

Czech Republic

Crisis influences the shopping behaviour of the Czech population and the promotional communication of retail chains

After years of prosperity and growth, Czech trade is going through a difficult period and retailers and suppliers are having to deal with a situation they are not used to. The economic crisis halted the growth in purchasing power and, moreover, the huge media coverage of the problem resulted in the "crisis" getting into both the customers' wallets and their heads.

The result was a decrease of dozens of percentage points in retail spending for certain categories of durable goods (electronics, home furnishings, fashion, etc.). Three fifths of the population has changed its shopping behaviour. Amongst the typical manifestations are the postponement until a later date of certain purchases of non-essential goods, shopping for cheaper alternatives than in the past and a dramatic increase in the purchase of items in the sales.

When we look at the structure of household expenditure, we can see there has been a huge increase in the proportion of items purchased at sale prices during the last 2 years. Whilst the purchase of private labels stagnated in 2009, brand name products were able to strengthen their market share in most categories. However, this increase was generated by sales of premium brands at promotional prices (often with a drastic reduction in profit margins) whereas purchases of brand names not on promotion decreased.

This increased price sensitivity on the part of Czech households does not mean, however, that customers have compromised on their quality demands. As a result of the strengthened competitive battle in the second half of the last decade, customers have become accustomed to quality and are not willing to take a step backwards in this area.

However, their relationship with their shopping place has changed. The survey SHOPPING MONITOR 2009/2010 has confirmed that the main factor when choosing the place to shop place is still location, but "value for money", meaning the value which customers get for their money, has moved up into second place. Shopping for items on sale has increased significantly, whereas looking for low prices in general has stagnated and the importance of breadth of range has decreased.

What does this mean overall in terms of shopping habits? The total number of chains visited has not changed much but the frequency of the visits has increased markedly. The main reason for this development is the trip specifically for the purchase of items on promotion. However, as a result of this, the size of the average shopping basket has decreased in most chains.

The terms "sale" or "price reduction" became the most frequently used expressions in the Czech retail market last year. Retailers, together with their suppliers, put their money on intensive price marketing. The key mode for obtaining information regarding promotional products was, naturally, the leaflets put out by the chains.

As shown by LEAFLET MONITOR - the continual monitoring system of retail leaflet content (GfK is currently operating in more than 6 countries in the CEE region) - the average number of products presented in leaflets has grown by 50%. Most large suppliers were aware of the importance of marketing activities in the problematic period – and so they increased the number of products on promotion by a quarter.

The list of the main companies advertising in leaflets has not changed for many years. The top positions are taken by multi-national suppliers: Nestlé, Unilever, Procter & Gamble, Henkel and Kraft Foods.



The most frequently promoted categories are alcohol, meat products and processed meats, followed by non-alcoholic beverages and fresh meat. The leaders among private label and non-brand label products are fresh baked goods and fresh meat.

An analysis of LEAFLET MONITOR's results also showed that whilst in 2007 the average price discount communicated was 21.7%, last year it was 23.9%.

Sales are now to be found on a virtually continual basis and the peak period for fighting for customers "at any cost" occurs during the pre-Christmas sales. Even though promotions are the main driver of turnover, it is often at the cost of slashed profit margins and other negative consequences. The trade has got itself into something of a trap by their constant spinning of the price spiral. The customers partially "unlearned" how to make their purchases in the normal way last year – either they do not shop, postpone their purchases, or shop, not according to their usual needs and preferences, but according to which goods are currently on sale.

But building customer trust through sales is very shortsighted. Promotional marketing weakens the perceived benefits of the retail chains, such as overall selection and shopping environment. Customers no longer prefer a store for its merits but because they bought a certain product at a low price there. In such an environment it is very difficult to build the profile and image of the chain and achieve perceived long-term comparative value. The faithfulness of customers is decreasing over time and the formerly loyal band of customers is becoming unstable.

Of course, it is not easy to get off the train – it is not possible to sit on the sidelines when competitors are increasing their numbers of sales. The end result, however, is that everyone makes less money and customers are slightly confused, while drowning in a sea of sales information and spending more time shopping than ever before. This year retailers and suppliers will reap what they sowed last year and the way back will be very difficult. It will lead to an analysis of the effectiveness of marketing events and a more selective approach towards sales, analysis of decisive factors for customers and a stronger emphasis on the "non-price" factors which influence them, searching for new opportunities to approach customers and, finally, to an overall optimisation of the marketing process.

Contact:

Tomas Drtina
Managing Director
Incoma GfK
Kavci Hory Office Park
Na Hrebenech II 1718/10
140 00 Prague 4
Czech Republic
Tel. +420 251 117 541
Fax +420 251 117 542
drtina@incoma.cz
www.incoma.cz