

Voluntary Report – Voluntary - Public Distribution

Date: June 02, 2023

Report Number: EZ2023-0005

Report Name: Retail Foods

Country: Czech Republic

Post: Prague

Report Category: Retail Foods

Prepared By: Martina Hlavackova

Approved By: Kirsten Luxbacher

Report Highlights:

The turnover of the Czech retail foods sector was valued at \$24.5 billion in 2022. Czech consumers are price focused, but interest is increasing in food items with qualities such as sustainability, health, and uniqueness. While locally produced and EU-imported agricultural products dominate the Czech market, there are good opportunities for U.S. products, particularly at the upper end of the market. U.S. food exports with best sales potential in the retail sector include distilled spirits, tree nuts, dried fruits, snacks and cereals, sauces and spices, beef, wine, and frozen fish.

Market Fact Sheet: Czech Republic

Executive Summary

The Czech Republic serves as an entry point for U.S. companies expanding beyond traditional markets in western Europe to the developing markets in the east. As a member of the European Union (EU), the Czech Republic complies with EU market entry regulations. In 2022, economic growth reached 2.4 percent. The Czech Republic is 30-40 percent self-sufficient in food production. Imports of agricultural and food products totaled \$13.7 billion. Top suppliers are Germany, Poland, Italy, and The Netherlands.

Agricultural Imports from the USA

In 2022 imports of agriculture and related products (HS chapters 01-24) from the United States totaled \$125.4 million, up by 15 percent since 2021. Consumer-oriented products accounted for \$80 million. Tree nuts, food preparations, distilled spirits, pet food, processed fruits, beef, non-alcoholic beverages, and wine are the most widely imported consumer-oriented products from the USA to the Czech Republic.

Food Processing Industry

The food and beverage industry in the Czech Republic accounts for 7 percent of GDP and for 8 percent of employment. In 2022, 11,000 companies of the sector generated total sales of \$18 billion and employed 110,000 people throughout the country. The major sub-sectors are meat processing, dairy, and fodder production. Beverage production is dominated by beer brewing and the production of beer ingredients, particularly malt.

Food Service Industry (HRI)

The hospitality sector employs almost 200,000 people in more than 21,000 restaurants and 5,500 hotels. Although the industry was one of most severely impacted sectors by the COVID-19 pandemic and is struggling with lack of workforce, it maintains its reputation of an appealing business for Czech entrepreneurs. In 2022 there was a gradual return to back to pre-pandemic levels.

Food Retail Industry

The retail sector profited from the closure of many foodservice outlets during the COVID-19 pandemic. Its turnover in 2022 reached \$24.5 billion. While the total number of small independent grocers decreases every year, large international chain retailers operate 1,600 stores and continue to expand. Internet retail remains the fastest growing channel. The market share of online shopping for food is 4.2 percent - close to the European average (4.4 percent). Although still limited to urban areas, online shopping for food has created a much more competitive market, challenging all major chain retailers to expand or to enhance consumers' shopping experience.

Quick Facts CY 2022

Imports of Agricultural Products from USA
\$125.4 million

Imports of Consumer-Oriented Products from USA
\$80 million

List of Top 10 Sales Value Agri Products imported to the Czech Republic from the World

- | | |
|--------------|-----------------------|
| 1. Pork Meat | 2. Bread & Pastry |
| 3. Cheese | 4. Animal Feed Preps |
| 5. Chocolate | 6. Poultry |
| 7. Coffee | 8. Wine |
| 9. Beef | 10. Distilled Spirits |

Czech Republic Retail Brands (Companies)

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

GDP/Population

Population (millions): 10.5
GDP (billions USD): 281.6
GDP per capita (USD): \$26,821
2022 Economic Growth Rate: 2.4%
2023 Economic Growth rate (estimate): 0.5%

Exchange rate

1 USD = 21.25 Czech Crown (5/5/2023, Czech National Bank)

Sources: Trade Data Monitor, Czech Statistical Office, Euromonitor Intl, Czech National Bank, Czech Ministry of Industry and Trade, World Bank

Executive Summary:

The turnover of the Czech retail foods sector was valued at \$24.5 billion in 2022. The sector is relatively consolidated, with three leading food retailers controlling 60 percent of the market. Although still limited mainly to urban areas, online shopping for food is popular in the Czech Republic, accounting for 4.2 percent of all food sales retail value, which is close to the European average (4.4 percent). To compete with this fastest growth channel, food retailers are increasingly investing in innovative layouts and up-to-date technologies to attract particularly younger customers to their traditional grocery outlets. The Czech Republic has always been an extremely price-focused market and this trend has been recently intensified by the upward trend in inflation. While locally produced and EU-imported agricultural products dominate the Czech market, there are good opportunities for U.S. products, particularly at the upper end of the market, such as wine, distilled spirits, and beef.

