Abstract

The purpose of writing this article is to characterize the market with farm-produced and premium food products in the Czech Republic and to express its current structure in terms of the ownership of the decisive companies in the given market. The originality of this article is based on the application of the model of monopolistic competition into the conditions of the market with farm-produced and premium food products in the Czech Republic. The methodology used for writing the article is based mainly on the description of individual market entities offering farm-produced food products in the Czech Republic. It is also based on a comparative analysis of the development of indicators signifying the number and financial performance of the monitored companies in the recent years. The Sklizeno Foods grocery store network has become a clear leader in the growing market of farm-produced and premium food products. In 2018, it was supposed to include 80 establishments, and the turnover should reach the amount of CZK 750 million. However, it will still be a small fraction of the total food consumption in the Czech Republic, as the local products and organic food do not currently reach even one percent.

Keywords: businesses, farm-produced and premium food products, farmer's markets, market, monopolistic competition

JEL Classification: D12, Q12, Q13

1 Introduction

The topic of food quality is still topical and is still much discussed among experts. The term "food quality" includes a whole set of partial aspects (parameters) that are related or linked to each other. Examples include nutritional, hygienic,
sensory and technological aspects or more complex aspects as regional food brand (Rojík et al., 2016). The perception of food quality is largely dependent on subjective consumer assessment and is related to their perception of quality parameters and previous experience (Pilař et al., 2017). For this reason, it cannot automatically be assumed that safe food will always be perceived as good by the consumer (Recskyová, 2015). „Consumers’ requests and wishes are important, and their fulfilment is strictly related to retailers’ choices and activities aimed at shaping consumers’ choice“ (Marchini et al., 2015).

The creation of marketing channels selling quality farm products is certainly not new (Verhaegen & Van Huylenbroeck, 2001). In southern countries such as Italy and France with their rich gastronomic traditions and diversity of local products, such commercialisation chains have always existed (see e.g. Fanfani et al., 1996; Brasili et al., 1998; Arfini & Mora, 1998; Bessiere, 1998). In these quality food channels, direct communication between producers and consumers is of paramount importance to ensure that quality is paid for. In the last decade, however, they have emerged in all industrialised countries, where they are promoted as a possible model to respond to the actual problems faced by agriculture (Hinrichs, 2000). Battershill and Gilg (1998) and Grey (2000) present them as a possible alternative to the industrialised food market.

The purpose of writing this article is to characterize the market with farm-produced and premium food products in the Czech Republic and to express its current structure in terms of the ownership of the decisive companies in the given market. The originality of this article is based on the application of the model of monopolistic competition into the conditions of the market with farm-produced and premium food products in the Czech Republic.

2 Data and Methods

2.1 Methods

The methodology used for writing the article is based mainly on the description of individual market entities offering farm-produced food products in the Czech Republic. It is also based on a comparative analysis of the development of indicators signifying the number and financial performance of the monitored companies in the recent years.


2.2 Monopolistic competition in the area of farm-produced and premium food product sales

Monopolistic competition generally represents a situation in the market where many small and medium-sized businesses sell products that are similar, but not the same. „The main symptom of monopolistic competition is product differentiation“ (Maksimov et al., 2016). „The determining conditions of its existence are the different consumer preferences towards the products or services of a single firm“ (Soukup & Šrédl, 2011). In the context of imperfect competition, monopolistic competition is the market structure most reminiscent of perfect competition. The primary aspect that makes it reminiscent of perfect competition is that it presupposes a large number of businesses on the market and considerable freedom in the transition of companies across sectors. However, this form of competition also has a mark of imperfect competitive, namely the production of a differentiated product (as stated by Maksimov et al.) and the ability of a business to set its price. „In monopolistic competition each company has its own clearly distinguished identity – a trademark. Customers understand its output as something else than outputs of all other companies in the production sector“ (Schiller, 2004). As pertains to its product, a business in the area of farm-produced and premium food products thus holds the same position and power as one operating in a monopoly market. A large number of companies in the sector, the production of a differentiated product and the absence of barriers to the entry of companies into the sector are the main prerequisites that allow the monopolistic competition model to function in a given market segment.

Seemingly, the demand curve that monopolistically competitive companies are facing looks like the demand curve that monopoly is facing… However, „in monopolistic competition each company has monopoly only on its own trademark; it still competes with other companies by offering close substitutes. Therefore, the extent of a monopolistically competitive company’s power depends on how successfully it is able to distinguish its product from products of other companies. The greater loyalty to a brand the company is able to ensure, the less probability there is that customers will change the brand when price increases. In other words, loyalty to a brand makes the demand curve the company is facing less price flexible“ (Schiller, 2004).

