



CBI
Ministry of Foreign Affairs

CBI Market channels and segments:

Wine in Czech Republic

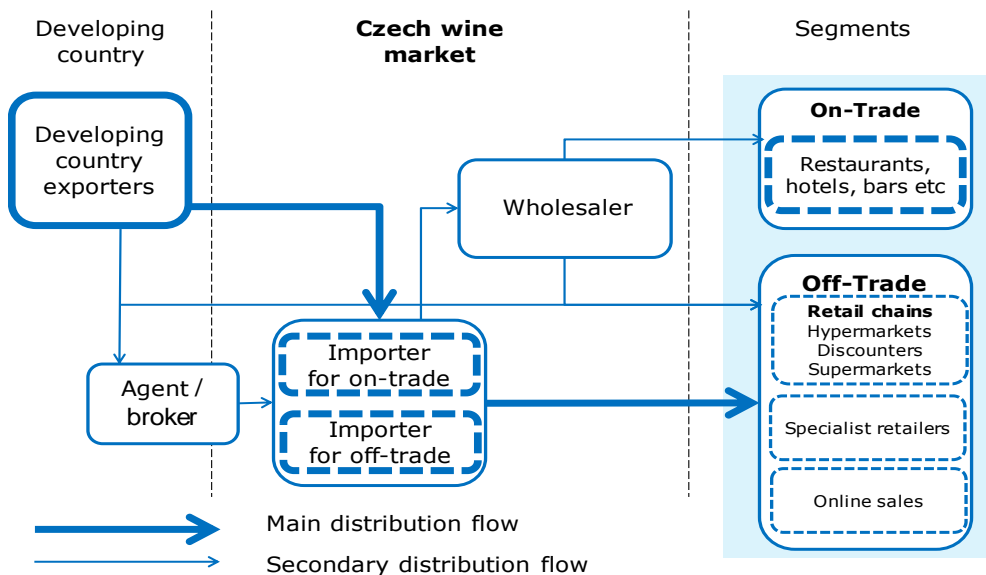
Introduction

Exporters from developing countries can best aim for the off-trade as it is the most important sales channel in the Czech wine market. Within the off-trade, hypermarkets and supermarket chains are gaining importance in the Czech market at the expense of small grocers. Forecasting and calculation of matching price margins are crucial for successful sales to the large retailers.

Trade channels

The trade channels for wine in Czech Republic are presented in Figure 1. A further explanation of the channels can be found under Annex 1.

Figure 1: Trade channels for wine in Czech Republic



Hypermarkets and supermarkets are the most important market channels

The majority of wine sales in Czech Republic are made through the off-trade, which accounts for over 90% of the wine sold. Hypermarkets and discounters are the major market channels, accounting for an estimated 70% of sales.

Most grocery retailers in Czech Republic are owned by foreign parent companies, with REWE Group (Germany), Schwarz (Germany), Globus Hypermarket Holding (Germany), Ahold (Netherlands), and Tesco (UK) owning the top seven supermarket and discounter chains. Supermarkets and discounters often have their own import companies that they will also use to supply their subsidiaries. This makes it possible to enter the Czech market through the parent companies in Germany, the Netherlands, and UK.

Supermarkets and hypermarkets charge high listing fees. They will only allow wines on their shelves from suppliers who are willing to invest a lot in access to shelf space. Furthermore, almost 70% of wine sales in supermarkets and hypermarkets are taking place during promotions. For example, during that time, a wine that usually costs €4.50 may be sold for €3.50.

Tips:

- Only target hypermarkets directly if you have significant experience in exports and able to guarantee high volumes at a low price.
- You can supply your wine to central warehouses in Europe, and particularly in Germany, and enter the Czech market indirectly via smaller importers.

Fragmented on-trade sector

The on-trade sector consists of many small players, who in most cases do not import directly. If you target on-trade channels, you can supply an importer which will then supply your wine to restaurants and other on-trade places in the Czech market. Although restaurants mostly sell low-priced table wines in terms of volume, they sell relatively more wines at higher price points than mainstream retailers. They mostly purchase their wines from importers with a reputation in the on-trade sector. These importers can provide support to wine suppliers who target the on-trade sector. However, importers in Czech Republic are reluctant to select suppliers in developing countries. They need certainty that developing country producers have the budget and quantity needed to enter the Czech market before they start any collaboration with them. Moreover, importers focus on the wine turnover rate. Wines with low turnover rate are replaced by products that sell more.

Off-trade sales are increasing at the expense of on-trade sales. This is mostly an outcome of the financial crisis of 2008 as less people go out in restaurants and pubs, and if they do they have a more moderate consumption than when compared with consumption levels before the crisis. Eating in with a bottle of wine is more common than going out to a restaurant.

