

Czech Consumer Cooperatives in the Increasingly Globalized Economy.

Since the beginning of the nineties, after the political and economic changes caused by the transition from the centralized economy to the free market, the Czech Republic has been getting more and more involved into the worldwide processes of globalization and concentration. This is true about the Czech domestic market which underwent a dramatic development in the past thirteen years.

At the beginning of this period, there were only several hundreds of large state-owned commercial undertakings and 73 consumer cooperatives in the domestic market. These cooperatives generated 20% of the total retail sales. Afterwards, several waves of privatization occurred in which large state-owned enterprises closed down and thousands of small trading companies came into being. Thus, the so called atomization of the Czech trade took place. It was followed by the stage of their gradual concentration into bigger trading companies. It is interesting that in spite of the evident concentration processes, the number of trading companies in the Czech Republic kept increasing. Only recently it has stabilized and begun to decrease.

The first foreign chain companies entered our market at the beginning of the nineties. They either took over the whole retail network of the former state-owned enterprises (Ahold) or they bought selected stores (Delvita, Norma 2000, and Edeka). In the given period, their investment activities were negligible. This was followed by a certain „transition period“ of several years in which transnational chains were analyzing the distribution and structure of the domestic market and preparing a strategy for the aggressive entry into the market. At that time, the dominant position in the Czech market was taken mainly by the large Czech trading companies (Interkontakt, Pronto Plus, etc.) established through the privatization of the former state-owned enterprises.

In 1997, almost all the significant European retailers entered the Czech domestic market. They started a massive construction of large sales units, i.e. supermarkets, discounts and mainly hypermarkets. In the course of several years, hundreds of these modern large-area units were built. For example before 1997, there was not a single hypermarket in the Czech Republic, this year, however, there will be more than 120 of them. Transnational chains got control mostly of the food trade. Out of the biggest trading companies operating in the Czech

Republic, only one has Czech capital (it is placed 10th in the regular ranking list). At present, almost all European transnational chains operate in the Czech Republic, led by Metro (Makro), Ahold, Carrefour, etc. The arrival of Wal-Mart is expected in the near future.

A permanently growing competition in the Czech market has caused (and will keep causing) the liquidation of thousands of Czech trading companies. The biggest Czech companies were the first to close down. As everywhere in the world, small and middle-sized trading companies use all forms of cooperation to fight the competitive pressure, namely the establishment of voluntary chains on the franchising basis. In spite of that, a big wave of bankruptcy and liquidation of the Czech trading companies is expected in the future, connected with the further increase in the market shares of transnational chain giants.

Since the beginning of the nineties, Czech consumer cooperatives, associated in the Union of Czech and Moravian Consumer Cooperatives (UCMCC), have tried hard to stand up to the sharply increasing pressure both of the other Czech companies and especially of transnational chains.

They use the experience of the advanced cooperative systems in Sweden, Italy, Switzerland, Norway and elsewhere. For example, more than a hundred of top managers from all the consumer cooperatives in the Czech Republic have been trained within the so called „Swedish project“.

In 1993, on the basis of knowledge and experience of the advanced cooperative systems from abroad, regional consumer cooperative purchasing centres were established. Later they were integrated into two purchasing centres – COOP Centrum and COOP Morava. At the moment, they represent first and third biggest purchasing alliances in the whole Czech Republic. In the course of time, voluntary franchising chains of retail trade units were set up. At present, 5 food chains and one chain of shops with building materials involve roughly 400 units. They form more than one third of the total retail trade of consumer cooperatives.

As early as 1996, the Union of Czech and Moravian Consumer Cooperatives elaborated a project of integration and merger of member consumer cooperatives. Its implementation, however, was hindered by an unsatisfactory legislation concerning business activities in the Czech Republic and a lack of understanding on the part of management of the majority of consumer cooperatives. Up to now, only one merger of two consumer cooperatives in our

system has been successfully completed and several others are being prepared. We have, however, managed to agree on the so called strategy of integration of trading activities (both retail and wholesale) according to which a more powerful consumer cooperative takes over the operation of the retail trade units of another one or several neighboring consumer cooperatives. The integration of the trading activities of the consumer cooperatives involved could thus lead to their merger and a creation of stronger and more competitive consumer cooperatives.

In spite of the extreme pressure of transnational companies in the Czech market, consumer cooperatives, associated in the Union of Czech and Moravian Consumer Cooperatives, have preserved the position of the strongest entrepreneurial group with exclusively Czech capital in the Czech domestic market. It has about 6% share in the total sales of groceries. The fact that 17 consumer cooperatives were among the TOP 50 of the largest food trading companies in 2002 is also worthy of attention. Their main competitive advantage was particularly proximity to customers, rich supply of quality fresh goods and goods from popular local producers, good relationship with customers (based on loyalty cards, membership benefits, etc.), and especially support from the above mentioned strong cooperative purchase centres.

Nobody has its market position guaranteed in the market economy. This applies fully to our system of consumer cooperatives. At present it is being endangered not only by the overdeveloped network of hypermarkets and supermarkets in the Czech Republic but lately also by the aggressive entry into the market of the so called „tough“ discounts of transnational Lidl chains who open even in smaller towns and catchment communities and sell at dumping prices. The economic indexes of consumer cooperatives in this year thus show a deterioration of their position and a threat to the existence of the majority of them.

It is, therefore, urgent to speed up the integration and concentration processes in the system of our consumer cooperatives. It is a basic prerequisite for the preservation of their competitiveness under new and much more demanding conditions of the integrated European market and globalized world economy. The operation of entrepreneurial subjects established by consumer cooperatives should eventually go beyond the state border. A good example of this process is the foundation of COOP Norden, a transnational integrational group of three Scandinavian countries. In Central Europe, mainly the activities of the transnational purchasing centre COOP EURO (Hungary, Czech Republic, Slovak Republic) have to be

expanded. At the same time, a marked progress has to be made in the integration of the wholesale trade activities of consumer cooperatives. At the time being, we have too many small warehouses and big logistic units are slow to develop. In line with the concept of increasing the concentration of the retail trade network, the number of commercial units included into chains will have to be substantially increased.

As regards the maintenance of the position of our system in the Czech domestic market, great importance is attached to the planned establishment of the so called central entrepreneurial subject which would integrate crucial entrepreneurial activities of consumer cooperatives: central purchase, management of retail trade chains and wholesale trade logistic bases.

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I believe that this seminar will bring further useful observations and experience to help us, using modern methods of enterprise, stand up to the ever increasing pressure of the globalized competitors and suppliers, not only in the Czech Republic but also in the European Union.

Thank you for your attention

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