

Voluntary Report – Voluntary - Public Distribution

Date: November 18,2019

Report Number: EZ2019-0008

Report Name: Retail Foods

Country: Czech Republic

Post: Prague

Report Category: Retail Foods

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Report Highlights:

The food retail sector in the Czech Republic is saturated, consolidated, price sensitive, and competitive. There is good sales potential on the Czech market for U.S. exporters of high-quality niche products such as distilled spirits, wine, frozen fish and seafood products, dried nuts, beef, and food preparations.

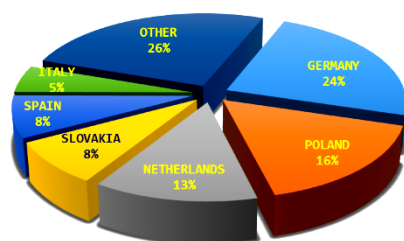
Executive Summary

With a population of 10.6 million, the Czech Republic is relatively a small market. Nevertheless, it has a fast growing and prosperous economy and an excellent geographical location in Central Europe. As the EU member, the Czech market complies with all EU market entry regulations.

Imports of agricultural and food products totaled USD 10.5 billion in 2018, which is six percent of the Czech Republic's total import value. Imports from the United States totaled over 54 USD million. The key macroeconomic data about the Czech Republic economy can be found in the 2018 [Exporter Guide](#).

Imports of Consumer-Oriented Products

In 2018, Czech Republic imported consumer-oriented agricultural products worth USD 7.35 billion; the majority of these originated from other EU member states.



Food Processing Industry

The 7,953 food processing companies employ about 97,584 people. The sector is dominated by small and medium size companies; 90 percent of which have less than 100 employees. In 2017¹, the sector generated a turnover of roughly USD 14 billion; accounting for 2.15 percent of the Czech GDP. The largest subsectors by value were meat, feed production, dairy, and bakery and confectionary; accounting for 24, 16, 14, and 13 percent, respectively.

Food Retail Industry

The sector is saturated, consolidated, price-sensitive, and competitive. The top three retail groups together account for around 57 percent of the revenues. Small retailers continue to face strong competition from large and modern grocery retailers. Currently, the Czech market has been experiencing the boom of internet retailing including all food categories. Recent trends show growing consumers' attention to quality, good-value-for-money products, and their willingness to pay a higher price for premium food products.

Quick Facts CY 2018

Imports of Consumer-Oriented Products (USD billion)
USD 7.35

List of Top 10 Growth Products in the Czech Republic

- | | |
|------------------------|-------------------|
| 1) Frozen fish | 2) Dried almonds |
| 3) Whiskey and bourbon | 4) Essential oils |
| 5) Pet Food | 6) Beef |
| 7) Pistachios | 8) Wine |
| 9) Hop pellets | 10) BBQ Sauces |

Food Industry by Channels (USD billion) 2018

Food Industry Output	14.2
Food Exports	8.6
Food Imports	10.5
Food Retail Sales	26.2

Top 10 Retailers

- | | |
|------------------------|-----------------------------------|
| 1) Kaufland (Schwarz) | 8) Globus (Globus Holding) |
| 2) Albert (Ahold) | 9) Hruska (Hruska a spol s.r.o.) |
| 3) Lidl (Schwarz) | 10) Makro Cash & Carry (Metro AG) |
| 4) Penny Market (Rewe) | |
| 5) Tesco (Tesco Plc) | |
| 6) Coop | |
| 7) Billa (Rewe) | |

GDP/Population/Exchange Rate

Population (millions): 10.6
GDP (billions USD): 245.2
GDP per capita (USD): 23,132
1 USD = 23.10 Czech Crown (November 1, 2019)

Strengths/Weaknesses/Opportunities/Challenges

Strengths	Weaknesses
One of the largest markets in Eastern Europe with growing economy	U.S. exporters face competition from tariff-free products from other EU member states
Opportunities	Threats
Growth of urban population enjoying new gastro trends, particularly among young generation and in tourist areas	Imposing tariffs on food products raises their price and makes the export difficult

Data and Information Sources:

Trade Data Monitor, Czech Statistical Office, Euromonitor Intl, GfK Czech Republic, Ministry of Agriculture and Ministry of Trade and Industry of the Czech Republic

Contact: FAS Prague, Czech Republic
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¹⁾ Latest available data

I. Market Summary

As a medium-sized, open, export-driven economy, the Czech Republic is heavily dependent on foreign demand, especially from the Eurozone. More than eighty percent of Czech exports go to EU states, particularly to Germany. Germany, Poland and Slovakia are also the major importers. Extensive dependency on exports makes the country vulnerable to trade barriers and economic shocks.

