INTERNATIONALIZATION IN THE PROCESS OF THE CZECH RETAIL DEVELOPMENT

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Introduction

The retail internationalization has accelerated dramatically over last years and has made retailing a global industry. Originally internationalization activities represented moves among developed economies; however, later retailers shifted their retail expansions to developing economies. [9] They have rapidly expanded their retail operations, the scale and geographical scope of their sourcing operations, their regional and global buying networks to source a variety of goods for both home and overseas markets, and distribution and logistic systems to many countries in East Asia, Eastern Europe and Latin America. [4, p. 449]

Socio-economic and political changes especially in Central and Eastern Europe following the fall of the Iron Curtain in the late 1980s led to emergence of new markets further east. In the 1990s, these countries introduced economic reforms accompanied by the process of transition of property from the state to private ownership, private enterprise development, procedures relating to demonopolisation, decentralisation and creation of new structures. The transition process brought special conditions and produced a lot of changes in all sectors of economy including all cultural, economic, political and social institutions, retailing, people, their behaviour and attitudes as consumers in general. The transition process of centrally planned economies to free market economies also influenced retailing to a great extent and created opportunities for international retailers to expand their retail activities to these markets. As it had never happened before, the transition process provided a great opportunity to monitor and study changes in retailing sector. It thus contributed to the present knowledge not only of retail evolution, but also to retail internationalization. [21]

Changes in retailing have attracted a lot of attention of many academics and much has been written on the subject of retail internationalization. There is an extensive knowledge on the internationalization of retail operations in literature focusing mainly on: [3]

- the motives for retail internationalization [1], [19];
- the geographical flows of investment including studies of specific flows [2], [25];
- the temporal dimensions of investment;
- case histories of individual firms [27];
- the impact of internationalization, particularly of "new" concepts on less developed retail environments;
- methods and typologies of investment [23];
- internationalization of large and small retail operations [10];
- transfer of retail formats to developing economies [9];
- the strategic localization of transnational retailers [5].

Various approaches ranging from studies of the whole retail sector, to specific store formats and the activities of individual retail firms were used in the studies. Despite an effort of many academics, these theories are not without their shortcomings. The most common criticism is that they do not bring a clear definition of "retail" internationalization. What is more, the theories showed to have limited value due to confusion that comes from the attempt to apply theories developed in other sectors.

This paper does not attempt to bring a comprehensive review of the theory on retail internationalization. The objective of the paper is to contribute to the present knowledge of the retail internationalization by describing the entry of the international retailers into the Czech market in the context of the retail development after 1990. In order to understand the internationalization process of the Czech retailing stimulated by the economic transition and evaluate changes in the retail sector, it was necessary to review the role and functioning of the retail trade in the Czech Republic in chronological order. For this reason the paper attempts to examine and describe the changes in retailing in the Czech Republic insofar as what has happened since 1989 with a special focus on retail internationalization process. It describes the retail structure (formal ownership, organisation and composition of retailing) prior to 1989. It then discusses how decentralisation, liberalisation and privatisation policies brought by the economic transition in the 1990s influenced the development of retailing, and, finally it characterises changes in this sector in terms of retail internationalization and concentration tendencies.

The data presented in the paper were obtained by the secondary research on existing and available resources and publications. It should be stressed that a typical feature of the dynamic development of he Czech retailing in the 1990s was a lack of accurate data on the retail network and its structure in the official statistics. The first retail census was conducted in 1999. Similarly, the sources of the precise data and statistics on international retailers operating in the Czech market are rather limited.

1. Development of the Czech Retailing in the Process of the Economic Transition

In 1989, there were almost 43,000 retail stores in the Czech Republic. About 27,000 stores were owned by state and approximately 17,000 stores were owned by co-operatives. The retail structure in terms of the number of shops per 1,000 inhabitants, the number of inhabitants per shop and retail turnover per capita was underdeveloped. As shown in Table 1 below, retail provision represented about 25-50 percent of the level of retailing in western countries.

The retail sector was characterised insufficient capacity of selling space and unsuitable structure of stores. Quality of retail outlets was also behind the mentioned standard of western economies. The equipment and the inventory of most stores were of negligible values. Shops were small. The average size of a shop was about 80 square meters. In 1989, the socialist concept of the retail trade was characterised by constant shortages, long lines, shoddy goods and poor quality of service. [22]

The economic transition in the Czech Republic in the 1990s radically changed the structure and development of the entire retail sector. The development of retailing was so dynamic that retailing became the sector where transformation was accomplished in a relatively short time.