Tip:

- The channel most suitable for you depends on your export volume, and the quality of your wine. If you are able to produce high volumes, you might want to consider targeting the off-trade market, while small-sized producers able to produce high quality wine might want to focus on the on-trade sector.

Specialist outlets are popular

Specialist shops, consisting of wine boutiques and chains of delicatessen stores, are usually small and look for higher quality wines, and usually buy their wines from an importer. There are approximately 1,000 specialized wine shops in Czech Republic and their number is growing. These specialty shops can usually be found in large shopping malls and in many cases they also offer gourmet food. Usually they offer wines in the higher price segments and wines with a good quality/price ratio. Wine shops that offer a wide range of draught wine alongside bottled wine are very popular. As knowledge on wine and demand for these segments are growing, their sales are expected to increase in the short term. 67% of the wines sold in specialist shops are quality wines.

These small specialty shops and online retailers are the main retail outlets for wines of many small importers. In recent years, there has been a re-emergence of small importing companies in Czech Republic. Most of these operate on a very small scale. They simply drive to the wine-producing countries in Europe, France, Spain, Italy, and bring back a car or truckload of wine. They focus on importing quality wine and are competitors to the large importers in that segment. Due to the fierce competition and hard economic times in the last decade, many of them only survive for a few years.

Tips:

- Develop a unique selling point, like unusual origins, varieties, wine show medals, production or region stories to gain access to the specialist retail channel.
- Be careful with payment terms when supplying to small importers to prevent financial losses as a result of bankruptcies.

Online sales

According to Ecommerce Europe, ICT is one of the fastest growing sectors compared to traditional sectors in Czech Republic and it is expected to be one of the drivers of the economy in the coming years. Czech e-commerce is projected to grow by almost 29% to € 2.2 billion in 2015. Although Czech online shopping has not reached the levels of West European countries like the United Kingdom, Denmark and France, it has been continuously growing the past couple of years. In 2012, over three million Czechs bought goods and services online with a total value of € 1.8 billion. In 2012, the share of online sales in total retail sales was more than 5% and this figure is expected to grow further.

European-wide, online sales account for an estimated 3-11% of the wine market. In general, retailers with physical stores lead the development of online wine sales. Consumers need to know the retailer before they will rely on the information provided in the webshop. Nonetheless, many small Czech premium wine importers without physical stores offer their wines online. Premium wines sell well online as consumers are willing to pay more for a less usual wine which they cannot buy at the supermarket.

Read more on online sales in the [CBI Product Factsheet: Online sales of wine in Europe](#).

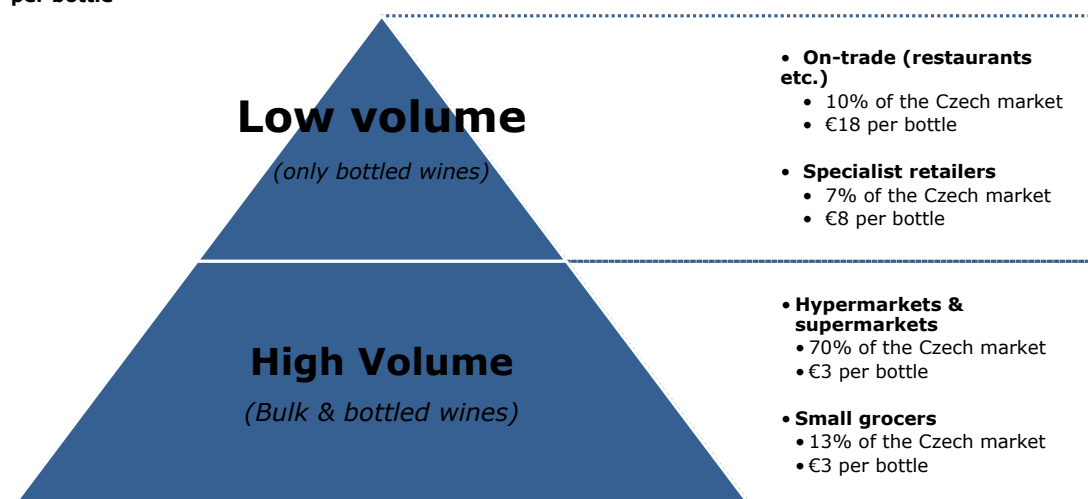
Tips:

- If you supply small volumes of premium wine, find an importer with a webshop which offers wines from less usual origins.
- Webshops are particularly interesting retail channels for premium wines from developing countries, as they offer space to provide product information, such as a story about the history of the winery.

