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Analysis of the causes of price fluctuations of dairy products at individual levels of the product vertical

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Abstract

The paper analyzes the reasons for the prices of milk and milk products in the Czech Republic for the period 2008 – 2009. In January 2008, the purchase price of raw milk was 10.08 CZK/l, and in the subsequent period it began to decline. At the end of 2008, the price was more than 3 crowns lower, and still the decrease continued. The research determined that the essential reason for the price fluctuations is the impact of the economic crisis. A substantial portion of the article was devoted to analyzing the behavior of supermarket chains toward their suppliers. It was discovered that even here there is a lot of room for the creation of pricing policy. Margin trading networks up to 25% of the delivered goods. Price negotiations affect the position papers in the manufacturing vertical. The power of suppliers and processors is based on the establishment of a strong integration unit. In the conclusion the author discusses possible future developments in price, sales policy, and the self-sufficiency of milk production in the Czech Republic. The paper was processed within the framework of the Research Project of MSM 6046070906 "The economics of Czech agricultural resources and their effective use within the framework of multifunctional agri-food systems".

Key words

Milk, price depression, price scissors, chain store, retail revenues from food, self-sufficiency.

Anotace

Příspěvek analyzuje důvody propadů cen mléka a mléčných výrobků v České republice v období 2008-2009. V lednu 2008 byla výkupní cena surového mléka 10,08 Kč/l a v následujícím období začala klesat. Na konci roku 2008 byla cena více než o 3 koruny nižší a pokles stále pokračoval. Zkoumáním bylo zjištěno, že podstatnými důvody cenových výkyvů byl dopad světové ekonomické krize. Podstatná část článku byla věnována rozboru chování obchodních řetězců vůči jejich dodavatelům. Bylo zjištěno, že i zde je velký prostor na utváření cenové politiky. Marže obchodních sítí tvoří až 25% z ceny dodávaného zboží. Vyjednávání o ceně ovlivňuje pozice článků ve výrobní vertikále. Síla dodavatelů a zpracovatelů spočívá ve vytvoření silného integračního celku. V závěru tohoto článku byla provedena diskuse budoucího možného vývoje cen, politiky odbytu a soběstačnosti výroby mléka v České republice. Příspěvek byl zpracován v rámci VZ MSM 6046070906 „Ekonomika zdrojů českého zemědělství a jejich efektivní využívání v rámci multifunkčních zemědělskopotravinářských systému“

Klíčová slova

Mléko, cenový propad, cenové nůžky, obchodní řetězec, maloobchodní tržby za potraviny, soběstačnost.

Introduction and aims

In Europe, or across the world as the case may be, a significant growth in prices revealed itself in 2007, especially in the food sector. This growth subsequently resulted in a higher inflation rate. Countries throughout the world fumbled with high inflation at the turn of 2007 and 2008. Petroleum prices as well as the prices of basic foodstuffs (corn, wheat, soybeans, rice) grew in China, Russia, the USA and Japan, and much more significantly in poor developing countries. Their situation was generally worse because economically weak countries are more sensitive to a rise in food prices.At the beginning of 2008, the situation began to change. Global and domestic commodityprices declined significantly. The aim of the paper was to map the price status for milk and milk products on the domestic market in 2007-2009, and furthermore to analyze the causes and consequences of low purchasing prices for milk. The paper has the task of monitoring price developments in the manufacturing vertical and evaluating opportunities arising from teamwork between actors in the vertical. Equally important is the task of describing the behavior of supermarket chains in the Czech Republic, and giving a real-life example of a supplier - business network relationship.

The scientific article continues research published by Krízová, /6/. The article deals with a food market analysis at the level of consumer price structure, through an identification of margins in selected food verticals and through an analysis of consumer behaviour associated with changes in prices and in the income of the population. /Křížová (2009); 6/ The problems of price disparities were also addressed for the manufacturing vertical grain - bakery products. Analysis has also confirmed that the decisive subjects in the milling industry become bigger mills, joined to the raw commodity supplier and the subsequent processing stages. It can largely eliminate the low flour price that becomes a competitive advantage, since the raw commodities become cheaper for the subsequent processing /Blažková, (2010); 1/ The dismal price situation is confirmed by other authors. /Foltyn et al, (2009); 2/.

