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Voluntary Public

Date: 5/18/2015

GAIN Report Number: EZ1506

Czech Republic

Post: Prague

Retail Food Sector

Report Categories:

Retail Foods

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Report Highlights:

As a result of the improved economic situation in 2014, grocery retailers registered a 2% growth in value sales last year. The main trends include stronger emphasis on quality of products, focus on satisfactory range of domestic or regional products and shopping in smaller outlets which are located nearer to houses. Even though most Czech consumers still remain price-sensitive, there is a growing number of consumers willing to pay a higher price for a higher quality. U.S. exports of consumer-oriented agricultural products to the Czech Republic grew by 36% in the past five years, from \$17.4 million in 2009 to \$23.8 million in 2014. U.S. food exports with good sales potential include dried fruits, tree nuts, wine, distilled spirits, fresh beef, fish and seafood, sauce, spices, baking mixes, and snacks.

General Information:

SECTION I. MARKET SUMMARY

Grocery retailers in the Czech Republic enjoyed a 2% growth rate in 2014 in value sales due to improved economic situation. The number of outlets of grocery retailers stagnated in 2014.

Hypermarkets remain the biggest channel, accounting for 38% of value share of grocery retailers. In 2014, five hypermarket retailers operated 307 outlets with total selling space of more than 1,400 square meters. However, their sales increased only by 1% in 2014.

Discounters are gaining popularity with sales increase by 6% last year. Consumers prefer outlets with smaller selling space (time saving), high quality (especially of fresh products) and good prices. Top two discounters are Penny Market and Lidl, owned by German companies. Lidl attracts customers by extended offer of non-food items including clothes, sportswear etc. that change weekly and are sold at very competitive prices.

Convenience stores reached a growth of 3% in value sales in 2014. Convenience stores benefited from growing interest in shopping in smaller outlets located near to houses or workplaces.

Supermarkets had the same growth of 3% in value sales last year, a higher increase than hypermarkets for their smaller selling space and convenience.

Internet sales of grocery products were introduced by Tesco in 2012 and quickly gained popularity among Czech consumers. Although a Tesco e-shop was established in Prague, it has become popular across the country very quickly and the company started to expand to other regions in the country. As dynamic growth in internet retailing is one of the more notable trends in retailing, some leading grocery retailers are expected to follow Tesco Stores and establish online shops in the near future. This intention was declared by Ahold Czech Republic, Kaufland and Billa.

While modern grocery retailers are dominant in terms of retail value sales and selling space, traditional grocery retailers dominated in terms of number of outlets in 2014. Within grocery retailers, modern grocery retailers accounted for 81% share of overall value sales, 76% of selling space and 27% of outlets, while traditional grocery retailers accounted for the remaining respective shares of 19%, 24% and 73% in 2014. This discrepancy is caused by the fact that modern grocery retailers operate a relatively-small number of outlets, but with much large selling space that generates higher retail value sales.

Modern grocery retailers continued to expand within the Czech Republic in 2014 and had a 3% increase in value sales and 2% in terms of number of outlets. Traditional grocery retailers witnessed stagnation in value sales and a drop of number of outlets by 1%. Modern retailers attract consumers by promotions and discount flyers.

A relatively high number of strong multinational retailers are present on the Czech market. The top seven players, namely Kaufland, Ahold Czech Republic, Tesco Stores CR, Penny Market, Lidl, Billa and Globus dominated sales of grocery retailers, accounting for combined value share of 65% in 2014, with Kaufland being the leader, accounting for 15% value share in 2014.

In the 1990s many foreign retail chains entered the Czech market. Since then there has been a trend

toward consolidation and some retailers have left the country, e.g. Belgian chain Delhaize with Delvita chain, Austrian Julius Meinl, French Carrefour, and last year it was Spar, Austrian chain that operated hypermarkets Interspar and supermarkets Spar. Interspar was sold to Dutch Ahold last year. In March 2015 media released information that Tesco due to financial problems in the U.K. is considering leaving Central Europe. Last year Tesco experience a weaker performance, while Ahold recorded a moderate increase in value sales due to acquisition of Interspar/Spar chains. Ahold is expected to strengthen its position within grocery retailers significantly in 2015 after this acquisition. Modern retail chains in large cities offer a wide range of fresh products, including fish, meat, produce and bakery products. U.S. meat is sold under a private label of the importer (on the picture, U.S. beef sold by Aspius to Tesco).