Overall, Czech Republic is a net importer of all major categories of food products. In 2018, grocery retailing reached estimated USD 26 billion while imports of agricultural products remained approximately the same as in the previous year. Imports of consumer-oriented agricultural products totaled USD 7.35 billion.

The food retail sector in the Czech Republic is saturated, price sensitive, and competitive. The market concentration is below the EU average; the largest market share is 17 percent, compared with 20-30 percent in many other EU countries. Most Czechs live in regions where several retail chains operate.

While most consumers are very price sensitive, the market also provides for a growing number of middle-class consumers who seek healthy and high-end food products. These consumers are looking for premium quality products and are also willing to pay a higher price. Consumer expenditures on food and beverages, including spirits and tobacco, account for 24.3 percent of total household spending, which is comparable to Poland and Hungary, but much higher than in Western Europe countries. The share of spending will decline gradually as non-essential spending will rise with incomes.

Retail sales volumes grew by 3.4 percent in 2017, after growth of 3.1 percent in 2016, as the economy and wage growth picked up. However, retail sales growth slightly decelerated in 2018 as the economy slowed down. In the first half of 2019 growth generally matched the 2018 pace. Annual growth will be likely slower in 2019 due to risks such as a global economic slowdown, weaker growth in Germany and uncertainty of Brexit. Although retailing is expecting to maintain solid growth in 2019-2020, it will most likely average 2.5 percent.

Besides the positive economic outlook, which will motivate consumers to spend, several other factors will keep retailing to grow. The fastest growth channel will remain internet retailing, food and drink internet retailing particularly, which already started to provide a stronger competition to traditional grocery retailers. Internet retailers will adapt to the increased use of mobile phones and bring technologies for simplified mobile shopping.

Key market drivers and consumption trends

- Czech Republic remains a price-focused market, however, with increasing income and rising consumer confidence, shoppers, especially in cities, are increasingly buying premium-quality products
- In rural areas price sensitivity will remain a major issue, favoring discounters

- Czech Republic ranks among countries with the highest proportion of promotional sales
- Ageing population and the rising number of single households are driving the demand for convenient ready-to-eat meals
- Share of consumers who view their purchasing decision as a life-style or a patriotic statement is increasing - for example, seasonal open-air markets selling fresh local products are very popular
- Consumers increasingly require traceability and information about production methods and place of origin
- Hypermarkets remain the most popular grocery channel, however, they face increased competition from discounters and internet retailers
- Czech consumers typically travel for bigger weekend purchases, but for smaller everyday grocery shopping, they tend to go to smaller stores within walking distance from their homes
- Cash & Carry is not a common format, but it is an important trade concept serving mainly small businesses and self-employed entrepreneurs - Makro Cash & Carry is the major operator with 13 outlets across the country
- Food and drink internet retailing is one of the most dynamically growing categories, recording the double-digit sales value growth in 2018

Please see our Czech Republic country page at www.fas-europe.org with more information and reports.

Table 1: Advantages and Challenges

Advantages	Challenges
One of the largest markets in Eastern Europe with growing economy	Conservative consumers demand local and low-price products
Central location in Europe with many transportation and trade channels	Retailers prefer purchasing from other EU countries
Developed distribution system, highly integrated with Germany	U.S. exporters face competition from tariff-free products from other EU member states
Compliance with EU legislation	Listing fees paid to retailers limit the introduction of new U.S. brands
Czech Republic is a popular tourist destination, with Prague being one of the most frequently visited city in Europe	Non-tariff barriers such as phytosanitary restrictions and traceability requirements can make exporting complicated
Growth of urban population enjoying new trends, particularly among young generation and in tourist areas	Some products of modern biotechnology are prohibited as they are not approved in the EU
Minimal or zero domestic production of specific agricultural products (wine, nuts, fish)	Czech language labelling requirements

Source: FAS Prague

II. Road Map for Market Entry

Entry Strategy

U.S. companies seeking to export goods to the Czech Republic are advised to do thorough research for a good understanding of the market. FAS GAIN Reports are a good source for country specific information: <http://gain.fas.usda.gov>. The best approach to reach out to Czech retail buyers and prospective importers is to contact them directly via e-mail or to ask FAS Prague for additional assistance and guidance. Product catalogues and price lists are essential, and samples are helpful.