Evaluating the internationalization process of the Czech retailing, the following four periods can be distinguished in its development after 1990:

1. **Period 1990-1994** was characterised by a high demand and low supply, fragmented retail structure and weak competition.
2. **Period 1995-1997** in which market was partially saturated (supply equalled demand) with a slow economic growth, growing competition and increasing concentration in retailing.
3. **Period 1998-2000** was characterised by economic stagnation and recession. In this period the market was already saturated (supply in the market was higher than demand) with a strong competition, stagnating purchasing power and continuing concentration trends in retailing. [24, p. 121]
4. **Period after 2001** till today has been characterised by extensive development of the retail network and growing market share of the international retail chains.

Tab. 1: Czech retail trade in comparison to the retail trade in western countries (1989)

Country	No. of shops/ 1000 people	Number of people per shop	Selling space (m^2) /1000 people	Number of people/ 1 food store	Retail turnover per capita (USD)
Czech Republic	4.2	240	328	432	1,900
Germany	5.1	190	893	381	4,000-6,000
France	7.8	130	692	286	4,000-6,000

Source: [20, p. 113]

Tab. 2: Foreign investors participating in privatisation of the retail trade and service sector (1993)

Czech company	Foreign investor	Type of participation	Book value of stake (CSK mill.)	Purchase price of stake (CSK mill.)
Maj a.s. Praha (department store)	K-mart (USA)	76.04 % of shares	245	330
Department stores in Brno, Hradec Kralove, Pardubice, Plzeň, Liberec	K-mart (USA)	Direct sale	663	930
Balirny Jihlava	Tchibo (Germany)	32 % of shares	36	94
Pražírny a balirny Praha	Sara Lee (Holland)	100 % of shares	163	100
Darex Praha (department store)	Zane May (USA)	75 % of shares	3	3
Potraviny Praha 4, 8, 9 (partial)	Delhaize Le Lion (Belgium)	Direct sale	68	106
Interhotel Jalta Praha	Fukuoka Jisho and Miki Tourist (Japan)	36 % and 4 % of shares	324	688

Source: [8, p. 88]

Each period of the retail development is discussed in more detail below.

1.1 Retail Development in the Czech Republic in 1990-1994

The transition process that started in 1989 began the qualitatively new period in the development of Czech retailing. Organisational and ownership changes caused by decentralisation, demonopolisation and eventually privatisation of the retail trade were the most significant changes in the retail sector in the early 1990s. Both forms of store ownership existent in a centrally planned economy, the state and co-operative, underwent different routes of privatisation and transformation that were supported by regulatory environment and the favourable macroeconomic policies concerning monetary stabilisation, price liberalisation, taxation, employment, foreign trade liberalisation and relaxation of important restrictions, entry barriers, and other operating regulations.

Demonopolisation of foreign trade brought the elimination of most quantitative restrictions, opened borders and freed importation of foreign goods. Shortages in the market were thus eliminated by imported goods. Foreign goods represented mainly by a few luxury items with very high profit margins could not effectively compete with the shoddy and cheap products that most consumers were buying. Penetration of foreign products into the consumers' markets, and a better satisfaction of consumers' needs were later allowed by setting up exchange rates at more realistic levels. This increased the level of competition among domestic suppliers and forced them to change product assortment, speed of delivery and quality of service.

Legislation concerning the *inward movement of foreign retailers* was also responsible for remarkable changes in the Czech retailing caused by the entry of foreign trade corporations into the Czech market, which accelerated the dynamic changes in the retail industry and created a really competitive market environment. One of the biggest foreign investors in the early 1990s was the American company K-mart that established a chain of department stores in the largest cities in the Czech Republic. Other important investors in the retail trade and service were Tchibo (Germany), Sara Lee and Douwe Egberts (Holland) and Delhaize le Lion (Belgium). [21]

The major foreign investors in the retail trade and service sector are shown in Table 2.

The first foreign retailers that entered the Czech market were Ahold from the Netherlands, that opened its first supermarket in the Czech Republic in June 1991, and IKEA of Sweden, that opened its first store in September 1991. Other large foreign investments were made by the international retailer SPAR from Germany, German discounters Tengelmann and Norma, Julius Meinl from Austria, German retailers Edeka and Rewe. Among the main foreign non-food retailers that entered the Czech market were Bata, Humanic, Salamander, Leiser, Garant Schuh, Rieker, furniture and do-it-yourself retailers such as Europa-Möbel, ASKO, Obi, Baumax-X, Götzen, Bauhaus, German discounters DM and Rossmann (drugstores), and some brand name retailers in exclusive and discount textile and clothing stores. [6] There was also a big expansion of shops operated by manufacturers such as Adidas, Braun, Kodak, Grundig and Benetton in many towns.

