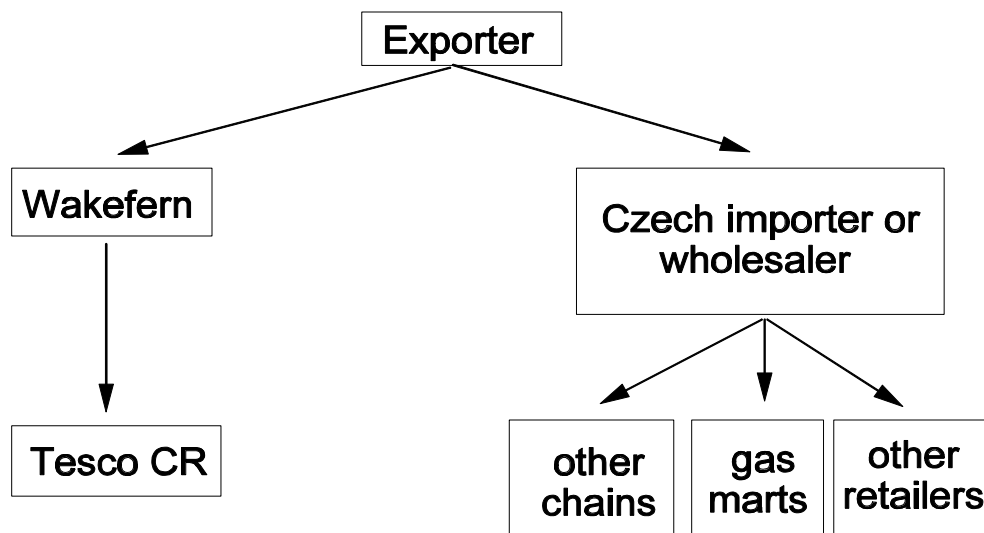
Entry Strategy

- most supermarket and hypermarket chains import products through Czech importers and wholesalers; Tesco imports directly Tesco branded products from the U.K. and U.S. products

- through Wakefern, a New Jersey-based wholesaler and exporter
- there is a trend toward supplier consolidation; retail chains would ideally have several large suppliers which would supply all products - for a U.S. exporter this means finding a local importer/wholesaler and selling through this company
 - Gold Key Service can help U.S. exporters find the best importers and wholesalers in the Czech Republic; more information on this service is available at this website: www.usembassy.cz under the Commercial Service
 - since retailers have a stronger position in the Czech Republic than suppliers or wholesalers (where concentration has not happened yet), most suppliers have to pay huge sums to get their products on the store shelves. This so called “listing fee” depends on the market position of the supplier - if he has some famous brand without which the store “cannot open”, then it does not have to pay any fee (e.g. Unilever and its margarines). The less known the brand or the less indispensable the product is, the higher the listing fee is (e.g., the listing fee for one Kroger product is several thousand Czech crowns)
 - an amendment to the law on economic competition prohibiting listing fees by using the term “economic dependence of a supplier on the retailer” was passed by the Parliament, but was rejected by the Senate and changes proposed by the Senate were not approved by the Parliament. The bill will be rewritten.

Market Structure

The following graph shows how products get on the shelf of a Czech supermarket:



- the Czech Republic with a population of 10 million had at the end of 1999 about 53 hypermarkets, which is a larger per capita number than in the Netherlands or Italy, even though it would be only one fourth of the number of hypermarkets per capita in France and Germany (80 hypermarkets expected within the next few years)
- 16% of households prefer to buy food in the hypermarkets; last year it was only 4%; the customers are mainly younger people from large cities with higher education

Company Profiles

| Retailer Name and Outlet Type | Ownership | Sales (\$ Million) | No. of Outlets | Locations | Purchasing Agent Type |
|--|--------------------------------|--|-------------------------------------|---|--|
| Makro, wholesale club | Dutch, owned by Metro, Germany | \$534 (1999), \$372 (1998), plans: \$778 (2000), \$1,110 (2001) (75% of total turnover is food) | 7 (1999), 4 (1998) | larger cities | cash and carry, imports through Hopi |
| Ahold, Hypernova hypermarkets, Prima megastores, Albert supermarkets | Dutch | \$521 (1999) \$357 (1998) (90% is food) | 169 (1999), 145 (1998), 98 (1995) | hypermarkets in Prague, Brno, supermarkets in larger and small cities | retailer |
| Rewe, Billa supermarkets, Penny Market discount store | German | \$481 (1999) \$335 (1998) (80% is food) | 136 (1999), 100 (1998) | smaller cities, rural areas | retailer |
| Kaufland, hypermarkets | German | \$394 (1999) \$120 (1998) (65% is food) | 23 (1999), 11 (1998) | mid-size cities | retailer |
| Delvita, supermarkets, convenience stores | Belgium | \$335 (1999) \$251 (1998) (90% is food) | 99 (73 SM, 26 CS) (1999), 58 (1998) | larger and mid-size cities | retailer |
| Tesco Stores, hypermarkets, supermarkets | U.K. | \$286 (1999) \$168 (1998) (54% is food) | 10 (1999), 8 (1998) | larger cities, supermarkets (within department stores) also in smaller cities | retailer, importer direct imports: (from Tesco U.K. and U.S. products from Wakefern, NJ) |

