Economy and tobacco market in the czech republic

Health & Medicine, Addiction

The United States formed a strong relationship with former Czechoslovakia in the early 20th century after WWII where the US pledged to support Czech democracy and independence. This, however, stalled during the soviet influence from 1949-1989. Present day, Czech Republic is one of Europe's fastest growing and most prosperous countries and serves as a connection for US companies looking to grow and develop into the markets of western and central Europe.

The Czech Republic is centralized location within Europe gives them a strategic advantage for global companies looking to brand not only into the European market but can also be considered a gate into Russian and Asian business as well. The Czech labor force is also considered skilled which has allowed for them to be elevated as an important partner for manufacturing and were ranked number one in Central and Eastern Europe in business sophistication and efficiency enhancers .

The Czech economy grew at a blistering rate in 2015 and continues to grow although at a slower rate. The Czech economy is medium in size and heavily dependent on foreign demand but driven on exports and their largest trading partner is Germany. In 2016, the US was #13 in rank of countries who import into the Czech market and number two for macroeconomic innovation (2016-2017 Global Competitiveness Report).

The cities, listed by population size are Prague (1. 25M), Brno (380K), Ostrava (300K), Plzen (170K) and Liberec (100K). Major branches of industry are chemical, engineering, food and metallurgical but also growing within the Czech economy are innovation and information. Most Czechs enjoy and practice sports like cycling, swimming, hiking, skiing, soccer and skating. Consumers – Late Lifers (60+), Mid Lifers (40-59), Middle Youth (30-39), Young Adults (18-29).

Household spending starts with non-essentials items and is calculated at double to what they spend on housing. Disposable incomes have surged and trends towards westernization. The westernization trends are a result of internet uses integrated into everyday life. The younger consumers cohorts, like the US, make up the majority of the market and population and also the first generation to be called Europeans. Because of this cosmopolitan youth culture explosion, there is a rapid transition from cheaper/value brands into premium quality brands. This lifestyle purchases that reflect global trends and the majority (90%) of the work force in this younger age group are interested in experiencing work abroad while 40% would be willing to move abroad for the right job offer.

When it applies to food CPG shopping habits of the Czech consumer, 49% of their purchases sway towards Fresh & Ambient sales. Where almost half of their grocery purchases are made towards immediate food consumption needs, the remaining is broken down by Beverages (15%), Confectionary (7%), Convenient (9%), Center Store Staples (3%), Drugstore (8%) and all others (8%). Fresh sales are declining in the market where center store products, pantry essentials have increased from 2015 to 2018 .

Media reach of TV is still the highest with print still running in second place. However, internet reach is increasing daily while print has significantly decreased. Czech consumers also have an above-average affinity for mailings, making them an extremely attractive target group for direct marketing campaigns after print advertising. Internet retailing, however, is gaining market communication preference. Telemarketing and call centers have not found the same level of acceptance as mailings and they are used less frequently than in the United States. Companies doing business in the Czech Republic should have a website in Czech and English.

The four major tobacco manufacturers dominate the Czech market are Philip Morris, British American Tobacco, Imperial Tobacco and JT International. Opportunities in the Czech market are from the strengthening of koruna against euro and U. S. dollar. Despite decreasing cigarette demand, the tobacco industry has grown value sales in 2017 . Internet retailers post growing sales in the Czech Republic and Traditional grocers continue to lead tobacco sales while vapor sales dominate e commerce market. The number of online retailers of tobacco products has increased over a 2017 review period.

The number of Czechs who smoke cigarettes daily is on the rise . The highest growth in the tobacco industry is within Cigar and Cigarillo markets. About 27 percent of Czechs over the age of 15, or 2. 4 million people, smoked every day last year. Five years ago, the proportion of daily smokers was 23 percent. Middle-aged people, rather than young people, had accounted for the increase in the number of smokers.

Tobacco is expected to see positive value growth or price to earnings ration and pricing looks to remain constant over the next year . The global market for cigars and cigarillos is witnessing a substantial growth as the increasing number of luxury hotels have cigar lounges and is becoming a part of the hospitality industry as well as more Czechs are reported to consume more alcohol in 2016.

The market share of tobacco in the Czech republic are ranked as Philip Morris at 70%, British American 8% and Imperial at 8%. Philip Morris product portfolio includes a wide range of premium, mid-price, and low-priced brands.

In Germany, value cigarillo sales take up 14% of market share and premium cigarillos and cigars make up 37% of the market, however sales have declined due to a 2015 tax . Dannemann is the only player in cigars and cigarillos which holds a double-digit volume share, mostly due to its popular Dannemann Moods brand, which accounted for a volume share of 15% in cigarillos in 2015.

In 2017, the Czech tobacco market saw a decline resulting from rising prices and regulations on packaging that were introduced in 2016. Rising awareness of health-related effects and trends towards “ better for you” products and lifestyles have tampered with the market growth. Also, imposed ad valorem tax (a tax whose amount is based on the value of a transaction or of property and typically imposed at the time of a transaction) and laws banning smoking in public restaurants, bars, pubs and other public areas 2017 have had an impact on tobacco use. Tobacco products are expected to see continuing rising taxation, which will be agreed by the government by 2019.

Political infrastructure, according to the World Economic Forum 2017, is considered inefficient and has shown signs of corruption which can cause problems for companies looking to branch into the Czech market. Unemployment rate of 2. 3 is the lowest in Europe but this also means unfilled jobs nearly doubled in early 2017 . Recent changes in political powers have Czech citizens who favor democratic policies uneasy for the future of the Czech Republic. The communist party has recently been granted an influential presence in the Czech government. Criminal charges over fraud hover around the recently re-elected Prime Minister Andrej Babiš along with past associations with the communist party.

The Czech Republic’s centralized location within Europe gives them a strategic opportunity to become a gateway into Asian and Russian markets along with other European markets. The Czech economy has continued show strong growth since the global financial crisis but has slowed down in the last two years. Their major branches of export include chemical, engineering and food however innovation and information appears to strengthen with their younger, cosmopolitan cohort, who make up the majority of the consumer base rise to technological progress. Household spending has historically swayed towards fresh, immediate consumption GPG’s while growth appears mainly in center store products and to reach the Czech consumer, companies will need to utilize TV advertising and direct mail contact but should also reach out via online advertising and look to grow their marketing budgets within this arena. Taxes and political shifts will continue to require focus and companies will need to adjust according to new taxation and regional laws.