SECTION I MARKET OVERVIEW**Overall Business Climate**

An open investment climate is a key element of the Czech economy. Located in the center of Europe, it is a gateway to both eastern and western markets and combines a skilled labor force with good work ethic and high use of technology. The Czech economy is characterized by a high degree of entrepreneurship, good conditions for doing business, and a high percentage of English-speaking population in urban areas.

According to the Czech National Bank, the Czech economy grew by 2.5 percent in 2022 and is projected to decrease by 0.3 percent in 2023. The economy continues to find ways to mitigate the cumulative negative impacts of the COVID-19 pandemic, from which it is still recovering, and the war in Ukraine.

The Czech Republic began 2023 with one of the highest inflation rates in the European Union. Inflation accelerated to 17.5 percent in January before gradually declining to 11.6 percent in May. High food price growth is a significant driver of inflation, has become an important political issue. Some government officials blame food producers and processors, distributors, and retailers for taking advantage of the current situation to increase their profit margins.

The Czech National Bank forecasts a stronger downward trend in inflation in the second half of 2023. At this time, inflation is expected to decrease to about 10 percent. In the second half of 2024, the National Bank also forecasts a return that is close to the 2 percent target over the monetary policy horizon (*Source: Czech National Bank*).

Czech Food Retail Market

Since 2019 trade, including for the retail sector, has been affected by unprecedented situations. For two years the COVID-19 pandemic significantly impacted the market. Last year Russia's invasion of Ukraine greatly impacted society and the economy.

Changes in the market and in purchasing behavior are numerous and often contradictory. For example, dramatic price increases mean that consumers are focusing more on prices. This is changing the balance between distribution channels. At the same time the modernization of trade and shopping habits continues.

The total turnover of the Czech food retail industry is likely to significantly increase in 2022 and will probably exceed CZK 540 billion (\$24.5 billion). However, the cause of this growth is extremely high inflation. If the price development remains unconsidered and the constant prices are used to calculate the turnover value, we will be able to see a long period from February 2020 up to present when the monthly sales values turned negative.

Retail trade sales volumes in the Czech Republic steadily increased until the beginning of 2020. Throughout 2020 retail sales volumes fluctuated significantly, especially while COVID-19 lockdowns were in place. The Czech Republic began 2021 in lockdown. During this time, no hospitality venues were open while 'stay local' instructions were in place. As a result, grocery retailers continued to benefit from the country's COVID-19 related restrictions in the first quarter of 2021. Many people continued to cook more at home, while income pressures did not translate into less spending on groceries. Another factor supporting the retail sector at that time was that many people continued to limit their spending on services, particularly on travel and tourism, which left them with extra disposable income to spend on food.

Retail food sales started to decline in the second quarter of 2021 resulting in a year-on-year decrease of 0.4 percent in 2021 and 9.8 percent in 2022. This decrease is the direct result of the high inflation rate, rising energy prices, and changing consumer behavior.

Future development is obviously very hard to predict due to the general uncertainty. Nevertheless, a certain prediction might be calculated while using key indicators (inflation, consumer confidence index and recent retail dynamics). The most likely, "medium scenario" expects a decrease of 5 percent in food retail sales at constant prices (excluding inflation) from October 2022 to September 2023. However, due to rapidly rising prices in the hospitality sector (in combination with other difficulties in this industry), we might expect an additional spillover of spending for catering services, restaurants, etc. to purchases in retail stores. This would offset the expected decline in retail sales to a certain extent.

Food Retailers in the Czech Market

The top three food retailers in the Czech Republic, all part of large German or Dutch retailer groups, have a 59.8 percent market share. As a result, a large number of imported retail items are transshipped through Germany and the Netherlands.