Materials and methods

Materials and data for the analyses were drawn from web pages of the Czech Statistical Office: data concerning the price development of milk and milk products in the domestic market, and information on retail sales. Information from commodity reports, reports on the state of agriculture, and price statistics published by the Ministry of Agriculture (MZe) was used. The paper drew from press releases of the State Agricultural Intervention Fund (SZIF), as well as information from the FAO and the World Bank. For data analyses, general statistical methods and a calculation of year-on-year price indices were used, in order to see developments in time series. Besides the study and analyses of data, information from suppliers of milk products to business networks in the CR was used. The experience of suppliers, resulting from multi-year cooperation with business entities, was described.

Results and discussion

The causes of the rise in food prices in 2007 were to be found in the increasing volume of money in the world economy. The demand for foods and raw materials grew faster than the production of raw materials and the subsequent food production. There were significant food shortages worldwide due to the low reserves of agricultural crops and the high demand, especially from the developing world, where economies are growing very rapidly. Calculations using FAO /3/ and World Bank /15/ data show that the world food production per capita decreased only very slightly (a decrease of 0.1 kg per inhabitant). For soybeans, the worldwide year-on-year decrease in 2007 amounted to 0.2 kg/inhabitant. For other significant agricultural commodities such as cow's milk and corn, an increase in per-capita production was recorded. This figure for cow's milk was only 0.9 kg/inhabitant, whereas corn production grew by 11 kg/inhabitant. Despite the fact that according to FAO statistics the production of basic foods actually increased, their prices also increased considerably, and the world began to speak about a food crisis.

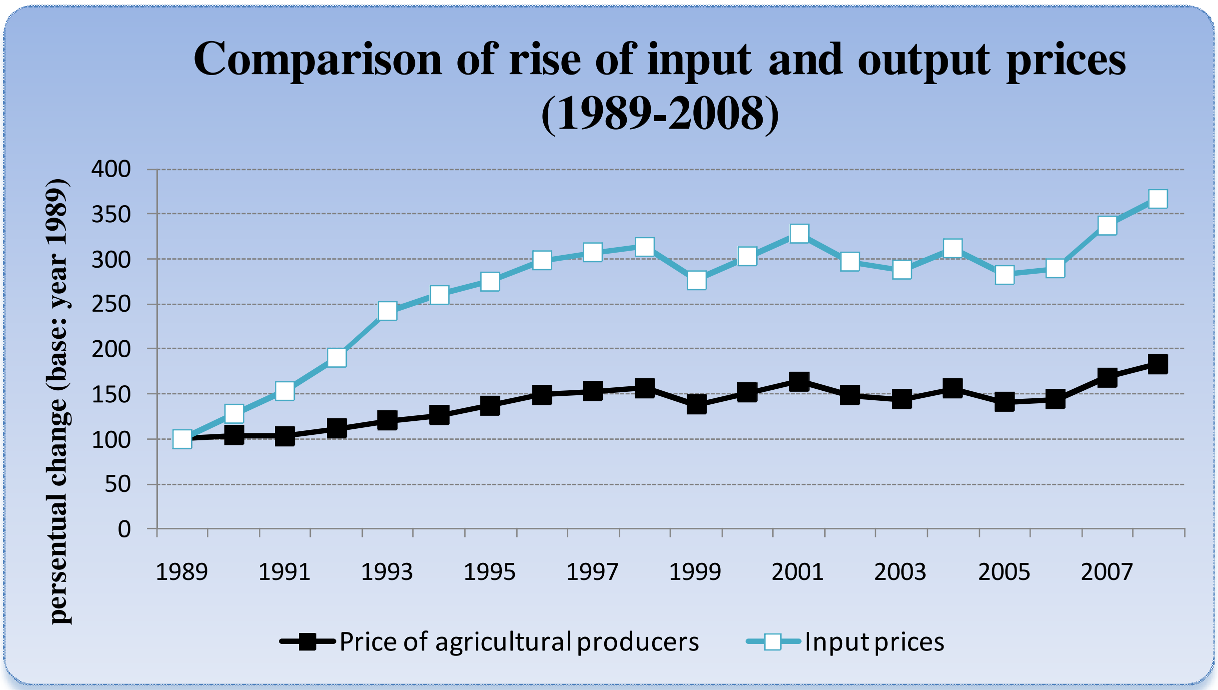
Bio-fuels, which are blended into petrol and diesel, are produced from sugar, cereals and oil plants. Bio-fuel production is supported by the USA and the EU countries. Unfortunately, more and more negatives are being revealed in connection with their production and use. In addition, developing countries have largely concentrated on growing commodities for bio-fuel production at the expense of foods for domestic consumption, and the felling of forests damages the eco-system. Furthermore, bio-fuels demonstrably increase the presence of greenhouse gases in the atmosphere. Thanks to an increased demand for the cereals, oil seeds and sugar necessary for the production of bio-fuels, prices of agricultural products, mainly cereals, could increase on a worldwide scale by as much as 20 – 50 percent in the next ten years, according to UNO and FAO studies. However, this state of food shortages did not arise only through an unbalanced supply and demand for food. Speculators in the world markets also tried to profit from this situation. At a time of financial and banking crisis when stock markets were collapsing, speculators shifted their attention to a safer area – the commodity markets. A substantial increase in commodity prices could be recorded at the time when the world financial crisis broke out. As its development worsened, the pace of commodity price growth increased. The world food crisis was also reflected in the CR in 2007. There was increased pricing pressure on dairies from milk producers and sales cooperatives. The dairies feared that they would have to compensate for this pressure by increasing the selling prices of products in retail networks. The company MADETA, a.s. announced in November 2007 that its plant would make 250 g of butter for 51.50 CZK starting in the new year of 2008. The industrial producer price was 30.06 CZK / 250 g butter / 5/ in November 2007. It should be noted that the price increase of 20 CZK for one pack of butter is not in the current price time series and was not viable. Other dairies thus planned to raise prices. At he beginning of 2008, the purchase prices of raw milk stopped rising, and prices of dairy products did not increase. The world prices of dry skim and whole milk no longer rose significantly. Since their peak from June to August 2007, world prices have significantly decreased; a slight recovery was evident in May and June 2008. Further developments showed a decreasing trend.

