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Czech Republic

Retail Food Sector

Report

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Report Highlights:

The most significant trend in the Czech retail sector is concentration. Gas station food marts are expanding, there is round-the-clock service, 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:

Concentration

The concentration of the Czech grocery trade has reached a relatively high level by Central Eastern European standards. In 2000, the top 10 players, among which there is not a single Czech company, achieved a combined market share of 60%. The concentration was kicked off a few years ago by the arrival of international food retail chains and their fierce battle for market share. The firms include Ahold, Tesco, Globus, Delvita, and Carrefour. Their growth is at the expense of the small retailers, whose stores who are not competitive in price, selection, or hours of operation.

Outlet Structure:

Within three to five years there will a drastic reduction in the number of small stores. From an existing 15,000 stores, only 4,000 or 5,000 are expected to survive. The outcome of this dramatic reduction process will be the market dominance of modern sales formats in wholesaling and retailing. The number of superstores and hypermarkets operated in the Czech Republic is growing rapidly. In 1996 there were only 2 hypermarkets, in 2000 there were 82, and in 2001 there are 105 hypermarkets and superstores. Total number of sores with 2,500 sq m should top out at around 130. Small stores saw their total market share decline from 49% in 1997 to 24% in 2001. Only small stores that specialize are expected to survive.

Services:

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 such as extended payment periods and slotting fees. Also new are gas marts, which are usually open 24 hours and are combinations of a service station and a convenience store.

Food Imports:

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 (pasta with sauce, rice mixes) and/or international (wine, spirits, canned produce) competition. No retail chain

imports directly, all foreign products are purchased through small independent import companies.

SECTION I. MARKET SUMMARY

- the Czech retail sector is developed and comparable to West European standards in terms of product quality, product category management, product diversity and merchandising sophistication
- the value of overall retail food sales is \$7 billion
- in the next few years the Central Eastern European retail market volume is expected to grow by 3% annually
- roughly 25% of food products are imported
- expenditures on food, beverages and tobacco represent 26% of total consumption

Concentration trend and the number of retailers

- concentration of Czech retail sector has reached a relatively high level
- the next step is going to be differentiation among retailers
- the concentration peaked in the second half of the 90s (in 1996 there were only 2 hypermarkets, this year there are already 105 hypermarkets and superstores)
- 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

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

- no retailer imports directly, all foreign products are purchased through small independent specialized importers
- current distribution trend focuses more on the customer than on the product (e.g. importer Hopi supplies cash-and-carry Makro with most of its products)

Services

- improved service provides a great opportunity for retailers to differentiate themselves
- currently most retailers offer very similar levels of customer service, the exception in this area is British retail chain Tesco, which in 2000 introduced a "24-7" opening hours
- larger supermarkets and hypermarkets offer home/office delivery
- 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
The retail sector is not only growing 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.
The Czech economy has shown an annual growth of 3-4% in the last 18 months, which is driving 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
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

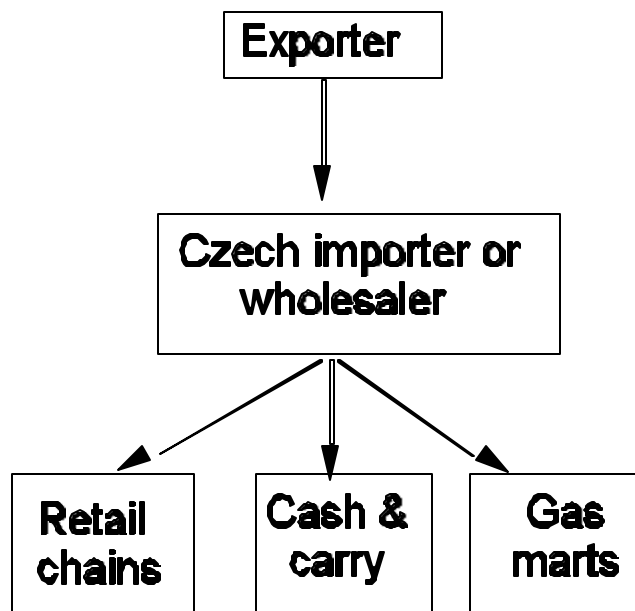
Entry Strategy

- all supermarket and hypermarket chains import products through Czech importers and wholesalers
- In the past, Tesco was the only chain that imported directly through a U.S. company (Wakefern). Now Tesco is starting to purchase all imported products from Czech importers
- 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. The less known the brand or the less indispensable the product is, the higher the listing fee is.