Table 1: Profiles of Top Food Retailers in the Czech Republic

| Retailer Name and Outlet Type | Food Sales (\$million/2022) | No. of Outlets (2022) | Market Share % (2017) | Market Share % (2022) |
|--|-----------------------------|-----------------------|-----------------------|-----------------------|
| 1. Schwarz Group <ul style="list-style-type: none"> Kaufland (Hypermarkets) Lidl (Discounter) | 6,181 | 140 307 | 26.7 | 30.5 |
| 2. Rewe Group <ul style="list-style-type: none"> Billa (Supermarkets) Penny Market (Discounter) | 3,318 | 240 397 | 15.0 | 17.1 |
| 3. Ahold <ul style="list-style-type: none"> Albert Hypermarket Albert Supermarket | 2,772 | 335 | 12.1 | 12.2 |
| | | | | |
| Rohlik cz. (Largest Online Retailer) | 545 | - | urban areas | urban areas |

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

Table 2. Sales in Grocery Retailers by Channel: Value excl. Sales Tax 2019-2021

| USD million | 2019 | 2020 | 2021 |
|---------------------------|---------------|---------------|---------------|
| Modern Grocery Retailers* | 17,028 | 18,478 | 19,732 |
| Total Grocery Retailers | 19,664 | 20,906 | 22,195 |

*Modern grocery retailers are hypermarkets, supermarkets, discounters, forecourt retailers, and convenience stores

Table 3. Grocery Retailers Forecasts: Value Sales 2022-2024

| USD million | 2022 | 2023 | 2024 |
|-------------|--------|--------|--------|
| Value sales | 23,080 | 23,748 | 24,304 |

Source: Euromonitor International

SECTION II EXPORTER BUSINESS TIPS

Table 4: Advantages and Challenges for U.S. Exporters on the Czech Market

| Advantages (strengths and market opportunities) | Challenges (weaknesses and competitive threats) |
|---|--|
| The Czech Republic is an important gateway for doing business in Central and Eastern Europe markets. | Local importers prefer to do business with small orders and the growing trend of single portion packaged food. Many U.S. exporters prefer to manufacture/export larger quantities. |
| One of the largest markets in Eastern Europe. | Czechs are price-sensitive consumers. Due to extra transportation costs and import tariffs U.S. exporters face strong competition from suppliers from other EU member states. |
| Change in food consumption habits towards new trends, particularly among younger generations and in tourist areas. | General lack of U.S. brand awareness requires a long-term business plan and investment in market promotions. |
| Developed distribution system, highly integrated with Germany. | Conservative consumers demanding local and low-price products. |
| Growing segment of consumers seeking out high quality rather than just low-price products and services, particularly in major urban areas. | Czech language labelling requirements. |
| Growing demand for high quality pet food, Czechs rank first in number of pets per capita in the EU. | U.S. products may suffer from a negative perception linked to fast food and unhealthiness. |
| As a landlocked country with climate limits, Czech Republic needs to import products like seafood, tropical fruits and nuts, red wine, etc. | |

SECTION III IMPORT FOOD STANDARDS & REGULATIONS AND IMPORT PROCEDURES

Most Czech food legislation is harmonized at the EU level. Complete information on EU import rules for food products may be found at:

<https://www.usda-eu.org/trade-with-the-eu/eu-import-rules/>

Where EU regulatory harmonization is not yet complete or absent, imported products must meet existing Czech legal requirements.

See the latest Food and Agricultural Import Regulations and Standards (FAIRS) GAIN reports - The Czech Republic, which can be found on the USDA GAIN database

<https://gain.fas.usda.gov/#/search>.

Harmonized certificates and information related to trade with commodities that are subject to veterinary controls are available on-line at the website of the State Veterinary Administration: <https://en.svs-cr.cz/trade-with-vet-commodities/general-information/>

SECTION IV MARKET SECTOR STRUCTURE AND TRENDS

High Inflation Makes People Spend Less

The value of retail sales has been decreasing since 2022 – both in food and non-food categories. Unlike in the past, this trend was not temporarily reversed during the December 2022 holiday season. The year-on-year turnover of retail foods decreased by 10.2 percent that month, making this number the lowest since 2001.

3 Changes in Consumers' Behavior

The most obvious change is growing popularity of “promotional sales shopping baskets.” These promotions have always been extremely popular in the Czech Republic. However, popularity is growing outside of the senior demographic. In particular, the 35-44 age group is increasingly partaking in these promotions. The share of people planning their weekly "sale shopping basket" has increased from 36% in 2021 to 40% in 2022. Similarly, “sales offer” is now an important decision-making factor for choosing a specific retailer. The second change is limiting the purchase value and the total consumption, which applies mainly to single or two-person households. This change includes both the over 50- and 20–35-year-old age groups. The last change is a shift to less expensive brands, including private labels in retail chains. FAS Prague foresees an increase in private label sales. (Source: STEM/MARK Agency, *Shopper Review*)

Discounters' Popularity Growing

The change in shopping behavior is also reflected in the balance of retail structure. In 2022, discount stores (i.e., Lidl, Penny, and Norma) possessed 33% of loyal customers on the Czech market, up from 29% in 2021. On the other hand, e-shops with a wide range of fast-moving goods (Rohlik.cz, Košík.cz, iTesco) did not replicate their rapid sales growth in 2022. However, these outlets did keep their four percent market share of buyers reporting e-commerce as their major shopping channel for food.