Fresh meat counter at Tesco



Fresh fish counter at Tesco



U.S. beef sold in Tesco under a private label of an importer

Large retailers offer hot meals that consumers can eat directly in the store. Most chains sell chilled ready

meals that can be heated quickly. This trend towards time saving is going to continue.

Grocery retailers shares in % value	2010	2011	2012	2013	2014
Kaufland	12.2	12.8	13.4	14.3	14.8
Ahold	11.4	11.4	11.3	11.0	11.2
Tesco Stores	10.8	11.3	10.9	10.4	10.1
Penny Market	8.1	8.2	8.7	8.9	9.2
Lidl	6.5	6.9	7.4	7.6	7.9
Billa	6.3	6.1	6.1	6.0	6.0
Globus	6.4	6.1	5.9	5.8	5.7
Spar	3.4	3.5	3.6	3.5	2.7
Other	34.9	33.7	32.8	32.5	32.4
Total	100.0	100.0	100.0	100.0	100.0

(Source: Euromonitor)

Advantages	Challenges
Improved economic situation, increased consumption is expected	Higher prices of U.S. products
High quality of U.S. products and growing trend toward eating what is healthier and tastes better; an opportunity for U.S. nuts, dried fruits and meat especially	Higher competitiveness of some EU products due to elimination of tariffs between the EU and CR
Good infrastructure, importers speak good English	20% depreciation of CZK in the second half of 2014 reduced purchasing power
The number of tourists and Americans living in Prague is increasing and they demand high quality U. S. food products	Relatively small volumes with high transportation costs
Willingness to try new products; innovative products and packaging increase demand	Shelf life – retailers will not list a product with a “use-by-date” shorter than 2/3 of the total shelf life and transportation takes some time
Developed distribution system, highly integrated with Germany	Negative perception of U.S. food in general (GMO, fast food, etc.)

SECTION II. ROAD MAP FOR MARKET ENTRY

Entry Strategy

Food retailers have their own purchasing sections and buy products either through their headquarters or Czech importers. However, after the EU accession and free trade within new the EU 28, retail chains seek suppliers of cheaper and better quality products from anywhere in the enlarged EU. The Makro cash and carry chain, which operates in both retail (as many individuals are registered customers) and foodservice markets, has its purchasing headquarters outside of the Czech Republic – most carried food products are negotiated in the Makro/Metro Trading Office in the Netherlands. Purchase of fish and seafood products is done through their Boston Trading Office, meat through their Rotterdam Trading

Office and fresh produce through their Valencia Trading Office. Tesco buys many products through their headquarters in the U.K. Lidl and Penny buy products through their German offices. All these chains also purchase products from local suppliers or Czech importers. The purchasing contact for seafood for the Metro/Makro chain worldwide is listed at the end of the report.

There is no U.S. retail chain in the country. In the 1990s K-mart operated several supermarkets in the Czech Republic, and offered many U.S. food products, such as chips, sauces, baking mixes, cereals, juices, etc. At the end of that decade K-mart was acquired by Tesco, a UK based company, which replaced many U.S. products with British brands. However, in the comparison with other retail chains from Germany or the Netherlands, Tesco still offers the most U.S. products on the market.

Once the product is listed in a retail chain, the retailer is not willing to increase price of the product for a very long time, so all price vulnerability is on the importer or exporter. In order to get a new product on the shelf, retail chains ask suppliers to pay “marketing fees”. Until recently, these fees were called “listing fees”, paid once per product. Retailers have been heavily criticized for this and renamed and recalculated the fees. Now, they are called marketing fees and are calculated from a yearly turnover of each product. Exporters should also be aware that importers expect that new-to-market products will be supported with some marketing activities at least partially paid by the exporter.

Retail chains demand that shelf life of product be longer than 2/3 of its total shelf life, otherwise they do not want to list the product. For example, if chips have a 3 year shelf life, the importer has to offer it to Tesco with a viable shelf life still over 2 years.

U.S. exporters should contact Czech importers directly (the FAS office in Prague can provide a list of importers upon request). Importers usually specialize in a product area, i.e. dry groceries, frozen products, beverages, dried fruit and nuts, alcoholic beverages, etc.

Retailers do not want to carry products containing biotech products and require that each imported product be accompanied with a statement “that it does not contain genetically modified organisms (GMO). This requirement has been a problem for exporters of some U.S. food products – corn chips, baking mixes containing soya, etc.).

A new trend in the retail sector includes self-service checkouts, which provide most retails, but the number one retailer with self-service checkout is Tesco.