Foreign retailers in the early period of their retail activities in the Czech Republic concentrated mainly on their turnover and gaining a market share by acquisitions of the former Czech retail network rather than building new large-scale retail outlets. This strategy led to a large number of retail stores with rather low or unchanged quality and layout of the stores. [7] After 1993, the importance and market share of foreign retailers operating in the Czech market started to increase rapidly. Foreign retailers improved the quality of stores and brought a wide selection of merchandise, lower prices and professional quality of service. Many Czech retailers observed foreign retailers and began to mirror western patterns. [6]

The period in 1990-1994 brought an immense fragmentation of the retail network. Companies with less than 25 employees accounted for two thirds of the total retail turnover. The market share of the five biggest retail companies in the Czech Republic represented only 3 percent while in Western Europe the number represented 50-70 percent. On the other hand, the number of voluntary chains and buying groups, official and non-official as well as the number and importance of international multiples increased. Franchising, discount stores and cash and carry (C&C) operations as well as large-scale non-food outlets providing do-it-yourself merchandise, furniture and carpets were launched into the market. [6]

Disintegration of the Czech trade culminated in 1994. Although many new shops did appear in the market, most of them were established by reconstructing warehouse facilities and revitalising old shops. The average size of stores did not change and remained low – about 90 square meters of selling space. In contrast to dramatic organisational and ownership changes in retailing, changes in the physical structure and appearance of retail stores were not so radical. [6]

1.2 Retail Development in the Czech Republic in 1995-1997

The period 1990-1994 contributed to establishing retailing as a private sector in the Czech Republic. Privatisation and trade liberalisation brought an extremely fragmented retail structure. Czech retail trade passed the period of transformation and started operating in a normal market environment. After 1994 new entrepreneurial opportunities and conditions were created for the process of integration and concentration. Retail development entered the process of concentration that was accelerated by the newly established and growing private sector as well as the impressive line-up of international retailers entering the Czech market. Czech retail companies such as M-Holding, Pronto Plus, Vit potraviny and Interkontakt Group, which were established by privatisation of the former retail chains were the first initiators of concentration trends in the Czech retailing. However, the strongest incentives to retail concentration came from international retailers that were expanding their retail operations in the Czech market.

Integration tendencies and the increasing influence of big trading groups were typical features of the retail development in 1995-1997. Purpose-oriented associations of trading firms, which were designed to develop joint activities on behalf of their members in order to cope with the growing competition, came into existence. The position of international corporations became stronger. The retail trade reached a level was comparable to some west European countries. [7]

After 1995, the structure of the Czech retailing became more transparent. The leading roles were played by the Czech companies such as Interkontakt Group, M-Holding and Pronto Plus as well as by subsidiaries of foreign trading groups such as Ahold (Euronova), Delhaize le Lion (Delvita), Tengelmann (Plus Diskont), Julius Meinl and others. Foreign retailers began to play more important role. Their market share increased rapidly and led to higher levels of concentration and integration. The relatively smooth development of retailing in the Czech Republic was disrupted by the entry of German "hard discounter" Penny Market (Rewe) with an aggressive price strategy that successfully targeted price-sensitive consumers and caused a market polarisation. The number of modern home improvement centres of retailers such Baumax, Obi, Götzen and Bauhaus increased remarkably and caused a boom in the D-I-Y sector. The establishment of cash & carry stores of Makro, run by the Austrian retailer Metro also significantly changed the development of Czech retailing. Probably the most dramatic changes in the retail development were caused by the entry of hypermarket chains into the Czech market. The first hypermarket Famila in Kladno followed by the hypermarket Globus in Brno were opened in autumn 1996. [7] The following years brought a great expansion of hypermarkets built in other large towns in the Czech Republic.

In 1996, eleven of the twenty largest European retailers were already present in the Czech market or intended to establish their retail activities in the near future. The presence and strong position of international retailers in the Czech market were demonstrated by their ranking among the TOP 10 retailers operating in the Czech market (six foreign retailers achieved positions 2-6). Turnover of the ten largest retail companies doubled between 1994 and 1996. Czech retail companies accounted for about one half of the turnover of the TOP 50 companies, international chains represented one third, and the co-operative sector one sixth only.