Value for Money is What Matters

Although the Czech Republic has always been an extremely price-focused market, with increasing income and rising consumer confidence, shoppers, especially in cities, were increasingly buying premium-quality products and the relevance of price was therefore slowly decreasing until 2019. Nevertheless, the larger concern about price has recently returned due to the high inflation and general economic uncertainty. Currently, price (34%) and quality (44%) are the most important criteria for Czech consumers when shopping for food. Surprisingly, only 4 percent of Czechs consider the country of origin an important decision-making factor. (Source: KPMG Czech Republic)

Power of Leaflets

The survey reported that printed leaflets were read by 62 percent of Czech consumers occasionally and by 30 percent regularly in 2020 which made them the most important resource of information, and thus an efficient marketing tool. Although it might be expected that popularity of printed leaflets would be growing even more during the time of high inflation, the general growth of prices, and growing popularity of promotions, the opposite trend is true. In 2022, the leaflets were occasionally used by 55 percent of shoppers. This trend is in line with preferences of a more sophisticated lifestyle and the long-term effort of retailers to eliminate this “old-fashioned”, costs ineffective, and environment-unfriendly marketing tool.

Private Label Products

Retail chains in the Czech Republic recognize the growing importance of private labels, which have become a very important communication and competition tool. In the past, customers used to purchase these products primarily for their low cost. However, all retailers recently modified their marketing strategies to change the image of private labels which are increasingly perceived as good price-value bargains even for less price-concerned shoppers. Private labels have proven to work well both in years of recession and in more prosperous times. Whereas in Germany almost every second product sold is a private label one, in the Czech Republic their market share reached 25.5 percent in 2021. For the last 15 years their share is slowly but steadily growing, and their profitability encourages retailers to offer more of them.

Online Shopping

Today, 20 percent of Czechs use this shopping channel regularly to purchase their groceries. Additionally, 44 percent have at least one experience with online food purchases. However, after this purchase, 24 percent of them decided to return to traditional grocery shops. Delivery fees and risk of quality and/or quantity mismatching the original order are viewed as the most significant disadvantages. In summary, online shopping for food remains the significant alternative in larger cities, higher-income households, and the 25-44 age group. (Source: KPMG Czech Republic)

The largest Czech online food retailer *Rohlik.cz* reached EUR 490 million (\$545 million) in sales from May 2021-April 2022, which is a 53 percent year-over-year increase. The company started in 2014 and most retail experts did not believe it would succeed as the Czech market was seen as too small to keep such a business concept profitable. However, today *Rohlik* is a European technology leader in the e-grocery sector, bringing in up-to-date digital know-how. Already active in the Czech Republic, Hungary (*kifli.hu*), Austria (*gurkerl.at*), and Germany (*knuspr.de*), the dynamic company is launching their business in Romania, Italy, and Spain under the *Sezamo* brand.

The COVID-19 pandemic accelerated the shift from offline to online shopping, but the trend started to slow in 2021 as lockdown restrictions were eased and non-essential stores reopened. Nevertheless, e-commerce is here to stay, thanks to large numbers of consumers becoming familiar with the convenience and security of online shopping. During the pandemic, the number of e-commerce stores and platforms grew exponentially. Consumers can now purchase most things online, with enhanced logistics speeding up delivery times, especially in urban areas. The

growing trust in online payments is also contributing to the growth of e-commerce and more Czechs now feel comfortable to use card payments when shopping online.

In-store Innovations and New Business Concepts

While Czech consumers are focused on savings, there is at the same time a growing appetite for new shopping experiences, a focus on sustainability, unusual and inspiring products, and healthy food. This is especially true for younger people and families with small children. These shoppers are, however, cautious about their spending habits and reconsider their purchasing decisions frequently.

