*Focus on East European Retail Food Markets*

# The Czech Republic Offers U.S. Exporters a Window on the Region

*By Priscilla B. Glynn*

***With the collapse of Soviet authority in 1989, Czechoslovakia gained its autonomy through a peaceful change of government, called the "Velvet Revolution" to distinguish it from the armed upheavals that brought about many changes in the rule of East European countries over the past century. On Jan. 1, 1993, the country underwent a "velvet divorce" that divided it into two separate nations, the Czech Republic and Slovakia. Each country is now a parliamentary democracy.***

***Both nations have made steady progress toward greater integration into world political, social and economic affairs. They are members of the United Nations and the World Trade Organization, as well as applicants for membership in the European Union. The Czech Republic is also a member of the Organization for Economic Cooperation and Development.***


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With a developing economy and a conveniently central location in the European landscape, the Czech Republic offers interesting prospects to U.S. consumer food exporters.

The Czech Republic is a bit smaller than South Carolina, has a population of 10.3 million, a labor force of 5.2 million and an unemployment rate of 9 percent.

It has a diversified, growing economy that is more developed and resilient than those of many former Communist states. Its per capita gross domestic product reached $11,700 in 1999; its inflation rate hovers around 2.5 percent.

## Concentration Is the Name of the Game

The Czech retail sector is comparable to many West European nations in its standards for quality, management and diversity of products, as well as in its merchandising sophistication. The value of overall retail food sales amounts to roughly $8 billion–with imported foods accounting for 25 percent of the total.

The most significant trend in the Czech food retail sector is the concentration that began several years ago. The trend was kicked off by the arrival of some international food retail chains, such as Ahold (from the Netherlands), Tesco Stores (the United Kingdom), Globus (Germany), Delvita (Belgium) and Carrefour (France), which have set up hypermarkets and supermarkets.

Here's a statistic to demonstrate the Czech market's intensifying concentration: in 1999, the 10 largest companies racked up sales of $3.4 billion, up a whopping 50 percent from the previous year.

This market is also growing rapidly. In 1989, the Czech Republic had 15,000 food retail outlets with a total shopping area of 1.1 million square meters; by 1999, there were nearly 35,000 outlets occupying 2.6 million square meters. Nonexistent in 1989, food-product marketing has skyrocketed in the last few years, including the appearance of house brands, flyers and extensive promotions.

Another big change has been the emergence of the gas mart, a combination service station and convenience store, usually open 24 hours a day.

## Expanding Shopping–and Selling–Horizons

All of the above factors, plus the Czech Republic's improving economy, are altering the market. Consumers are changing their buying habits from daily purchases to once-a-week supermarket shopping. Small, traditional grocery stores are disappearing from the scene as the appeal of other out-

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lets–especially supermarkets and hypermarkets–grows.

Consumers have less time, more disposable income and better equipped households boasting microwaves and freezers. Although price remains the critical factor in purchasing decisions, these other factors are boosting demand for prepared meals, convenience foods and greater product choice–a trend that will continue.

In the short run, the strong U.S. dollar renders U.S. products more expensive than counterparts from other countries. While the dollar has remained strong, competitor currencies have fallen in value, making their products cheaper relative to U.S. offerings and thus undermining the competitiveness of U.S. products.

On June 13, Tesco is beginning a two-week promotion showcasing U.S. products in its hypermarkets and supermarkets across the country. Promotions such as this can help U.S. exporters overcome the challenge of relatively higher prices.

Tourism is also increasing sales: the Czech Republic draws millions of tourists each year who provide a steady market for a wide range of consumer foods. Furthermore, 7,000 Americans live in the Czech Republic year-round, and in summer the number doubles to about 15,000. For the nation as a whole, cultural influences, such as movies, are heightening awareness and consumption of foods considered typically American. ■

**THE CZECH MARKET FOR RETAIL FOODS AMOUNTS TO ABOUT $8 BILLION A YEAR.**

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**How the Czech Republic and Slovakia Fit Into The**


## Road Map for

Thanks to their strong market positions, international chains like Ahold, Tesco, Carrefour and Delvita can impose various concessions on their suppliers; for example, some chains have shifted many retailing costs onto them.

Most supermarket and hypermarket chains use importers and wholesalers to import products. Tesco imports U.S. products directly from Wakefern, a New Jersey-based wholesaler and exporter. Some wholesalers also are growing very fast, and are providing a broader range of services to their customers.

In the Czech market, shopping malls with fast food restaurants, specialty stores and movie theaters are being built around the largest hypermarkets. Shopping malls are spreading from large to medium-sized cities.

In Slovakia, the recent expansion of large multinational retail chains means that U.S. suppliers can now avail themselves of

# Multinationals Are Storming the Slovak Market

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## Market Entry

improved distribution channels to include it in their regional marketing efforts. For example, Tesco, Carrefour and Delvita conduct their distribution and marketing activities from the Czech Republic.