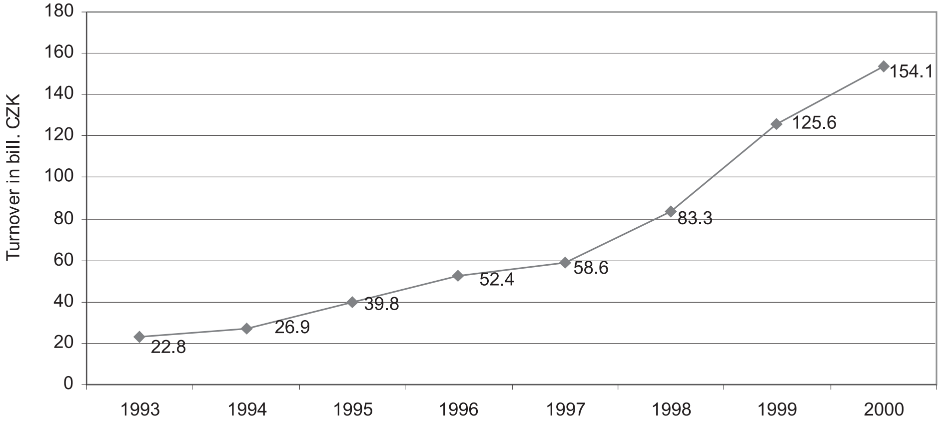
Czech retailing in 1995-1997 was characterised by further concentration tendencies and growing internationalization (opening new outlets or take-over of local firms). Various co-operative complexes, purchasing alliances, voluntary chains emerged and modern types of stores were introduced. Despite a large number of newly opened outlets such as supermarkets, super stores, discount stores and cash-and-carry stores, no big hypermarket or medium-sized shopping centre was opened before mid-1996. [7] Middle-size and small companies still represented the largest proportion of retailer companies in the Czech market. However, appearance of large-scale national and international trading companies, cash-and-carry stores, hypermarkets and new shopping centres accompanied by a rise to voluntary chains, co-operation within buying groups and franchising system increased the quality of the retail trade and retail operations.

1.3 Retail Development in the Czech Republic in 1998-2000

A high level of dynamism was also evident in the Czech retail development after 1998. In 1998, the Czech market was fully saturated. Supply exceeded demand. The role of retailers and manufacturers in a distribution channel changed fundamentally. While in the past producers dictated the market, after 1998 retailers became much more powerful and consumers finally started to play the most important role in the whole distribution channel. Growing concentration, deepening of retail integration and co-operation, and accelerating internationalization were typical features of retail development after 1998. The market share of large retail companies, despite unfavourable economic conditions, was growing mainly at the expense of small retailers. In 2000, the market share of the largest retailers reached 28 percent. Concentration and integration trends were evident not only in the growing share of the retail companies employing more than 100 employees, but also in the growing share of the TOP 10 retailers in the Czech Republic as presented in Figure 1.

From 1993 to 2000, the turnover of the TOP 10 retailers increased almost seven times. The largest growth of the retail turnover of the TOP 10 (by about 50 percent) appeared in 1999. The years 1998 and 1999 witnessed the sharpest concentration tendencies in the Czech retailing that slowed down in 2000. The same trends could be observed in the market share of the TOP 10 retailers. Whereas the ten largest retailers represented about 7 percent of the total retail turnover in the Czech Republic in 1993, their share

Fig. 1: TOP 10 retailers' turnover (CZK bill.) in the Czech Republic (1993-2000)



Source: [11]

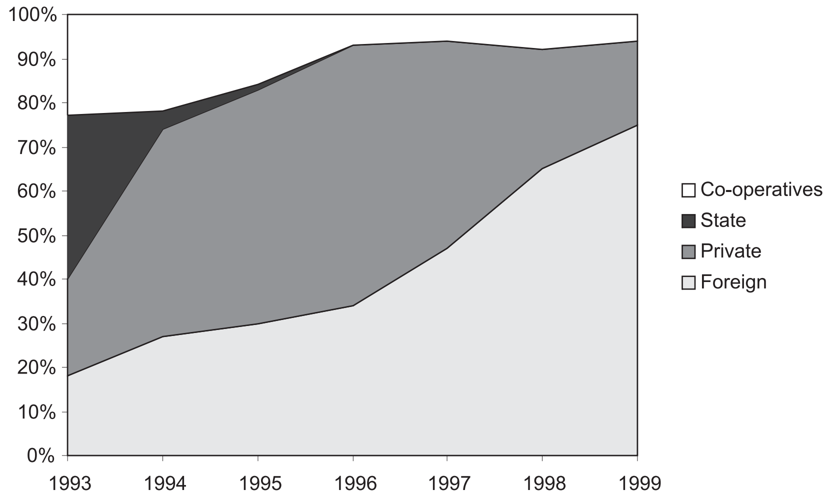
reached about 17 percent in 1998, 25 percent in 1999 and 28 percent in 2000. [11]

The mentioned concentration trends were even more intensive in food retailing. The share of TOP 10 food retailers represented 28 percent in 1998 and 37 percent in 1999. It must be stressed that the rapid growth of concentration in food retailing was highly associated with the growth of internationalization in Czech retailing. As shown in Figure 2, international retailers were constantly increasing their market share and significantly influencing the retail scene in the Czech Republic.