Segmentation of wine

The segmentation of the Czech wine market is presented in figure 2. A further explanation of the figure can be found under Annex 2.

Figure 2 Market segments for wine in Czech Republic, including indication of share in sales per segment and average retail price per bottle



Source: ProFound 2015

Demand for high volume bulk is increasing in Czech Republic

In the last decade, bulk wine imports have increased significantly across Europe. Bulk wine imports in Czech Republic are expected to increase in the next years, as growing demand for wine drives bottling capacity development in the country. The EU's dedication to environmental sustainability also stimulates bulk wine imports, as transport of wine in bulk packaging produces less CO₂ than transport of bottled wine. The high volume segment is the most suitable segment for suppliers of bulk wine to Czech Republic. The market in Czech Republic is quite price sensitive and that is why the low volume segment has only a small percentage of market share. Premium quality wine is sold mostly through specialty wine shops, but they only account for 7% of the market.

Supplying bottled wine directly to supermarkets is difficult for developing country producers, due to high listing fees. In the Czech Republic, this fee (in the form of kick-backs and discounts) can be between €1,500 - €2,000 per stock keeping unit. On top of the listing fee per SKU, some retail chains ask for an introductory discount for first 2 to 6 month (5-10%) or additional listing fees per store. Listing fees are usually not required for in-out or seasonal promotions. Working with supermarkets therefore requires good price calculations and involves high risks, as the sales quantities are not guaranteed.

Tips:

- Importers are often a more suitable channel for exporters in developing countries compared to supermarkets. Importers are in a better position to comply with the requirements of retailers. Please note that Czech discounters often do not use listing fees.
- If you are aiming to export in bulk, this is only possible if you are able to produce a large volume of wine, at least 100 thousand litres (25 thousand liters per shipment).

Private labels are not a big market segment

Private labels are increasingly gaining market share and enhancing rivalry in the United Kingdom and other Western European countries. However, private labels have not emerged in Czech Republic yet. It is mostly large supermarket

chains like Tesco and Spar that have their own private labels but this trend is not being adopted by other retailers. The slow private label development is mostly due to the fact that Czech consumers are still very traditional in their wine preferences.

Classification of Czech wine

Classification is made according to origins while ripeness of grapes is determined by measuring must weight in the grape juice at time of harvest. Sugar content is expressed in units of °NM which indicates how many kilograms of sugar are contained in one hundred litres of grape juice. Czech wine is labelled with its variety, detailed description of its origin and wine quality attributes. High-quality wine is considered that which is produced from grapes with a high must-weight level from a single vineyard.

Composition and quality attributes: There are 4 classifications when it comes to Czech wine.

- **Quality Wine with Special Attributes:** This wine originates from a single wine sub-region and the grape varieties. Such classifications include Kabinet, Late Harvest Special Selection of grapes, Special Selection of berries, Special Selection of Botrytis-affected berries, Ice wine and Straw wine.
- **Quality wine:** This type of wine is produced within a single wine region. In this classification you can find Quality Varietal Wine, which is made from at most three grape varieties, and, Quality Brand Wine, a wine that is a blend of at least two grape varieties.
- **Country wine.** This wine is made solely of local grapes, harvested in the vineyard intended for the production of quality wines of that specific region or of acknowledged varieties.
- **Table wine** which is a wine produced from grapes originated from any country within the EU. This is the least special wine category.

The EU rules for wine classification also apply to Czech wines.

Comparing segments of the promising export markets

Match your wine with the most suitable export market. Table 1 provides some insight into which product options are appreciated in each of the selected promising export markets. For more detailed information on specific segments, please read the [CBI PFS for Organic Wine in Europe](#), [CBI Product Factsheet: Bulk wine in Europe](#) or [CBI Product Factsheet: Online sales of wine in Europe](#).

Table 1 Matching your product with a promising wine market in the EU/EFTA

		Organic	Fairtrade	ISO quality	ISO social	Screw cap	Bag-in-box	Bulk wine	Online sales
Germany	High volume segment	+++	-	++	+	++	+	+++	+
	Low volume segment	++	++	+++	++	+	--	-	+++
United Kingdom	High volume segment	++	+	++	+	+++	++	++	+
	Low volume segment	++	+++	+++	+++	++	--	---	+++
The Netherlands	High volume segment	++	+	++	+	+++	--	+++	+
	Low volume segment	+	+	+++	+++	+	--	---	+++
Poland	High volume segment	---	---	++	--	+	+	++	-
	Low volume segment	-	-	++	-	-	--	---	+
Denmark	High volume segment	+++	+	++	+	+++	++	+++	+
	Low volume segment	++	++	+++	++	++	--	--	+++