| | | | | | |
|-------------------------------|----------|---|---------------------------|---------------------------|----------|
| Globus, hypermarkets | German | \$251 (1999) \$149 (1998) (58% is food) | 7 (1999), 5 (1998) | larger cities | retailer |
| Carrefour, hypermarkets | French | not willing to disclose (70% is food) | 3 (1999), 1 (1998), | large cities | retailer |
| Julius Meinl, supermarkets | Austrian | \$223 (1999) \$200 (1998) (85% is food) | 103 (1999), 100 (1998) | large and small cities | retailer |

- top retailers are strengthening their market positions by fast expansion (Makro has opened 2 cash and carry stores since January; Ahold merged their Mana supermarkets and Sesam discount stores into the Albert supermarket chain with 140 stores; Ahold will also open 3 Hypernova hypermarkets and 8 Prima superstores this year; Tesco, Globus, Spar, and Carrefour will each open 3 hypermarkets in 2000)
- some wholesalers are also growing very fast and focus more on their customers more than before by providing a larger range of services
- shopping malls with fast food restaurants, speciality stores and movie theaters are built around the largest hypermarkets
- shopping malls are spreading from the largest cities to medium size cities
- various supermarket chains are located nationwide
- in rural areas grocery stores owned by various cooperatives and carrying a lower range of products are most common
- the typical hypermarket customer can be characterized as an urban, younger and more educated customer willing to buy new products
- some supermarkets in the larger cities are popular among expatriates since they carry a lot of imported products (e.g. Tesco supermarket in Prague, which used to be owned by K-Mart 3 years ago and since then has been selling more American food products than any other store)

Brands

- some retail chains carry house brands
- Tesco has several kinds of brands:
 - “Tesco” products imported from the U.K. packaged for the British market with just a Czech label, which are more expensive
- Tesco vyhodny nakup” (Tesco value) - basic products (sugar, flour, milk, orange juice, ketchup, water, etc.) packaged for the Czech market with very competitive prices
- Delvita has two brands “Delvita” and “Lev-ne” (which is a play on words, “lev” means lion and the owner’s name is Delhaize le Lion (Food Lion), while “levne” means cheap)

- Ahold has “Albert” brand for the “new-old supermarket chain”

B. CONVENIENCE STORES, GAS MARTS, KIOSKS

Entry Strategy and Market Structure

- there are no special convenience stores in the Czech Republic similar to the 7-Eleven style of shop in the U.S.
- in the last 10 years many large international gas station chains built gas stations and marts throughout the country
- gas marts are operated as franchises and the owners have a contract with the parent firm which in turn has a contract with food suppliers
- large food and drink companies supply these marts directly (e.g. Coca Cola), otherwise the marts are supplied by one large wholesaler (the main gas mart suppliers are Lekkerland and Hopi - in the table below L or H indicates the wholesaler, contact addresses are at the end)
- the best way to get U.S. products to the gas marts and kiosks is through specialized importers (Gold Key Service, commodity reports on www.fas.usda.gov) or through the above mentioned wholesalers
- kiosks are located in tourist areas and usually sell fast food and some drinks; a new phenomenon in the Czech Republic are popcorn stands in large movie theaters - the kiosks are supplied by specialized importers

Company Profiles

| Retailer Name and Outlet Type | Ownership | Sales (\$ Mil) (food in gas mart shops) | No. of Outlets | Locations | Purchasing Agent Type |
|--------------------------------------|------------------|--|-----------------------|-------------------------------|------------------------------|
| Benzina (H) - shareholding company | Czech | \$16 (1999) | 314 | larger cities, main roads | gas mart |
| Benzina - state owned company | Czech | \$1 (1999) | 46 | small towns, rural areas | gas mart |
| OMV (L) - bought BP | Austrian | \$6.5 (1999) | 70 | large cities, main roads | gas mart |
| Aral (L) | German | not willing to disclose | 61 | larger cities, main roads | gas mart |
| Esso (L) | American (Exxon) | \$3.8 (1999) | 25 (1999), 32 (2000) | larger cities, main roads | gas mart |
| Shell (L) | British-Dutch | \$10 (1999) | 69 (1999) | larger cities, main roads | gas mart |
| Agip | Italian | \$6 (1999) | 44 | larger cities, smaller cities | gas mart |