International retailers represented only about 18 percent of the turnover of the TOP 50 retailers in the Czech Republic in 1993. After 1996, the share of foreign retailers grew rapidly. Indicators of their successful operations in the Czech Republic in comparison to Czech retailers are outlined in Table 3.

In 1999, the number of international retailers increased by 40 percent in comparison to 1998.

Fig. 2: Turnover of the TOP 50 retail companies by ownership (1993-1999)



Source: [12]

Tab. 3: Retail indicators of Czech and international retailers with more than 100 employees (1999)

Indicators of retail operations	Czech retailers		International retailers		
	1999	99/98 (%)	1999	99/98 (%)	Comparison in % (Czech companies=100)
Number of the companies	153	-9.1	35	40.0	22.9
Number of employees ('000s)	47.8	-14.0	30.2	28.6	63.3
Number of employees per company	312	-5.4	864	-8.1	276.6
Turnover (CZK billion)	75.6	-3.9	79.1	40.6	104.7
Turnover per employee (CZK thousand)	1582	11.7	2618	9.3	165.5
Margin in %	19.1	-	20.9	-	109.3
Investment (CZK million)	498	-	10086	-	2025.3

Source: [17, p. 94]

Prevalence of international retailers was also evident in their turnover, turnover per employee and investment activities. The share of the turnover of international retailers increased from 41.7 percent of the total turnover of all companies with more than 100 employees in 1998 to 51.1 percent in 1999. However, the growth of international companies was accompanied by the decline of domestic retail companies. International retailers replaced not only small Czech retail companies but also the large ones. Four of the largest and dominant Czech retailers (Pronto Plus, Vít potraviny, M-Holding and Interkontakt) listed in the TOP 10 in 1997 had to close (sell) their retail operations due to growing price competition; in 1999 none of them were in existence anymore. Expansion of international retailers in the Czech Republic was also demonstrated by the rapid growth of the number of their stores, by their turnover, and eventually by the number of international retailers in the TOP 10. The turnover of Czech retailers decreased. Their investment activities were very low in comparison to foreign retailers. Table 4 presents the positions of TOP 10 retail companies in the Czech Republic in 1998 and 1999.

The growth of retail activities of foreign retailers was very dynamic in 1998. New international companies such as Makro, Ahold, Rewe, Globus and Kaufland moved into the TOP 10 retail companies in the Czech Republic in a relatively short time. In 1999, only one Czech trade company Geco Tabak remained on the seventh position of the TOP 10. [17, p. 93] International retailers operating chains of large-scale wide assortment stores (Makro, Ahold, Kaufland, Tesco, Globus, Carrefour and Spar) and do-it-yourself stores (OBI, Baumax and Hornbach) were also the most rapidly growing retail companies in the Czech Republic. The TOP 10 companies exhibited the fastest growth of sales in 1999. On the other hand, sales of retailers ranked from the 21st company down the list of the TOP 50 stagnated. [13]

At the end of the 1990s, concentration and internationalization were the main characteristics of the retail development in the Czech Republic. Czech retailing was highly internationalised. Out of the ten TOP global retailers, seven (Metro, Carrefour/Promodés, Edeka/AVA, Rewe, Royal Ahold, Internarché and Tesco) were present in the Czech market. [12] The rapid expansion and growing number of hypermarkets and large-scale "do-it-yourself" outlets were the reasons for dominant positions of international retailers in the Czech market. The international retailers listed in the TOP 10 retailers in the Czech Republic in 2000 are displayed in Table 5.

The market share of the ten largest retail companies grew fast. In 2001, it represented 28 percent of the total retail turnover and 46 percent of the turnover in food retailing. [14] As estimated by INCOMA Research [15], the market share of the

Tab. 4: Top 10 retail companies in the Czech Republic (1998, 1999)