The milk market in the Czech Republic started to show price fluctuations in the 1st quarter of 2008. The milk purchase price of 10.08 Kč/1 in January 2008 fell. At the end of 2008, the price was more than 3 crowns lower and still the decrease continued. After half a year, in July 2009, the purchase price of raw milk of 1st-class quality decreased to a historic low of 5.90 CZK/l.

The critical state of the dairy industry could be influenced by a situation called “open price scissors”.

1. Price scissors

The price scissors describes the relationship between the prices of inputs and outputs in a given industrial sector. In the case under consideration, prices of agricultural inputs /PAI/ were tracked in contrast with prices of agricultural producers. For graphics processing, price indices /Graph1/ were used, which evaluate developments with regard to the year 1989. As a result of this monitoring, it was found that PAI increased by 83.4 % compared to 1989. Input prices increased by 368 %, more than



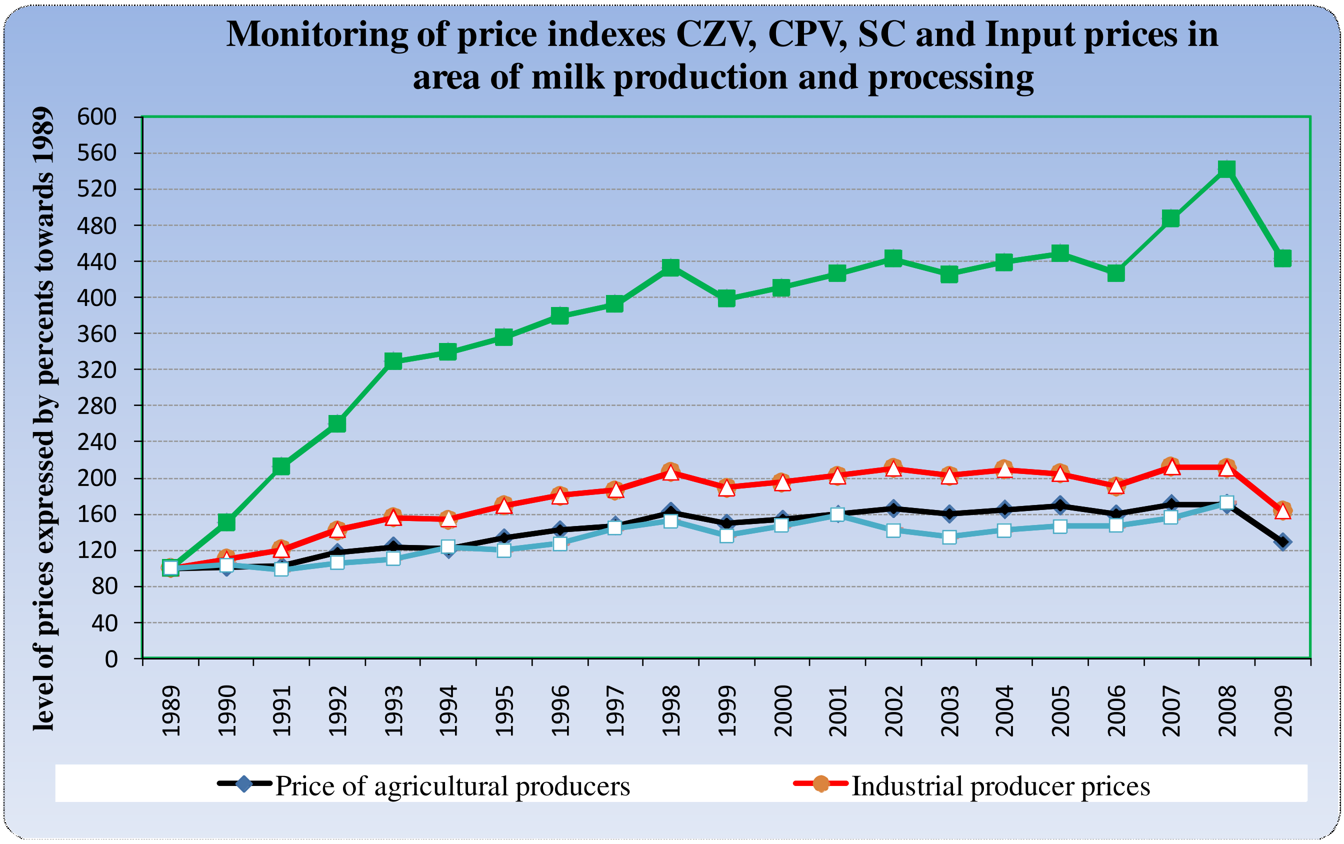
Source:
Own calculationsof price changes on base of price indexes from sources:
1) Czech Statistic Office (CSO) /10/
2) Report on state of Czech agriculture: Mze, Prague /further: ZZ/, ZZ 1995, ZZ 1996, ZZ 2000, ZZ 2004, ZZ 2006. /9/

Graph 1.

three times as much. Given the numbers by which prices for materials, facilities, machines, energy, wages and so on move,and the unit prices in which prices per liter or kilogram of agricultural production develop, there is clearly a significant decline in the available financial resources as well as in profit. The biggest price increase in the whole agricultural sector happened in the first half of the 90s. In 1992, the input price index had a value of 189.7 % compared to the year 1989, and in 1994 this value was 260.1 %.

