
Usage Of Tobacco, Cigars And Cigarillos In The Czech Republic

The Czech Republic, also known as Czechia, is comprised of three regions – primarily Bohemia and Moravia and part of Silesia. The country is landlocked in Central Europe with four bordering countries; Germany to the west, Poland to the north, Slovakia to the east and Austria to the south. Prague is the capital of the Czech Republic and has the highest population with an estimated 1.2 million people. There are four other major cities, Brno (388.6K), Ostrava (325.6K), Pilsen (171.9K) and Olomouc (106.3K). The ethnic make-up of the Czech Republic is 94.4% Czech, 3% Slovak, 0.6% Polish, 0.5% German, 0.3% Gypsy, 0.2% Hungarian and 1% other. The population within the Czech Republic is comprised of 50.9% women and 49.1% men, with 63.3% aged between 25-69 years old. The population is primarily urban - the make-up being 73% urban and 27% rural. (Santander, 2018)

There are multiple forms of transportation with good infrastructure to support and allow for efficiencies to get the product from a port to the distributor to the retail customer. There are rail lines that serve all regions of the country, along with connecting the Czech Republic with its bordering countries. Most freight moves along the main-line routes and this is one method of getting product from a port, that would come through Germany, to the Czech Republic. Although freight is a source of transportation for goods and services, freight has been on the decline due to the extensive network of paved roads that crisscross the Bohemian Plateau. There are super highways that link the major cities of Prague, Brno and Bratislava. (Auty, Hauner, Blazek, Osborne, & Carter, 2018)

Consumer buying habits have seen a shift with disposable income surging as general trends move toward westernization. Internet has also been integrated into everyday life as a major source for shopping. Czech consumers show preferences for Czech brands and have strong ties to tradition, even with becoming more a part of the European culture. Traditionally price-sensitive, quality is becoming more important as there has been a notable transition from cheaper to recognizable brands. Hyper markets have also become more important to Czech people, with discount stores having great success and now dominating the grocery market. (McCann, 2018)

When it comes to tobacco, in 2017, 2.4 million (27%) Czech people smoked every day. This is an increase from 23% five years ago. The increase is made up of middle age people rather than young people. Of the 27%, one in 3 men and one in 5 women smoke every day. (Santander, 2018)

Tobacco products are distributed to multiple trades of class, including small tobacco shop chains and independents, convenience stores and grocery stores. Cigars, specifically cigarillos, are currently sold more in tobacco shops, but do have a presence next to cigarettes in convenience stores and grocery stores. (Cerny, 2018) Internet retailers have posted growing sales in the Czech Republic with the number of online retailers of tobacco products increasing over a 2017 review period. (Euromonitor International, 2018)

Prior to 2017, the Czech Republic traditionally had very lenient laws toward tobacco use, with

the Czech Republic becoming one of the last in the European Union to apply the Tobacco Advertising Directive 2003/33/EC; this directive bans advertising on all tobacco products which has made advertising and promoting increasingly more difficult. However, even though laws make it more difficult to advertise, there are still available avenues. Advertising is allowed through periodical press and non-periodical publications, as well as leaflets and posters that are dedicated to professionals in the tobacco business. (Trade Portal Santander, 2018) With the new tobacco restrictions also comes restrictions on how to promote the cigars and cigarillos. Traditional sampling and couponing is not allowed, but creative methods can be used. A new method of sampling can be utilized; instead of offering free cigars, an offer can be made to the consumer to purchase multiple cigars at a set price. This will allow a consumer to try multiple blends at a designated cost.

Tobacco within the Czech Republic is regulated for pricing and comparable products must be sold at similar costs, which includes the distributor markup. In addition to the standard distributor markup there is a consumption tax that is imposed on the tobacco industry, which represents the excise tax. (Bridge West, 2017) The excise tax for premium brands amounts to between 3 – 4 CZK/package. The increase allowed companies to raise their margin. This increase hasn't impacted the value growth as expected and tobacco is actually expected to see positive value growth with pricing looking to remain constant over the next year. (Euromonitor International, 2018) 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. (Persistence Market Research, 2018)

The four major tobacco manufacturers that dominate the Czech market are Philip Morris, British American Tobacco, Imperial Tobacco and JT International. Swedish Match has recently made a market entrance with a focus on chewing tobacco (OTP -other tobacco products). Philip Morris maintains a majority share at 70%, with British American and Imperial following, both with 8% market share. By introducing our cigarillo brand, we will be directly competing with brands like Café Crème, Handelsgold, Colts, BLKs. These are packaged as singles, boxes, 10 packs, 5 packs and 2 packs. We will be offering a product in multiple blends in both 2 pack pouches and 5 count packs. This will be determined by the type of retail store and product mix being currently offered by our competitors. The competitive markets offer traditional blends, sweet, non-flavored, blue (vanilla) and mild. We will come to market with similar offerings to directly compete but will also add in additional blends to differentiate us from our competitors.

Regulations are the main hurdle within introducing a tobacco product to the Czech Republic. The European Union has important regulations that must be followed that are very similar to those that are currently in place in the United States. As a tobacco firm entering the Czech Republic, we need to be aware that our products are to be sold only to individuals 18 years or older and that smoking, or the selling of tobacco is prohibited in schools, theatres, cinemas, sports establishments, healthcare or any facilities where children may be present. Smoking is also not allowed in tram or bus stations and as of 2017 is not allowed at any indoor places including pubs. A firm is allowed to continue selling through vending machines, as long as it can be ensured that the buyer is above 18 years old and the same rules apply to online sales.

Along with having to focus on the regulations of the consumer, there are also regulations applied to the product and packaging. The legislation that is applied to cigars and cigarillos states: (Ministry of Agriculture, 2016)

1. Prohibited substances

a. Vitamins, caffeine or taurine or other additives

b. Additives that have carcinogenic, mutagenic and reprotoxic properties in unburnt form

2. Prohibited elements and features

a. Package labeling cannot

i. Promotes or encourage consumption by creating an erroneous impression about its characteristics, health effects, risks or emissions

ii. suggests that a particular tobacco product is less harmful than others or aims to reduce the effect of some harmful components of smoke or has vitalizing, energetic, healing, rejuvenating, natural, organic properties or has other health or lifestyle benefits

iii. refers to taste, smell, any flavorings or other additives or the absence thereof, resembles a food or a cosmetic product, or suggests that a certain tobacco product has improved biodegradability or other environmental advantages

b. The unit packets and any outside packaging shall not suggest economic advantages by including printed vouchers, offering discounts, free distribution, two-for-one or other similar offers.

3. There must be means of identification of tobacco products with a unique identifier to follow the entire supply chain from manufacturing to retail.

4. Methodology for the general warning and information messages on tobacco products intended for smoking

a. The wording of the general warning on tobacco products designed for smoking is "Smoking kills - quit now". This information must cover 50% of the surface on which it is printed.

b. The information message on tobacco products designed for smoking is "Tobacco smoke contains over 70 substances known to cause cancer". This information must cover 50% of the surface on which it is printed.

c. Printed in black Helvetica bold type on a white background while maintaining the default character spacing, which is 100%, and normal gaps, on a white background, ensuring that the relevant text occupies the greatest possible proportion of the surface reserved for these health warnings.

d. Positioned at the center of the surface reserved for them

e. All labels must be written in Czech