Ranking	International retailer	Retail company Type of retailer (store)	Number of stores		Turnover (CZK bill.)		
			1998	1999	1998	1999	Index 1999/98
1	**Metro** (Austria)	**Makro ČR a.s.** Makro (C&C stores)	**4**	**7** 7	13.0	19.2	147.7
2	**Royal Ahold** (Netherlands)	**Ahold ČR, a.s.** Hypernova (hypermakets) Prima (megamarkets) Mana (supermarkets) Sessam (discount stores)	**147**	**169** 3 19 87 60	12.5	18.2	146.2
3	**REWE** (Germany)	**Penny Market, s.r.o.+Billa, a.s.** Penny Market (discount store) Billa (supermarkets) Teppich Frick (carpet stores)	**104**	**138** 82 54 6	12.0* 7.6 4.4*	16.8	143.4
4	**Lidl&Schwarz** (Germany)	**Kaufland ČR, v.o.s.** Kaufland (hypermarkets)	**11**	**23** 23	3.6*	13.8	328.6
5	**Delhaize le Lion** (Belgium)	**Delvita, a.s.** Delvita (supermarkets) Sama (selfservice stores) Levně (discount stores)	**58**	**99** 74 25 1	8.8	11.7	133.6
6	**Tengelmann** (Germany)	**Plus Discount, s.r.o.+OBI, s.r.o.** Plus Discount (discount stores) OBI (hobbymarkets)		**79** 67 12	9.3 6.4 2.9	11.3	121.5
7	**Geco Tabak** (Czech Republic)	**Geco Tabak, a.s.** Geco Tabak (wholesale) Tabak-tisk (retailing)		61 11 50	6.7	10.3	152.4
8	**Tesco** (Great Britain)	**Tesco Stores ČR, a.s.** Tesco (hypermarkets) Tesco (department stores)	**8** 2 6	**10** 4 6	6.0	10.0	170.1
9	**Globus** (Germany)	**Globus ČR, k.s.** Globus (hypermarkets) Baumarkt Globus (hobbymarkets)	**8**	**14** 7 6	5.0	8.8	169.2
10	**Julius Meinl** (Austria)	**Julius Meinl, a.s.** Julius Meinl (supermarkets) Impuls (C&C discount stores) Jééé (discount stores)	**91**	**103** 82 15 6	6.5	7.8	111.4
1-10	**Total TOP 10**				83.3	127,9	153.5

Source: [7]

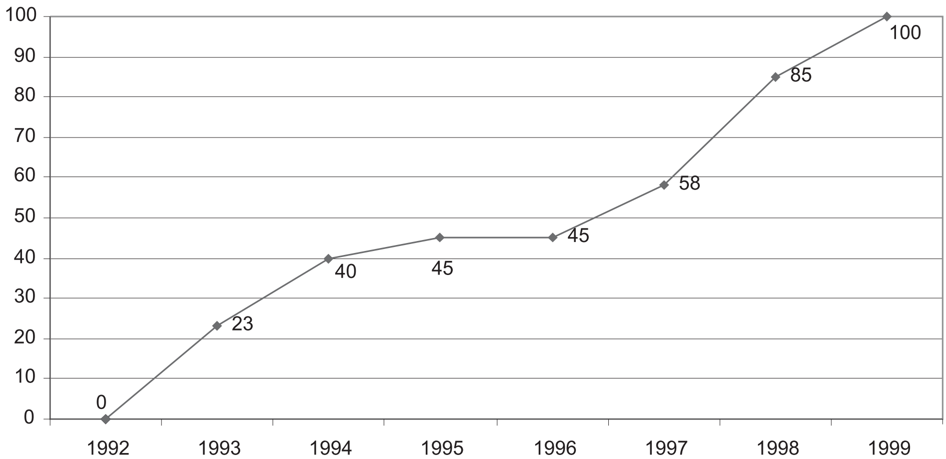
Tab. 5: Top 10 retail companies in the Czech Republic (2000)

Ranking in 2000	Retail company	Turnover (bill. CZK)	Ranking (1999)
1	**Makro ČR**	**27.5**	1
2	**Ahold ČR**	**23.5**	2
3	**REWE** Billa Penny Market	**19.0** 8.0 11.0	3
4	**Kaufland ČR**	**17.0**	4
5	**Tesco Stores ČR**	**15.8**	8
6	**Tengelmann** Plus Diskont OBI	**13.5** 8.5 5.0	6
7	**Globus ČR**	**12.1**	9
8	**Delvita**	**11.9**	5
9	**GECO Tabak**	**9.7**	7
10	**Julius Meinl**	**7.8**	10
1-10	**Total TOP 10**	**157.2**	

Source: [11]

TOP 50 exceeded 60 percent. The concentration of the Czech retailing approached the level of the TOP 50 retailers in west European countries where it represented about 75-85 percent. [7] The list of international retailers in the TOP 10 did not change in 2000 in comparison to 1999.

Fig. 3: Share of international retailers in the turnover of the TOP 10 retail companies (1992-1999)



Source: [7]

However the share of international retailers in the turnover of the TOP 10 retailers as shown in Figure 3 increased rapidly.