Retailers in the local market are increasingly looking for ways to attract younger generations into their stores. In addition to store modernization and customer-friendly layouts, major retailers continue to implement up-to-date technologies, such as digital price tags, self-checkout counters, scan-and-shop technology, and mobile shopping.

Smart phone shopping applications are increasingly important and popular. In 2022, 48% of Czech shoppers used this method of purchasing. This is an extremely fast increase, with 24% of shoppers using these apps in 2020, therefore the power of this channel doubled in just two years. This change is linked to the wide use of smart phones in everyday life and availability of more sophisticated applications. It is very likely that this trend will continue, and mobile applications will become a dominant communication tool in a very near future.

Some grocery retailers have started expanding into small towns and rural areas with populations below 5,000, which have traditionally been dominated by local players. For example, *Billa* entered the convenience store channel with its new brand format *Billa Denne (Billa Daily)*. The store concept and design remain the same as its supermarkets, but the selling space is smaller. This allows it to expand into areas with smaller populations. *COOP* has expanded its contactless payments and Click & Collect services across its network of stores while it has also continued to modernize its stores in rural and remote areas. Additionally, *COOP* has recently introduced their brand-new pilot project of staff-free stores. Located in smaller towns, they allow their customers to use a smart-phone application to shop for food on a 24/7 basis. So far it looks like a win-win solution both increasing the sales and customers' convenience.

Cash & Carry

In the Czech Republic cash and carry outlets generally function as wholesalers. Access is generally gained through membership which helps to generate a strong relationship between customers and operators. As in 2020, cash and carry wholesalers saw demand from small grocery retailers and from individual consumers. These consumers were looking to make bulk purchases to reduce the number of trips they made to brick-and-mortar stores and thereby reduce their potential exposure to COVID-19. However, sales to foodservice outlets remained low as these businesses were shut at the start of the year and then had to operate with reduced capacity when they reopened. As such, while cash and carry saw a modest recovery in 2021 this was hindered by low demand from consumer foodservice establishments.

SECTION V. AGRICULTURAL and FOOD IMPORTS

Although locally produced and EU-imported agricultural products dominate the Czech market, there are good opportunities for U.S. products, particularly at the upper end of the market.

In 2022, total Czech imports of agricultural and related products were valued at \$13.7 billion. Imports from the United States totaled \$126 million, an increase of 25 percent when compared to the previous year.

Many products imported to the Czech Republic are transshipped from other EU countries, particularly from the Netherlands and Germany. This means that many products imported to the Czech Republic are not included in U.S. - Czech export statistics since the first point of entry into the EU is most likely the port of Rotterdam or Hamburg.

New Opportunities

The current situation also brings its own new opportunities. The shift of consumers from the hospitality sector to retail shopping will be accompanied by the development of new products replacing the previous experience in restaurants. This includes "take-away food for work or school", "home party food", or "unique home-made cooking".

Products in the market that are already present and have further potential sales growth in the Czech retail sector include distilled spirits (bourbon, whiskey), fruit juices, sauces, spices, tree nuts (almonds, pistachios, peanuts, pecans, walnuts), dried fruits (cranberries, raisins), snacks and cereals, frozen fish (salmon, pollock), beef (alternative beef cuts).

See the latest [Export Guide Czech Republic](#) report in GAIN for more details.

SECTION VI. KEY CONTACTS AND FURTHER INFORMATION

Links of potential interest to U.S. food and beverage exporters are listed below:

| | |
|---|---|
| Foreign Agricultural Service Prague | https://cz.usembassy.gov/embassy/government-agencies/foreign-agricultural-service/ |
| Foreign Agricultural Service Washington | http://www.fas-usda.gov |
| USDA/FAS/Europe | http://www.fas-europe.org |
| U.S. Mission to the European Union | http://www.usda-eu.org |
| European Importer Directory | http://www.american-foods.org/ |

One tip for U.S. exporters is to approach the government's trade promotion agency, [CzechTrade](#), that offers a business partner search assistance.

Please view our [Country](#) website for more information on exporting U.S. food and beverage products to the Czech Republic and Slovakia, including market and product "briefs" available on specific topics of interest to U.S. exporters. If you have questions or comments regarding this report, or need assistance exporting to the Czech Republic, please contact the U.S. Foreign Agricultural Service Office in Prague at the following address:

Foreign Agricultural Service
U.S. Embassy Prague
Trziste 15, 11801 Prague
Tel: (420) 257 022 393; E-Mail: AgPrague@fas.usda.gov
Homepage: www.fas-europe.org

Attachments:

No Attachments.