„Loyalty to a brand exists even when products are practically identical. Poppy is a very standardized product, yet many customers of farmer's markets regularly buy one specific brand, for example poppy from František Němec from Netín, who operates three stores in Prague, where he sells it“ (Svoboda & Severová, 2015).
3 Results and Discussion

3.1 Structure of farm-produced and premium product stores and further investments in these stores

The plans of merchants offering farm-produced and premium food products for extensive expansion are falling behind. Sellers are complaining about the lack of suitable space and insufficient product assortments. However, the expansion of stores is beginning to hit limits not only in terms of demand. It is also slowing down due to the limited availability of these products on the market.

There is certainly room for the use of farmer-produced food products on the market, but it is of course not all that large. Even in this segment, it holds true that demand is limited and that the supply will one day be comparable to the demand. For example, the pioneer of farm product shopping Náš grunt had 33 stores in February 2015 (see Figure 1) and has discussed starting up another ten. However, taking a look at the company’s website (2018) today shows that it has only 13 stores in the network. The company has already said previously that the problem lies in the lack of suitable space (Novák, 2015a).

Figure 1 The number of stores under Sklizeno Foods

The competitive farming network Sklizeno had planned to open farmer’s supermarkets. However, it has not yet realized its intention. In addition to the lack of suitable locations, the company also ran into the problem of a lack of farm products offered by producers.

The company Delmart, which is owned by Dušan Mrozek, the former head of the domestic part of the Marks and Spencer fashion chain, has not yet realized its initial plans either. Delmart is not a standard farm product store. It focuses on high-quality food products in general. When the first store was opened in August 2015, the entrepreneur Mrozek said that opening twenty stores in a two-year horizon can be realistically expected. So far (2018), the company has only five stores (DELMART, 2018). In 2015, Delmart focused mainly on further improvements in
the product assortment, an evaluation of the experiences acquired from operating the first store, and on putting the logistics, information and reporting systems and a managerial structure, i.e. a solid and robust foundation for expansion, into place (see Figure 2).

Figure 2 Other networks of farm produce stores


Merchants that are focused on high-quality food products are, nonetheless, looking for new ways to expand their business. These include shopping centres in which stores such as Pekařství Mašek from Jablonec nad Nisou and My Food Market from Brno operate. After Brno, the network will also expand its businesses to "A-grade" shopping centres in Prague. The second new sales method is e-shops. It can be either the store’s own e-shop in which, again, My Food Market is promoted or sales through cooperation with large players such as the Rohlík Internet supermarket; the e-shop that cooperates with Sklizeno (Novák, 2015a).

A positive fact is that networks offering farm-produced and premium food products are not yet going bankrupt in the Czech Republic, with the exception of the Austrian store Julius Meinl, which differed from other stores in that it had high prices. The company did not last a single year in the vast luxury food store near Wenceslas Square; it was, however, an extreme case in almost every aspect since the very beginning of its operation.

The company My Food Market from Brno, into which the co-owner of the consultancy company Partners Petr Borkovec invested capital, launched a large investment project. In 2015, he invested several tens of millions of crowns into building new premises and expanding the facilities of the kitchens, factories, warehouses, IT and especially into professional staff. Delmart, the company owned by Dušan Mrozek, is investing tens of millions as well. It is also building a delicatessen and pressed juice establishment, and it will also open a bakery for its own needs (Novák, 2015a).
3.2 Farm-produced food product stores merging into Sklizeno Foods

In previous years, farm-produced food product stores had merged in the Czech Republic, and the new food market leader Sklizeno Foods had emerged. In the spring of 2016, the investor Petr Borkovec joined the network of local food produce stores Sklizeno by investing capital in the enterprise. In November 2016, he also bought the largest competing network Náš grunt, which included 20 stores throughout the Czech Republic.

The Náš grunt network of farm stores was established in 2010, and it is one of the pioneers in moving the sale of food produced by local producers from the popular farm markets to brick and mortar stores. The network currently includes over thirty stores made up of a mix of its own stores and franchises. In 2015, Náš grunt has reached 157 million crowns in annual revenue (see Figure 3). As a growing business, it strives towards a balanced economy. Profit is not the short-term goal of the owners; they are now trying to invest everything into the development of the company (Novák, 2015b).

![Figure 3 The turnover of parts of Sklizeno Foods in millions of CZK excluding VAT](image)


The Sklizeno Foods network of farm-produced food products, which also includes the original brand of Petr Borkovec My Food, has become a clear leader in the growing market for farm-produced food products in the Czech Republic. In 2016, Sklizeno Foods was to operate nearly 50 stores and the company’s turnover was to reach nearly half a billion crowns. The newly formed network should expand even further, whether it be through franchises or brick and mortar stores. In 2017, it planned to open at least ten new stores, and in 2018, the network should already be comprised of 80 stores. The turnover was to reach 750 million CZK in 2017 (Petříček, 2016).