In 2000, international retailers had dominant positions in the Czech market. In 1997, international companies represented about 58 percent of the share of the TOP 10 and 30 percent of the TOP 50. In 1998 their share increased to 85 percent in the TOP 10 and about 70 percent of the retail turnover of the TOP 50 in the Czech Republic. [24, p. 138] The strong position of international retailers in the Czech market was demonstrated not only by their size (number of stores and turnover) but also by their growth. The fastest growing international retailers in the Czech Republic in that period of time were Kaufland (Lidl), Makro (Metro), Ahold (Hypernova, Prima), Tesco and Globus. [13]

1.4 Retail Development in the Czech Republic after 2000

The trends in the development of the Czech retailing discussed above were also apparent soon after 2000. The entry of the Czech Republic to the EU in 2004 was considered to be an important moment of this period in the development of retailing. However, this fact did not bring any significant changes to the development of the Czech retailing then. The prices and the market positions of the strong international retailers remained stable and almost unchanged. At the beginning of the new century the development of the Czech retailing reached the level of the other European countries; it was characterised by the general trends of the retail globalisation and internationalization process. The expansion of the international retailers in the Czech market is shown in Table 6.

By 2000 there were 14 international retailers operating in the Czech market. The period after 2000 has not brought many new international retailers to the market. What is more, some of them (Delvita, Edeka, Julius Meinl and Carrefour) have left the country. The effort of international retailers has thus concentrated mainly on strengthening their market positions and building retail chains. According to the turnover

Tab. 6: Expansion of the international retailers in the Czech market

	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006
Ahold (Euronova)	■	■	■	■	■	■	■	■	■	■	■	■	■	■	■	■
Billa	■	■	■	■	■	■	■	■	■	■	■	■	■	■	■	■
Delvita	■	■	■	■	■	■	■	■	■	■	■	■	■	■	■	
Plus Discount	■	■	■	■	■	■	■	■	■	■	■	■	■	■	■	■
Edeka		■	■	■	■	■	■	■	■	■	■	■	■	■	■	
Norma		■	■	■	■	■	■	■	■	■	■	■	■	■	■	■
Julius Meinl				■	■	■	■	■	■	■	■	■	■	■	■	
Tesco						■	■	■	■	■	■	■	■	■	■	■
Globus						■	■	■	■	■	■	■	■	■	■	■
Interspar							■	■	■	■	■	■	■	■	■	■
Penny Market							■	■	■	■	■	■	■	■	■	■
Makro							■	■	■	■	■	■	■	■	■	■
Kaufland								■	■	■	■	■	■	■	■	■
Carrefour								■	■	■	■	■	■	■	■	
Lidl													■	■	■	■

Source: Information provided by Dr. Zdeněk Skála from INCOMA Research, 2008 reached in years 2001-2006, we can claim that the market share of the international retailers in the TOP 50 stabilised and oscillated around 80-83 percent.

Tab. 7: TOP 10 retailers in the Czech Republic in 2007

Ranking	Retail company	Turnover in 2006 (in bill. CZK)	Turnover in 2007 (in bill. CZK) (estimates)
1.	**Schwarz (D)** (Kaufland, Lidl)	43,5	51
2.-3.	**Ahold (NL)** (Hypernova, Albert)	38,5	42
2.-3.	**Tesco Stores,** ČR (GB)	38,5	42
4.	**Metro (D)** (Makro)	38,3	39
5.	**REWE (D)** (Billa, Penny Market)	25,8	32
6.	**Globus (D)**	20,5	23
7.	**Tenglmann (D)** (Plus, OBI)	19,5	21
8.	**GECO TABAK** (CR)	14,9	18
9.	**SPAR ČR (A)**	12,0	14
10.	**Delvita (Belgium. 2006)/ PEAL (CR 2007)**	9,0	8

Source: [19, p. B4], [26, p. B3]

The largest contribution to the turnover of the TOP 50 then was mainly made by hypermarkets (54 percent), discount stores (21 percent) and supermarkets (18 percent). In these years, the sales in small stores represented approximately 5 percent of the total turnover of the TOP 50. The share of the TOP 10 in the total retail turnover was also growing. In 2007 it reached two thirds of the total retail turnover and it was assumed that it should increase up to 70 percent. The list of the TOP 10 and their turnover are shown in Table 7.

In 2007, there were five German retailers in the TOP 10. The leading position belonged to the group Schwarz that was growing mainly due to new shops. There were also two Czech retailers GECO Tabak and PEAL in the TOP 10. It was assumed that the international retailers would expand their retail operations further to smaller towns, which would result in even a stronger competition.

Conclusions

Soon after 1990, retailing became the most dynamic sector of the Czech economy in which decentralisation, demonopolisation and privatisation were completed in a very short time. The most dramatic changes in the Czech retail sector were caused by the entry of international retailers.