Market Structure

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

- the Czech Republic with a population of 10.2 million has at the end of 2001 over 100 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
- 20% of households prefer to buy food in the hypermarkets; two years ago it was only 4%; the customers are mainly younger people from large cities with higher education.

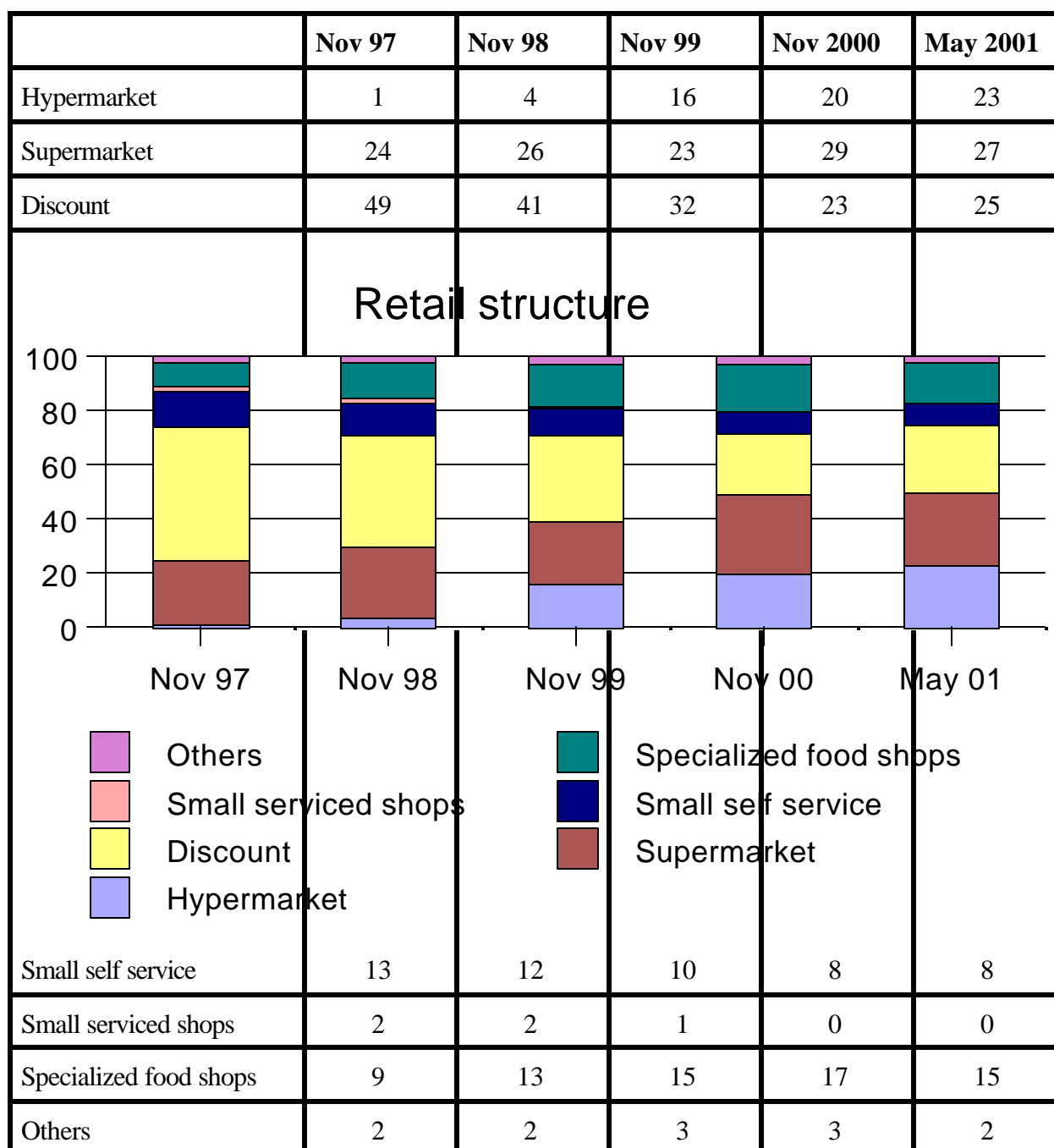
Company Profiles

(listed by total turnover including non-food)