Belgium	High volume segment	+	+	++	+	++	+	+++	+
	Low volume segment	++	+	+++	+	+	--	-	+++
Czech Republic	High volume segment	-	-	+++	+	+	+	++	++
	Low volume segment	+	+	++	-	-	-	-	+
Austria	High volume segment	+++	-	++	+	++	+	++	-
	Low volume segment	++	++	+++	+	+	--	-	++



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Disclaimer CBI market information tools: <http://www.cbi.eu/disclaimer>

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Annex 1: Explanation of trade channels in Figure 1

Agents are independent companies who negotiate on behalf of their clients and act as intermediaries between buyer and seller. Agents do not take ownership of the products, nor keep stock. Developing country exporters willing to supply importers or retailers can use an agent to link them up with a trading partner. Agents are starting to become again more important in the East-European markets. This development is expected to continue in the short to middle term.

The commission of a sales agent varies from 3-5% for large volume supplies to 10% for smaller quantities. Furthermore, once you are using an agent, direct trade with an importer or retailer afterwards is difficult due to legislative issues, where the agent has to be compensated for the commission he misses. Therefore, the content of the contract with an agent is very important.

Importers: Importers are the main trade channel for the on-trade sector, as well as, for specialised retailers. They either distribute via their own wholesale operation or sell their products to wholesale firms, which redistribute to the appropriate channels. They are familiar with local markets and are better positioned to introduce new or less-known products.

They generally add a mark-up to cover commissions, credit risk, after-sales service and the cost of carrying a local inventory to meet small orders. Their margin generally ranges from 15-30%.

Supermarkets: Supermarkets are the most suitable channel for high-volume exporters. They import directly from producing countries, but also via importers or agents. Supermarkets primarily focus on price. They demand high export volumes, and import per container. Their margin in the stores is between 15% for a discounter to 30% for hyper- and supermarkets. Hypermarkets, and especially, discounters, are price fighters, and look for low-priced wines.

Specialist retailers: Specialist shops are smaller, look for higher quality wines, and usually buy their wines from an importer. In Czech Republic, such shops usually work with small importers who specialize in high-quality wines. Examples are wine boutiques or chains of delicatessen stores. Their margin on the selling price is 30% or higher. Sales by specialist retailers are expected to decrease in the coming years.

On-trade: The on-trade sector consists of many small players, and therefore usually does not import directly. If you target the on-trade sector, you can supply an importer which redirects your wine to the restaurants and other players in the Czech on-trade segment. An importer with a high quality image can provide support in selling your wine to the on-trade, by making use of his image. Restaurants mostly look for wines with a reputable image and of a good quality.

Prices in the on-trade are relatively high, and although there is a number of high quality restaurants which focus on fine wines, the majority of restaurant owners still do not have much interest in it.

Annex 2: Explanation of market segments in Figure 2

High-volume:

High-volume trade plays an important role in Czech Republic. It usually concerns lower quality wines suitable for the low-end market addressed by supermarkets. Competition on price is very high in this segment. High-volume wines are imported per container.

Low-volume:

Low-volume trade concerns bottled wine only, and usually involves speciality wines, of a high quality or with another unique selling point. Targeting the low-volume segment, therefore, requires at least some level of authenticity.

Bulk:

Bulk wine imports are increasing. You need to be able to export a large volume when supplying bulk wine; 100 thousand litres is usually the minimum required quantity (20-25 thousand litres per shipment).

This private label market could be an opportunity for developing country producers, although it is also a risk, as buyers can more easily switch to other producers to make up their blends. As such, it is mostly interesting for developing country producers without a brand.

Bottled:

Exporting bottled wine is most suitable for smaller exporters and for producers of branded wines. Transportation is more expensive in this case, but value addition for developing countries is higher as well since bottling takes place in the producing country.

Supermarkets:

Supermarkets are a suitable channel for high-volume exporters. Like discounters, they import per container and are also highly focused on the price, although to a lesser extent than the discounters. However, listing fees are problematic, making it difficult for a developing country exporter to successfully target this channel.

Specialist retailers:

Specialist shops are small, look for higher quality wines, and usually buy their wines from an importer, specialised in the off-trade. This channel, therefore, can only be reached indirectly by developing country exporters.

On-trade:

The on-trade sector consists of many small players, and therefore usually does not import directly. If you target the on-trade sector, you can supply an importer or wholesaler, which redirects your wine to the restaurants and other players in the Czech market. Restaurants mostly look for wines with a reputable image and of a good quality.