U.S. exporters can also contact their respective U.S. State Regional Trade Groups (SRTG), their Commodity Cooperator Group, and their state Department of Agriculture to obtain additional support.

State Regional Trade Groups (SRTG) are non-profit trade development organizations that help U.S. food producers and processors to enter overseas markets. They are funded by USDA/FAS and the private industry. They carry out promotional activities to increase exports of U.S. high-value food and agricultural products. For more information, contact the state regional trade group responsible for your state: <https://www.fas.usda.gov/state-regional-trade-groups>

The **U.S. Agricultural Export Development Council** is composed of U.S. commodity trade associations and other organizations, in addition to the SRTGs, with an interest in promoting U.S. agricultural exports. For an overview and additional information on the various Commodity Groups, you can go to <http://www.usaedc.org/>. The [Commodity Cooperator Groups](#) regularly organize (reverse) trade missions, often organized around trade shows or other events. They also are excellent platforms for U.S. suppliers of food ingredients to meet with foreign buyers.

Import Procedure

Importers represent the first link in the domestic sales chain and are consequently responsible for the compliance of imported products with national and EU regulations. The European Commission has published the following guidance document which refers to key Community law requirements: "[Guidance document – Key questions related to import requirements and the new rules on food hygiene and official food controls](#)".

Most Czech food retailers buy from central importers/distributors importing food and beverages. In general, these importers have an in-depth knowledge of importing requirements, such as product certification, labeling, and packaging. They also typically handle shipping, customs clearance, warehousing, and distribution of products within the country. Since distribution channels are highly integrated with Germany, many food products of U.S. origin (e.g. dried nuts) are not included in U.S. imports statistics due to transshipments (re-export) from Germany and the Netherlands.

Sales and Marketing

The Czech Republic remains a top destination for retail brands in Central and Eastern Europe. It is a price-sensitive market where promotional sales are very important. Nevertheless, recent trends prove that high quality, place of origin, and sustainability are becoming more important to Czech consumers. Food and beverage sales and marketing are currently more customer-oriented aiming at a pleasant

shopping experience and a personal approach. Including up-to-date technologies in retail environment is necessary to stay competitive.

Private Labels

Retail chains in the Czech Republic have recognized the growing importance of private labels, which have become now one of very important competitive tools. Private labels of packed grocery excluding fresh products account for 24 percent of value spent. These labels do not serve only as a profit-generation tool, they are essential for communication with customers as well as an image-setter. Private label products often bear the name of the parent chain and provide a unique image that cannot be found anywhere else. In the past, customers used to purchase these products exclusively for their low cost, however, they are now primarily looking for a good price-value purchase. As the result, private label products are not perceived as a substandard any longer and their popularity is slowly but constantly growing.

Market Structure

Retail value sales has been growing for last five years thanks to rising purchasing power resulting from strong wage growth and general economic prosperity. Food retailers maintain solid value growth within store-based retailing despite an overall decline in the number of outlets. Major grocery retail chains redirected funds into store modernization, whereas many smaller and low-profit stores in rural communities were closed. As a result, value growth per outlet continued to rise in 2018.

In general, promotions are still very important to a large percentage of Czech consumers preferring a low price to a premium product, however, as purchasing power rises, there is a growing demand for premium products particularly in urban areas. Premium product sales are supported by store modernization and digitalization.

All key grocery retailers have recently invested in their store modernization including a customer-friendly layout and orientation as well as focusing on expanding fresh food areas. In addition, non-grocery shelf space tends to be reduced in favor of higher value food products. Particularly hypermarkets are aware of changing behavior of Czech customers now seeking a more convenient and less time-demanding shopping experience resulting into selling space reduction. The current trend to invest into existing outlets rather than to open new ones is expected to continue in future. Retailers will continue to implement up-to-date technologies, such as digital price tags, self-checkout counters, scan-and-shop technology, and mobile shopping. For example, a combination of Tesco's mobile Scan & Go application, self-checkout counters and contactless payment terminals enables customers to carry out their entire shopping trip with smartphones. Additionally, digitalization is very important due to lack of workforce and very low unemployment.