- gas marts are open 24 hours
- there are no convenience stores per se, but only tiny stores called “vecerka” (the evening stores), which are open from late afternoon to late evening
- food stores open around the clock besides the gas stations are the new hypermarkets

C. TRADITIONAL MARKETS**Entry Strategy**

- traditional markets are supplied by local processors and importers of food products
- again the best way to enter this sub-sector is through importers, which could be found via the above mentioned Gold Key Service

Market Structure and Sub-Sector Profile

- to get volume discounts, smaller firms are forming “purchasing alliances” to buy in bulk from suppliers, and “voluntary alliances” to deal with selected wholesalers
- in large and mid size cities traditional stores were pushed out by hypermarkets and supermarkets

- most small grocery stores in rural areas are part of some cooperative
- range of products in these traditional smaller stores is narrower since customers in rural areas are more price sensitive and typically do not buy more expensive U.S. products (e.g. Tex-Mex foods etc.)

SECTION III. COMPETITION

- about 20 - 25% food products are imported, mainly from the EU
- higher percentage of imported products are in the following product categories - fish and seafood, produce, nuts, dairy products, pastas and sauces, breakfast cereals, wines, and spirits
- some dairy products, dried fruits, produce, spirits, etc. have lower tariffs from the EU than from other WTO countries
- the main advantage of domestic products is price (e.g. pastas) and in some cases exceptionally good quality (e.g. beer); the advantage of imported products is primarily the lack of domestic products (e.g. seafood, some produce) and a larger choice for the customer
- U.S. products are labeled with stickers which provide all the information required by Czech regulations, which are in the main now conform with European Union labeling requirements (see at <http://www.useu.be/agri/label.html>.)
- U.S. products are not segmented into any kind of a specialty or international section, but are merchandised next to both local and international competitors in the appropriate product categories (K-mart - later bought by Tesco - had an international aisle with only U.S. products)
- there are few product categories where U.S. products compete with domestic products (cake mixes, pastas and powdered sauces, wine etc.)
- some U.S. product categories compete with large international food companies (e.g., Del Monte and Shop Rite, two American brand named canned corn products, competes in one Czech hypermarket with a French brand name product processed in Hungary)
- there is little U.S. vs. U.S. product competition in the Czech market with only few exceptions (peanut butter: Shop Rite, Kroger; microwave popcorn: Shop Rite, Jolly Time)
- U.S. products have limited or no international competition in the following categories: peanut butter (Tesco peanut butter) , Tex-Mex foods, cranberry sauce and juice, and microwave popcorn
- most U.S. products enjoy favorable shelf placement and are prominently displayed

SECTION IV. BEST PRODUCT PROSPECTS

A. Products Present in the Market Which Have Good Sales Potential

microwave popcorn

- < there is no domestic or international competition
- < U.S. brands: Jolly Time, Shop Rite

Tex-Mex products

- < there is no domestic or international competition
- < U.S. brands: Casa Fiesta, La Preferida, Ortega, Kroger

canned sweet corn

- < international competition - French brand canned corn processed in Hungary (Bonduelle); there is no domestic competition since Czech corn is used for feed
- < U.S. brands: Del Monte, Kroger

peanut butter

- < there is limited international competition (Tesco house brand)
- < U.S. brands: Kroger, Shop Rite

pancake syrup

- < the only international competition is Canadian maple syrup sold at premium prices
- < U.S. brand: Aunt Jemima

cake mixes (pancake, muffin, brownie mixes)

- < domestic competition is quite strong here due to lower prices (Vitana)
- < there are some international branded products, e.g. Dr. Oetker (Germany)
- < U.S. brands: Aunt Jemima, Shop Rite

pasta and powdered sauce mixes

- < strong domestic competition (Vitana) - similar quality for prices three times lower
- < U.S. brand: Shop Rite

almonds, raisins and other dried fruits and nuts

- < there is no domestic competition in these product categories
- < most nuts and dried fruits are imported in bulk quantities and packaged in the country
- < 85% of imported almonds are from California
- < other nuts and dried fruits compete with products from Turkey, Philippines, Indonesia, China and some Latin American countries which offer lower prices

wine

- < the Czech Republic produces drinkable white wine at low prices
- < international competition: French wine, Italian wine, Spanish wine
- < cheaper wines are packaged in cardboard boxes
- < U.S. wine market position - in retail chains there are several mid market brands of California wine (e.g. Wente, Almaden, Paul Masson, Estate Cellars, Western Cellars); hotels and restaurants sell higher end market wines

whiskey and bourbons

- < there is no domestic competition and in case of bourbon not even international competition
- < market share of American whiskey and bourbons has been going up in the last three years reaching 45% of the total whiskey market
- < U.S. brands: Jim Beam, Jack Daniels, Four Roses, 7 Crown, Medleys, Wild Turkey, Makers Mark