Retailer Name and Outlet Type	Owner-ship	Food Turnover in 2000 (\$ Million)	No. of Outlets	Locations	Purchasing Agent Type
Makro, wholesale club	Dutch, owned by Metro, Germany	\$557	9 C&C	larger cities	cash and carry, imports through Hopi
Ahold, Hypernova hypermarkets and megastores, Albert supermarkets	Dutch	\$520	19 HM 154 SM	hypermarkets in large cities, supermarkets in larger and small cities	retailer
Rewe, Billa supermarkets, Penny Market discount store	German	\$478	65 SM 94 discount stores	smaller cities, rural areas	retailer
Kaufland, hypermarkets	German	\$359	34 HM	mid-size cities	retailer
Tesco Stores, hypermarkets, supermarkets	U.K.	\$230	6 HM 6SM	larger cities	retailer
Tengelmann Group, Plus discount chain	German	\$217	84 discount stores	smaller cities, rural areas	retailer
Globus, hypermarkets	German	\$190	9 HM	larger cities, mid size cities	retailer
Delvita, supermarkets	Belgium	\$289	100 SM	large and mid size cities	retailer
Julius Meinl, supermarkets	Austrian	\$168	82 SM	large and mid size cities	retailer

Carrefour, hypermarkets	French	\$114	6	large cities	retailer
TOP 10 TOTAL		\$3,121			

Main places of food shopping



(Source: Incoma Research)

- top retailers are strengthening their market positions by fast expansion (e.g. Makro has increased

- sales by 1,200% in the last four years
- 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

Private label

- most retail chains carry private labels, which are popular especially in low price products

B. CONVENIENCE STORES, GAS MARTS, KIOSKS

Entry Strategy and Market Structure

- there are no convenience stores in the Czech Republic similar to the 7-Eleven style of shop in the U.S.
- in the last 11 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 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)
- 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 - 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 - bought BP	Austrian	\$6.5 (1999)	70	large cities, main roads	gas mart
Aral	German	not willing to disclose	61	larger cities, main roads	gas mart
Esso	American (Exxon)	\$3.8 (1999)	25 (1999), 32 (2000)	larger cities, main roads	gas mart
Shell	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.)
- in the future a lot of small size stores will either offer some extra service (e.g. opening hours 7-11 etc.) or will focus on specialities

SECTION III. COMPETITION

- about 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>.)
- in some hypermarket chains U.S. products are in the U.S. corners of international sections
- 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, Tesco; 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

popcorn

- < microwave popcorn is produced now in the Czech Republic from U.S., there is very little 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, Old El Paso

canned sweet corn

- < international competition - French brand canned corn processed in Hungary (Bonduelle); there is no domestic competition
- < U.S. brands: Del Monte

peanut butter

- < there is limited international competition (Tesco house brand)
- < U.S. brand: 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
- < products containing genetically modified organisms will have to be labeled as of January 2002

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 white and red wine (more of white wine), which covers about 50% of total domestic consumption
- < international competition: European wines (French, Italian, Spanish), wines from Chile, Australia, South Africa
- < 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 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 sea fish 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 competition in frozen juice concentrates, some kinds of juice have international competition (e.g. orange juice)
- < there is a good potential for typical U.S. juices, e.g. cranberry juice
- < 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), M+M Eurodata (market research company), trade conference materials, newspapers, magazines, importers, retailers and wholesalers

SECTION V. POST CONTACT AND FURTHER INFORMATION

A. CZECH GOVERNMENT INFORMATION SOURCES

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Please visit our Internet home page for more information on the [Czech Republic](http://www.fas.usda.gov/scripts/attacherep/default.asp). 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/scripts/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: December 2001: 1 USD = 37 CZK)