Internet retailing continues to be the major driving force behind Czech retailing in 2019. The country has recently experienced the boom of e-shopping for all food categories particularly in large cities like Prague and Brno. Grocery online sales reports 70 and 52 percent year-by-year growth in 2017 and 2018, respectively. And after the wave of grocery store modernization reaches its final stages, food retailers are expected to start launching their e-shops even more actively. Online purchases reached a breaking point in 2018, i.e. 10 percent of total retail sales. With food accounting for 2.5 percent of FMCG (Fast-Moving Consumer Goods) internet sales, the Czech Republic ranks third in Europe following the UK and France. Further expansion of food and drink internet retailing is anticipated, changing this shopping

channel from a niche alternative to a real competition to traditional grocery outlets. Despite fierce competition, complex logistics and demanding “last mile” management, the specialized and by far the largest online food retailer “Rohlik.cz” reached \$113 million sales in 2018 and plans to expand their business into other Central and Western European countries. Considering they launched in Prague just 5 years ago, their growth in turnover, sales territory and customer service quality is a true business success.

Food and drink internet retailing reached USD 138 million in 2018 and is expected to double its sales value in four years. While online grocery shopping is still limited to major urban areas, almost one third of Czech consumers had already bought groceries online. The growth potential for food and drink internet retailing is very high, as a significant number of Czechs would welcome the opportunity to buy groceries online although many regions are not covered yet.

Table 2: Quick Retail Facts

Top 3 Retailer Groups (Schwarz Group, Rewe, Ahold)	57% of FMCG value
Stationary retail share of private consumption	
<ul style="list-style-type: none"> • Czech Republic • EU-28 average 	<ul style="list-style-type: none"> 40.2% 30.5%
Private labels in packed food excl. fresh	24% of FMCG value, slowly growing trend
Internet retailing share	10% of total retail sales value
Grocery online sales	2.5% of total FMCG internet sales
Grocery online sales Y-O-Y growth	70%
Promotional purchases	47% of total FMCG value spent incl. fresh
Retail Channels (Sales Value)	
<ul style="list-style-type: none"> • Hypermarkets • Supermarkets • Discounters • Convenience • Specialists • Other 	<ul style="list-style-type: none"> • 30% • 17% • 24% • 11% • 5% • 13%
Trading Up/Down (food & beverages)	
<ul style="list-style-type: none"> • 2018 • 2019 	<ul style="list-style-type: none"> • - 2.8% • +0.6 %

Sources: FAS Prague

All leading food retailers in the Czech Republic are part of large German or British retailer groups. There is no U.S. retail chain in the country. In 2019, the top three retail chains (Schwarz Group, Rewe, Ahold) have a 57 percent market share.

Hypermarkets continue to be the most popular grocery channel in 2018, however, they face increasing competition from discounters and online retailers. Hypermarkets, especially Kaufland and Ahold, keep investing in their outlet modernization and selling space optimization. The general trend in Czech hypermarkets is an increasing focus on grocery items, particularly on fresh and healthy products. For example, Ahold introduced its new in-store concept “Trznice u Alberta (“Alberts’ Marketplace”)” creating the vibe of a traditional marketplace with fresh food. Finally, a decrease in the average selling

space per outlet is recorded as the result of Czech consumers' demand for quicker and simpler shopping experience. Limited or no increase of the total number of outlets is expected due to growing real estate prices and complicated building permit procedures.

Kaufland remains the leader in hypermarkets based on both the number of outlets and value sales. The German retailer has been working hard to change its image among Czech consumers from a low-price retailer to a quality products seller. Ahold Czech Republic and Tesco Stores compete closely for the second place in terms of value sales. While Ahold continues to invest in their existing outlets redesign, Tesco has focused on their e-shop and smaller store formats including convenience stores (franchise network Zabka).