B. Products Not Present in Significant Quantities but Which Have Good Sales Potential

fish and seafood products

- < even though Czechs' traditional Christmas dish is carp and the most popular fish all year round is trout, due to a wide range of fish (frozen, fresh and live) available in the modern retail chains, the consumption of seafood and seafish is on the rise
- < U.S. fish companies compete with fish suppliers from other countries mainly on the bases of price: cheaper kinds of fish (e.g. Alaska pollack) are imported from China, farmed salmon comes from Norway and live lobster from Canada
- < if the U.S. suppliers can be price competitive there is a potential market

cheese and salsa nacho dips

- < there is not a big variety of dips in the market
- < U.S. salsa has no international or domestic competition and other dips are not available at all

frozen juice concentrates

- < there is no domestic or international competition in frozen juice concentrates

cranberry juice

- < there is no domestic or international competition
- < U.S. brand: Ocean Spray (imported as a finished product, therefore it's quite expensive - the price is 5 times higher than the price of an orange or apple juice)
- < potential for U.S. of cranberry juice concentrate

C. Products Not Present Because They Face Significant Barriers

meat, meat products, and poultry

- < cannot be imported due to lack of approved veterinary certificates

Note: Sources of information: Czech Statistical Office, Incoma (market research company), newspaper and magazine articles, importers, retailers and wholesalers

SECTION V. POST CONTACT AND FURTHER INFORMATION

A. LARGEST RETAILERS AND IMPORTERS:

Hopi (importer, wholesaler)

Mr. Jan Volny

Trade Manager

Prazska 673

431 51 Klasterec nad Ohri

Czech Republic

Tel: (+420-398) 375-723

Fax: (+420-398) 375-095

E-mail: jvolny@hopi.cz

Turnover in 1999: \$64 mil.

Supplier of: cash-and-carry Makro, gas marts, small retail stores, catering companies

OK Trading (importer, wholesaler)

Mr. Michael Slavik

Trade Manager

Za nadrazim 8

696 81 Bzenec

Czech Republic

Tel: (+420-631) 384-226, 384-227

Fax: (+420-631) 384-193

E-mail: nsm@oktrading.com

Turnover in 1999: \$50 mil.

Supplier of: retail chains (70% of total turnover), cooperatives, kiosks, gas marts

Lekkerland O.K. Foods (importer, wholesaler)

Ms. Jitka Vaculikova

Trade Manager

Mirova 489

289 22 Lysa nad Labem - Litol

Czech Republic

Tel: (+420-325) 561-555

Fax: (+420-325) 561-087

E-mail: jvaculikova@lekkerland.cz

Turnover in 1999: \$37 mil.

Supplier of: gas marts (40 % of total turnover), small retail stores, cash & carry, catering companies

B. CZECH GOVERNMENT INFORMATION SOURCES

Czech Agricultural and Food Inspection

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State Veterinary Administration

Dr. Milan Sehnal, Head
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Fax: (+420-2) 2181-2974
E-mail: kom@svs.aquasoft.cz
URL: <http://svs.aquasoft.cz/cz/index.htm>

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Please visit our Internet home page for more information on the [Czech Republic](#). Other reports we have done of general interest to exporters of foods for retail can be downloaded from the Foreign Agricultural Service's homepage at

<http://www.fas.usda.gov/scriptsw/attacherep/default.asp>

These reports include

| | |
|--------|---|
| EZ9006 | Exporting to Certain Retail Chains http://www.fas.usda.gov/gainfiles/199905/25454266.pdf |
| EZ9015 | Dried Fruits and Nuts http://www.fas.usda.gov/gainfiles/199908/25475505.pdf |
| EZ9022 | Seafood http://www.fas.usda.gov/gainfiles/199912/25576710.pdf |
| EZ9025 | Exporter Guide http://www.fas.usda.gov/gainfiles/199911/25546273.pdf |
| EZ9026 | Popcorn http://www.fas.usda.gov/gainfiles/199912/25556650.pdf |

Exchange rate: May 2000: 1 USD = 40 CZK, the exchange rate calculated for the purpose of this report was 36 CZK in March and the first half of April.