Most retailers charge slotting fees to place products on the shelf, and most require the supplier to give credit (often up to 90 days). Retailers may use purchasing associations, wholesalers or their own import divisions to obtain U.S. products.

Suppliers usually have to register their products with the company headquarters. Individual stores are then able to contact suppliers and purchase products directly from the supplier.

For practical, nuts-and-bolts information, including contacts at FAS posts, attaché reports, foreign buyer lists and trade leads, visit the FAS home page at: **http://fas.usda.gov**

The economic boom seen in much of Eastern Europe in the 1990s has arrived later in Slovakia than in neighboring countries like the Czech Republic, Hungary and Poland. But arrive it has.

In the past two years, a new kind of revolution has gripped Slovakia. Foreign firms have responded to Slovakia's improving economic and political climate by engaging in an all-out market invasion.

### Economic Hurdles

This landlocked country, about twice the size of New Hampshire, has a population of 5.4 million and a labor force of 3.3 million. Unemployment remains high (roughly 20 percent), as does inflation (about 14 percent).

As in many countries, the unemployment problem in Slovakia originated with its transition from a centrally planned to a modern market economy. The removal of price controls and subsidies, along with the opening of the economy to foreign trade and competition, induced rapid restructuring and consequent dislocations that led to declines in output, income and employment.

In view of these obstacles, what is making Slovakia an attractive market to food wholesalers and retailers?

### The Political Climate

Slovakia is making great strides in stabilizing, modernizing and expanding its economy. The government is trimming deficits and grappling with such fundamental structural problems as inefficient enterprises, a struggling banking sector and lower tax revenues.

In 1998, Slovakians elected a government with more open-market policies, which helped give foreign wholesale and retail investors greater confidence in the market's future. Before this time, Slovak retailers had faced very little competition, and abused this position by charging excessive profit margins and providing poor customer service.

### Expanding Outlets and Consumer Choices

The introduction of hypermarkets changed shopping behavior in Slovakia, almost overnight. Low prices, long store hours (often 24 hours a day), large parking lots, promotional sales and diverse product selection have attracted Slovak consumers who previously patronized only small local stores. Today, a hypermarket may draw regular customers in a radius of 20-30 kilometers.

However, many new hypermarkets are being built, so store density–the number of stores in an area–will increase dramatically in 5-10 years. Consequently, retail food prices will decline, as they have in Hungary and the Czech Republic. Sales for small local retailers will continue to drop.

The market share of foreign-owned hypermarkets will increase to 15 percent by 2003. Tesco Stores (a United Kingdom retailer) plans to open four new Slovak sites just this year. Industry sources also report that Slovakia has the highest hypermarket sales per square meter of any East European country–indicating the market remains under served.

The number of convenience stores, gas marts and kiosks has grown tremendously in the last 10 years–from a handful in 1990 to almost 3,000 by 2000. The number of gas stations has increased more than five-fold, and most of the new stations are

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coupled with convenience stores. However, most industry observers agree the market for convenience stores is nearing the saturation point, and that future expansion will therefore be modest.

The most common specialized stores in Slovakia are meat/butcher shops, bakeries and poultry stores. Many are broadening their product ranges, but it remains to be seen what role they will play in the face of competition from hypermarkets, which usually feature their own bakery, butcher and fish sections.

Franchising in Slovakia is just beginning to grow and includes hotels, fast food operations, gas stations and business services. American franchisees are limited, but do include such well-known names as McDonald's and Pizza Hut. However, franchisers should be prepared to offer creative financial programs. Some of Slovakia's ablest entrepreneurs do not have the capital to pay traditional franchising fees.

**FOREIGN RETAILERS WILL LIKELY CAPTURE 15 PERCENT OF THE MARKET BY 2003.**

Between 80 and 90 percent of food products sold in hypermarkets are produced in Slovakia. The main advantage of domestically produced products is price, and in some cases, such as local beers, exceptionally good quality. Outlets turn to imports for items in short domestic supply (such as seafood and some produce), and to satisfy demand among consumers looking for a wider array of products. ■

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## Most Promising Products

Here's a run-down of U.S. products with strong potential in the Czech and Slovak retail food markets:

- **fish and seafood**
- **bourbon and whiskey,** especially when supported by an in-store promotion
- **snack foods**
- **dried fruits and nuts,** especially almonds
- **Tex-Mex items,** like salsa and corn chips
- **fruit juices,** especially concentrates
- **canned sweet corn**
- **pet food**
- **rice**
- **citrus fruits**
- **peanut butter**
- **baking mixes,** such as pancake and muffin mixes
- **microwave popcorn**
- **syrups,** especially specialty syrups such as maple or fruit-flavored