Private labels

Private labels are used by all retailers in the Czech Republic. Tesco was the first one to introduce them and at the moment they carry three types of private label: “best value” with blue and white stripes offers the cheapest products in each product category, “Tesco” label carry products of good quality and higher price, imported from the U.S. and “Tesco Finest” are the most expensive specialty products imported from the U.K. The two higher end private label products replaced a lot of U.S. products that were sold in Tesco.

Specialty Stores

A new trend is also specialty stores opened by importers or producers of high quality products. Last year Nowaco (owned by Bidvest) opened its premium fresh food store in the center of Prague. It offers

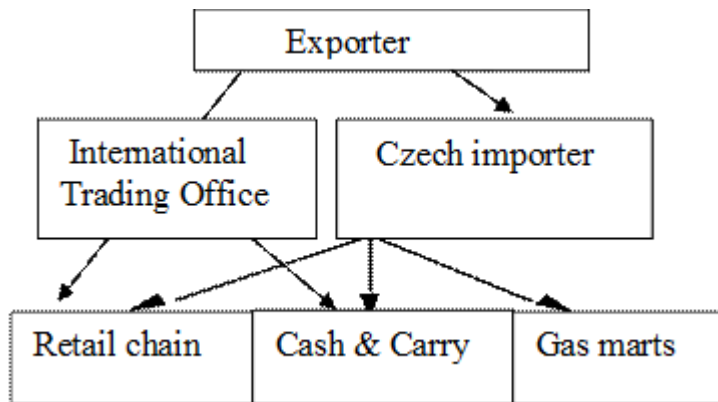
fresh fish, fresh meat, fresh pasta, game, high quality cheese and deli products. Currently Bidvest operates two stores, one in Prague and one in Kralupy nad Vltavou where the company has headquarters.

<http://www.nowacomarket.cz/#foto>

Another specialty store chain La Formaggeria, operated by Italian company Orrero, sells Italian cheese and parmesan type cheese produced in the Czech Republic “Gran Moravia”.

<http://www.laformaggeria.com/prodejni-mista/prodejni-mista-galerie/>

Market Structure



U.S. exporters have two options to get into the Czech retail sector, either through international trading offices of major chains such as Metro/Makro, Tesco, Ahold, Lidl, Penny or through Czech importers specialized on certain products (alcohol, fish, meat, dried fruits and nuts, sauces, specialty products). For a list of companies (retail contacts and importer contacts), interested exporters should contact FAS Prague (at the end of this report).

Company Profiles

Super Stores, Supermarkets, Hyper Markets or Super Centers, Club and Warehouse Outlets

Retailer Name	Ownership	Sales in 2014 in \$million	No. of outlets	Locations	Purchasing Agent Type
Kaufland	German	2,167	119	Larger cities	Direct Import & Local Distributor
Ahold	Dutch	1,648	298	Whole CR	Direct Import & Local Distributor
Tesco	U.K.	1,675	212	Whole CR	Direct Import & Local Distributor
Penny Market	German	1,354	351	Whole CR	Direct Import & Local Distributor
Lidl	German	1,161	230	Whole CR	Direct Import & Local Distributor
Globus	German	930.5	21	Larger cities	Direct Import & Local Distributor
Billa	Austrian	883.7	207	Whole CR	Direct Import & Local Distributor

(Source: Eurononitor)

Kaufland

Kaufland entered hypermarkets in the Czech Republic in 1997 through the acquisition of Bremke & Hoester stores; it established the first Kaufland hypermarket in 1998. In 2014, it had 119 outlets. Kaufland is part of the German group Schwarz Beteiligungs. In 2014, the company continued with its expansion and opened five new Kaufland outlets in the country. As in 2012 and 2013, the retailer also continued to modernize its existing stores in 2014. This renovation consists of modernizing the shopping environment, enlargement of selling space and installation of new modern.

Ahold Czech Republic

Ahold Czech Republic, the Czech subsidiary of Royal Ahold NV Netherlands, was established in 1991. At the end of 2014, the company operated 56 Albert Hypermarket outlets and 242 Albert supermarket outlets. In most Albert outlets, it is possible to pay with Euros. In 2014, the company enlarged its outlet network significantly through the acquisition of Interspar/Spar chains from International Spar. While all supermarket Spar outlets were rebranded on Albert supermarket during the second half of 2014, acquired hypermarket outlets Interspar will be rebranded during 2015. In 2014, the company also continued with the modernisation of its existing stores. In 2009, Ahold Czech Republic started to optimize its outlet network, closing unprofitable stores and rebranding all of its outlets under brand Albert (all Hypernova outlets were renamed Albert Hypermarket). The retailer also harmonized its opening hours (from 07.00hrs to 20.00hrs for supermarkets and from 07.00hrs to 22.00hrs for hypermarkets).