However, it will still be a small fraction of the total food consumption in the Czech Republic, as the local products and organic food do not currently reach even one percent. The market can be expected to reach three percent within eight
years and thus reach a turnover of around nine billion crowns, as the founder of Sklizeno David Kukla, who has a nearly one-third share in the new Sklizeno Foods network, has stated.

Figure 4  The owners of Sklizeno Foods following the stores had merged


“In the modern market economy where the supply exceeds demand, the importance of the "consumer's behaviour in the market analysis" continuously increases” (Šrédl et al., 2013). There are around 600 separate health food stores, and they are usually not part of any chain, because “food supply chains are primarily focused on selling products to standard consumers” (Svoboda & Kopecká, 2017). The division is not very beneficial for the market, because it makes local food products more expensive. There are several explanations for what attracts customers to health food stores. The demand for gluten-free and lactose-free foods and so-called superfoods is increasing among Czechs. Many Czechs are interested in various dietary styles (such as the raw or paleo diet), and the demand for foods that are free of palm oil is growing. “The choice of foods is an area of concern for many people involved in the production and distribution of foods, and for those concerned with nutrition and health education. Relatively little is known about how and why people choose the foods that constitute their diets or about how their choices can be influenced in an effective way” (Benda-Prokeinová et al., 2017).

Delmart also builds on a concept of "better" food similar to that of Sklizeno Foods, and it has opened its third store in the centre of Prague near Náměstí Republiky in November 2016. However, the expansion is slower than planned by its owner Dušan Mrozek when he opened the first premium food store and bistro in Anděl, Prague three years ago.
3.3 Alternative sales of farm-produced and premium food products

3.3.1 Brick and mortar stores

The popular shopping in farmers' markets led to booms for brick and mortar stores. However, merchants selling farm-produced and premium food products are facing the problem of the limited product assortment of suppliers as well as the lack of space suitable for networks of brick and mortar stores. The demand for the food products known from farmers' markets has its limits as well. As a result, the extensive plans for expansion are falling behind, and not only the major players have to find new ways to expand their business. Penetration into established shopping centres and e-shops may present an opportunity.

3.3.2 E-shops

Food products from domestic farmers will also reach customers through various e-shops and delivery services. There are, for example, several companies engaged in community-supported agriculture. Under the Mléko z farmy (Farm Milk) project, a joint project of the landowners Jan Miller and Stanislav Němec, milk is delivered around Prague and other parts of the Czech Republic. The annual turnover exceeds one hundred million crowns (Petříček, 2016).

3.3.3 Farmers' markets

The farmers' markets, whose total turnover is around 250 million crowns, are another alternative. However, Sklizeno Foods does not consider farmers' markets as direct competitors. It considers them more as a nice one-time events with a certain atmosphere. For many real farmers, the markets are getting increasingly demanding and expensive. However, Sklizeno Foods sees large chains as its competition.

3.4 The opportunities and risks involved in the farm-produced food sector

Opportunities for development:
- penetration into shopping centres
- using the stable position of businesses
- cooperation with e-shops

Risks involved in company development:
- limited product assortment of farm-produced food product suppliers
lack of suitable space for stores
- limited demand for farm-produced food product

3.5 The practical importance of received results

The description of the current structure of the market with farm-produced and premium food products in the Czech Republic can serve potential bidders for entry to the market for their better understanding of this market. At the same time, the article informs the existing entities on the given market about the possibilities of further expansion of their business activities.

4 Conclusion

The Sklizeno Foods grocery store network has become a clear leader in the growing market of farm-produced and premium food products. In 2018, it was supposed to include 80 establishments, and the turnover should reach the amount of CZK 750 million. However, it will still be a small fraction of the total food consumption in the Czech Republic, as the local products and organic food do not currently reach even one percent. There is certainly room for the use of farmer-produced food products on the market, but it is of course not all that large. Even in this segment, it holds true that demand is limited and that the supply will one day be comparable to the demand. However, the expansion of stores is beginning to hit limits not only in terms of demand. It is also slowing down due to the limited availability of these products on the market. Merchants that are focused on high-quality food products are, nonetheless, looking for new ways to expand their business; these include shopping centres. Farmers’ markets or the sale of farm-produced food products through various e-shops or delivery services present an alternative method of getting food from domestic farmers to customers.

Acknowledgements

This paper was created within the project IGA of the Faculty of Economics and Management, Czech University of Life Sciences in Prague Application of Helpman-Krugman model for international exchange in market with food products. Project registration number 20171011.
References