Table 3: Profiles of Top Food Retailers in the Czech Republic

Retailer Name and Outlet Type	Food Sales (\$million/2018)	No. of Outlets (2018)	Locations
1. Schwarz Group			
<ul style="list-style-type: none"> Kaufland (Hypermarkets) Lidl (Discounter) 	4,995	130 250	nationwide nationwide
2. Rewe Group			
<ul style="list-style-type: none"> Billa (Supermarkets) Penny Market (Discounter) 	3,168	237 380	nationwide nationwide
3. Ahold			
<ul style="list-style-type: none"> Albert Hypermarket Albert Supermarket 	2,259	90 235	nationwide nationwide
Rohlik cz. (Largest Online Retailer)	113	-	urban areas

Sources: Czech Press Office, Czech Statistical Office, Euromonitor Intl

Table 4: Czech Republic Import Statistics

Czech Republic Import Statistics					
Commodity: Agricultural Trade SST, HS 1-24					
Annual Series: 2014 - 2018					
Partner Country	Thousands USD				
	2014	2015	2016	2017	2018
WORLD	9,632,982.00	8,973,279.00	9,197,770.00	9,830,545.00	10,491,491.00
Germany	2,309,739.00	1,966,881.00	2,057,437.00	2,310,878.00	2,479,057.00
Poland	1,657,600.00	1,901,078.00	1,875,097.00	1,722,217.00	1,854,871.00
Netherlands	898,739.00	886,667.00	928,960.00	983,751.00	1,030,597.00
Slovakia	871,640.00	730,327.00	722,007.00	724,477.00	783,903.00
Italy	462,192.00	450,244.00	487,871.00	527,981.00	573,274.00
Spain	446,877.00	424,177.00	465,659.00	525,396.00	553,583.00
Hungary	395,785.00	339,794.00	336,659.00	423,877.00	468,510.00
Austria	397,470.00	346,496.00	332,645.00	361,941.00	381,433.00
France	370,253.00	300,788.00	305,564.00	336,059.00	374,534.00
Belgium	407,788.00	352,519.00	322,899.00	376,278.00	367,429.00
United Kingdom	194,834.00	177,725.00	182,558.00	186,028.00	204,723.00
Romania	46,479.00	59,875.00	116,769.00	140,778.00	180,427.00
Lithuania	33,784.00	30,152.00	33,256.00	83,351.00	98,549.00
Denmark	116,475.00	98,169.00	86,873.00	93,996.00	94,692.00
Turkey	100,416.00	81,478.00	78,827.00	85,657.00	85,187.00
China	81,032.00	68,589.00	67,531.00	76,266.00	81,291.00
Ireland	55,930.00	47,052.00	59,860.00	61,216.00	74,980.00
Sweden	52,558.00	44,053.00	53,884.00	52,843.00	74,909.00
Greece	54,039.00	44,170.00	55,753.00	65,707.00	68,221.00
United States	53,740.00	56,291.00	49,040.00	55,237.00	54,087.00
Bulgaria	32,911.00	27,497.00	38,730.00	65,104.00	46,720.00
Ukraine	29,195.00	21,187.00	22,970.00	33,048.00	41,292.00
Not Determined					
Intra EU	51,236.00	41,578.00	53,896.00	50,095.00	28,886.00
Croatia	17,842.00	16,563.00	18,437.00	18,361.00	26,815.00
Latvia	19,063.00	19,559.00	33,667.00	43,575.00	25,794.00
Vietnam	21,921.00	19,333.00	20,557.00	24,057.00	24,242.00
Mexico	25,982.00	31,155.00	27,428.00	26,377.00	22,450.00
Thailand	30,467.00	22,804.00	16,604.00	21,116.00	21,543.00
Russia	10,747.00	8,911.00	11,578.00	12,125.00	21,118.00

Source: Trade Data Monitor

III. Best Product Prospects

Products in the market that have good sales potential

- Fish and Seafood: Salmon, pollock, hake
- Dried Nuts and Fruits: Almonds, pistachios, raisins, prunes, cranberries
- Essential oils
- Distilled spirits

Products not present in significant quantities, but which have good sales potential

- Hormone-free beef
- Wine
- Hops pellets

Products not present because they face significant boundaries

- Food additives not approved by the European Commission
- Red meat and meat products with hormones
- Most poultry and eggs

IV. Key Contacts and Further Information

If you have questions or comments regarding this report, or need assistance exporting to the Czech Republic, please contact the Foreign Agricultural Service in Prague.

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Attachments:

No Attachments.