Tesco Czech Republic

Tesco Stores CR entered retailing in the Czech Republic in 1996, when it acquired six outlets from K-Mart. In 1998, it established the first Tesco hypermarket. The company entered supermarkets in 2005

and convenience stores in 2007. In 2014, the company operated 77 Tesco outlets and nine Tesco Extra stores in hypermarkets, 63 Tesco outlets in supermarkets, 55 Tesco Express convenience stores, 6 Tesco department stores. It is the only chain retailer within hypermarkets to offer 24-hour opening (in selected outlets).

Tesco Stores CR entered internet retailing in January 2012, when it started to offer online shopping to consumers in Prague. The company extended its online presence into Central Bohemia during 2012, into Brno (the second-largest city in the country), Hradec Kralove and Pardubice in 2013 and into Liberec in 2014. In addition, in some localities, the company also offers the service Click and Collect, when consumers can order products via the internet and collect them personally at selected outlets in selected time.

Penny Market

Penny Market was established in 1996; the first Penny Market outlet in the Czech Republic was opened in 1997. The number of Penny Market stores increased sharply due to the acquisition of Plus Diskont, a competitor chain, in 2008 and due to the establishment of new outlets. In 2014, the company opened four new outlets to operate 352 stores in the Czech Republic.

In 2011, the company started to modernize its existing outlets. The new store concept consists of modern interior design, including the arrangement of fruit and vegetables in a format that resembles a small marketplace. Penny Market is positioned as a “soft” discounter. The retailer offers approximately 1,500 products, focusing on a wide range of grocery items. As Czech consumers increasingly demand Czech-origin and regional goods, the company started to focus on offering brands and products by Czech producers.

Lidl

The parent company of Lidl is Schwarz Beteiligungs. Lidl established its first 20 discounter outlets in the Czech Republic in June and July 2003; by the end of 2003, it had 51 Lidl outlets. An intense advertising campaign accompanied its entrance into discounters, enticing consumers with the offer of “cheap, cheap, cheap” products. Lidl’s bold entrance stimulated competition in discounters and grocery retailing in general. Lidl offers a wide range of “hard discounted” products, the majority of which are private label products, originating predominantly from Polish and German companies.

Globus

Globus CR entered retailing in the Czech Republic in 1996, when it opened a hypermarket in Brno. This was the first hypermarket in the Czech Republic. The company also operates Globus Baumarkt home improvement and gardening stores. All Globus outlets have an in-store bakery and butcher, and also operate petrol stations. In addition, with the exception of one outlet in Prague, all Globus hypermarkets have their own restaurant.

Billa

Billa was established in 1990, when its parent company, Rewe Group, entered Czech retailing. The first Billa outlet was opened in 1991, and in 2014 there were 207 Billa supermarkets in the Czech Republic. The rapid expansion of the company in terms of number of outlets was due to the takeover of various brands as part of Rewe Group. The parent company acquired Delvita (in 2007) and Plus Diskont (in 2008), and several of their outlets were converted into Billa stores. In 2014, Billa continued its expansion (albeit by lower pace) and opened one new outlet.

The company introduced its pilot concept of small outlets Billa stop & shop in June 2014. These outlets

are located on petrol stations Shell (they replaced former Shell Select shops) and offer a wide range of grocery products supplemented by assortment which are usually sold in forecourt retailer shops (such as newspapers and magazines, oils, windscreen wipers and other car accessories). Five Billa stop & shop outlets were opened in 2014 and their success or failure will decide if the company will continue with the development of this concept on the Czech market over the forecast period.

Convenience Stores, Gas Marts, Kiosks

There are no chain convenience stores operated in the Czech Republic, only small independent grocery stores. The only chain stores are at gas stations, table below:

Retailer Name	Ownership	Sales in 2014 in \$million	No. of outlets	Locations	Purchasing Agent Type
Benzina	Polish	n/a	330	Whole CR	Wholesaler/Importer
Mol	Hungarian	n/a	318	Whole CR	Wholesaler/Importer
Shell	U.K./Dutch	n/a	150	Whole CR	Wholesaler/Importer
OMV	Austrian	n/a	150	Whole CR	Wholesaler/Importer
Robin	Czech	n/a	80	Whole CR	Wholesaler/Importer
Independent owners	Czech	n/a	n/a	Whole CR	Wholesaler/Importer

Concentration is the major trend on the gas station market. In 2014 Hungarian group Mol bought Slovakian Slovnaft and chains Lukoil, Agip and Papoil and currently is rebranding all gas stations to Mol. Shell remains the most expensive gas station chain on the market. These gas station marts do not import grocery products directly, but buy from importers and wholesalers.