Foreign retailers tend to enter the foreign market in one of three ways: by a joint venture or a franchising operation, by merger or acquisition, or by a building new outlets as part of a solo entry. [16, p. 94] In terms of a retail format transfer strategy, some retailers transfer their retail format unchanged, some introduce intensive changes. Some may adopt a retail format that already exists in the foreign country. Retailers have to decide whether format changes should be exclusive or limited since format modification can bring high costs, operating risks and the loss of the key strengths of their original retail formats. The entry strategy usually depends on the economic conditions (the need to adapt to local conditions) and targeted market segments in the host country. Other driving forces are the opportunities in the host countries and the motivation to leverage advantages from global expansions. [9]

Many foreign retailers have expanded into the Czech market by acquiring existing firms. In the early period of their retail activities in the Czech market they mostly copied strategies of the Czech retailers and operated in the existing retail formats. They concentrated mainly on their turnover and gaining market share by acquisition of the former Czech network. Later they introduced new modern types of stores such as discount stores, cash-and-carry stores and hypermarkets in the market. Some retailers preferred to use franchising or licensing operation to enter the Czech market. Well-known examples include The Body Shop and Benetton. Still other foreign retailers (e.g. IKEA, McDonald's) have built their own retailing network without involvement with the Czech firms. The importance of the right transfer strategy is also demonstrated by the failure of international expansion plans. This was the case of Kmart's withdrawal from the Czech Republic (Slovakia and Singapore). One of the main reason of its failure was its inability to adapt its North American discount department store format to the conditions in the host countries.

In any case, the foreign retailers in the Czech Republic have significantly influenced the retail development in the Czech Republic. They have improved the quality of stores and brought new technology, a wide selection of merchandise, lower prices, and the professional quality of service. Together with some Czech retailers, they also initiated the first concentration tendencies in the Czech market in the middle of the 1990s. They started to expand their retail operations and strengthen their positions in the Czech market. The rapid growth of retail concentration was thus highly associated with the growth of internationalization of the Czech retailing. International retailers were constantly increasing their market share significantly influencing the retail scene in the Czech Republic. The increasing influence of big trading groups and expansion of international retailers provoked the emergence of various co-operative complexes, purchasing alliances, co-operation within buying groups, the franchising system and voluntary chains as retailers' responses to the increased competition in the market. The role of international retailers became more important and led to higher levels of concentration and integration. In the second half of the 1990s, the level of the Czech retail internationalization was rather high. However, middle-size and small companies still represented a large proportion of retailer companies in the Czech market.

Growing concentration, deepening of retail integration and co-operation and accelerating internationalization were typical features of the retail development before and soon after 2000. International retailers gained a dominant position in the Czech market. Their expansion was demonstrated by the rapid growth of the number of their stores, their turnover and by the number of international retailers in the TOP 10. International retailers represented about 70 percent of the total retail turnover in the country. They also contributed to a rapid development of discount stores, hypermarkets, large-scale "do-it-yourself" outlets and shopping centres that emerged after 1998. Retailing in the Czech Republic over last the 15 years of dramatic quantitative and qualitative market changes has approached the standard of retailing in some European countries.

In these days, it is supposed that the phase of the rapid expansion is over. Czech retailing has achieved a relatively high level of concentration and internationalization. After an extensive growth of the number of retail outlets and structural changes typical for the first half of 1990s, the development of retailing will concentrate on qualitative changes that will be evoked by the growing competition and needs to satisfy consumers. Retailers' attention will focus on merchandise quality and services and thus on further improvement of the level of retailing in the Czech Republic.

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ABSTRACT

INERNATIONALIZATION IN THE PROCESS OF THE CZECH RETAIL DEVELOPMENT

Jozefina Simová

Over the last years, internationalization and globalization have been typical features of the retail development. Big retail chains expand their retail strategies and activities to many countries especially in East Asia, Middle and Eastern Europe and Latin America. Similar trends have been evident in the Czech Republic. Socio-economic and political changes in the 1990s accompanied by the process of economic transition, private enterprise development, procedures relating to demonopolisation, and decentralisation have brought dramatic changes in the retail sector. Evaluating the internationalization process of the Czech retailing, four periods can be distinguished in its development after 1990. The first period (1990 – 1994) was characterized by many organizational and ownership changes in the retail structure that brought its fragmentation. The first concentration tendencies associated also with the entry of foreign retailers were apparent in the second period (1995 – 1997). In that period of time, many international retailers came to the Czech market and tried to strengthen their position there. This brought not only stronger competition, new retail strategies and activities but also new retail formats such as discount stores, hypermarkets or cash-and-carry stores. The presence and position of the international retailers demonstrated by their turnover and ranking in TOP 10 was getting stronger. The period in 1998 – 2000 can be characterized by relatively high level of internationalization and growing concentration and integration tendencies. International retailers were constantly increasing their market share and significantly influencing the retail scene in the Czech Republic. However, the development of the Czech retailing was not so dynamic after 2000. The development of retailing concentrated more on qualitative changes that were evoked by growing competition and needs to satisfy consumers.

Key Words: *internationalization, retailing, development, Czech Republic, transition process.*

JEL Classification: *M31, O19.*