Traditional Markets – “Mon and Pop” Small Independent Grocery Stores and Wet Markets

Traditional markets remain in smaller cities and villages throughout the country. They do not import directly, but buy products from wholesalers or cash and carry Makro. U.S. exporters do not need to focus on this market segment.

There is a high number of small grocery stores run by Vietnamese. These independent convenience stores offer basic grocery items, fruit and vegetable and have long opening hours (often till 11pm). In the past five years farmers markets offering fresh dairy, deli (sausages etc.), vegetables, specialty products (honey etc.) and bakery products have become increasingly popular, especially in larger cities.

SECTION III. COMPETITION

TOP SUPPLIERS OF CONSUMER FOODS & EDIBLE FISHERY PRODUCTS

Commodity: Consumer-Oriented

Annual Series: 2012 - 2014			
Partner Country			
	2012	2013	2014
World	4394989997	4633448979	4633448979
Germany	1057052757	1204276345	1204276345
Poland	599374860	666266411	666266411
Netherlands	532446719	536519360	536519360
Slovakia	508215291	467392542	467392542
Spain	282349046	311501512	311501512
Italy	231240558	226838670	226838670
Belgium	156819904	178543081	178543081
France	169195967	177491275	177491275
Austria	180974158	169940981	169940981
Hungary	126518603	121236159	121236159
Denmark	96750652	79861716	79861716
China	39143760	41193606	4119360
Not Determined Intra EU Trade	34041317	40582557	40582557
United Kingdom	37005941	39971945	39971945
Greece	27211005	28437892	28437892
Turkey	26820959	26781957	26781957
United States	21468003	25651707	25651707

Source: Global Trade Atlas

Czech Republic Import Statistics From United States				
Commodity: Consumer-Oriented,				
Annual Series: 2012 - 2014				
Commodity	Description	United States Dollars		
		2012	2013	2014
Consumer-Oriented		21468003	25651707	23852631
08	Edible Fruit & Nuts; Citrus Fruit Or Melon Peel	11554297	12102520	12456686
03	Fish, Crustaceans & Aquatic Invertebrates	4660003	8112872	6608484
13	Lac; Gums, Resins & Other Vegetable Sap & Extract	1508584	2232796	1263120
05	Products Of Animal Origin, Nesoi	1213186	1013939	1088923
12	Oil Seeds Etc.; Misc Grain, Seed, Fruit, Plant Etc	614982	846233	652084
10	Cereals	965052	543205	939106
01	Live Animals	443186	461830	527538
09	Coffee, Tea, Mate & Spices	120592	144378	92856
07	Edible Vegetables & Certain Roots & Tubers	244352	112176	114203

11	Milling Products; Malt; Starch; Inulin; Wht Gluten	77483	52079	81965
06	Live Trees, Plants, Bulbs Etc.; Cut Flowers Etc.	48547	24748	19908
04	Dairy Prods; Birds Eggs; Honey; Ed Animal Pr Nesoi	4422	3503	1585
14	Vegetable Plaiting Materials & Products Nesoi	13315	1428	6173

Source: Global Trade Atlas

SECTION IV. BEST PRODUCT PROSPECTS

The best product prospects include U.S. fresh beef, some fish and seafood (lobster, scallops, frozen Alaska salmon, frozen Pollock, etc.), specialty products (craft beer), and dried fruit and nuts.

Beef

Import of fresh beef from the U.S. has increased in the past 5 years 10 times from almost 300,000 USD to over \$3.2 million last year. More fresh beef is imported from Poland, the Netherlands, Germany, Ireland and Austria. The U.S. exports more beef to the Czech Republic than its traditional competitors such as Argentina, France, Australia, and Namibia.

FAS office along with US Meat Export Federation promoted U.S. beef in March 2014 at a major gastro event for HRI sector in Prague. A famous chef prepared several dishes using U.S. beef. The event was attended by over 1,000 professionals from the HRI sector.



Fish and seafood

The import of fish and seafood increased in the past 5 years by 25% from \$8 million to over \$10.5 million. The majority of the value represents fish fillets frozen. Seafood (molluscs in shell, live) represents about \$0.5 million in value.

SECTION V. POST CONTACT AND FURTHER INFORMATION

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End of Report.