Price developments in livestock production were much different. In livestock production in 1992, a growth of 16 % was recorded compared to 1989, and in 1994 this growth was 21 %. The livestock sector did not dispose of such financial resources to be able to accept the increased requirements for financing of inputs, and had to use existing opportunities and resources. The price scissors problem is really significant because it clearly describes the situation of farmers. Costs of milk production increase. If the purchase price of milk stagnates or decreases, farmers are forced to reduce spending on inputs. They can do this for some items, but not over the long term. In the long run, unprofitable enterprises can not survive the pricing crisis. Price developments in livestock production, expressed by price indices, are related in /Graph 2/.

In the area of milk production, the situation is known and is as follows. The annual index of consumer prices for milk and milk products continues to grow. Consumer prices culminated in January 2008. Eventually they began to decrease, however not so significantly as for agricultural producer prices. At the end of 2009, consumer prices were roughly at the level of mid-2007, and the price for raw milk of 1st-class quality reached the level of prices for the year 1994. Reasons for this significant fall in prices can be found in the decreased demand for foods, the surplus of raw



Source: Own calculations of price changes on base of price indexes and price development from sources:

1) Report on state of Czech agriculture 1995-2008, MZe CR, Prague /9/
2) Czech Statistic Office (CSO) /10/
3) Portal e-AGRI /11/

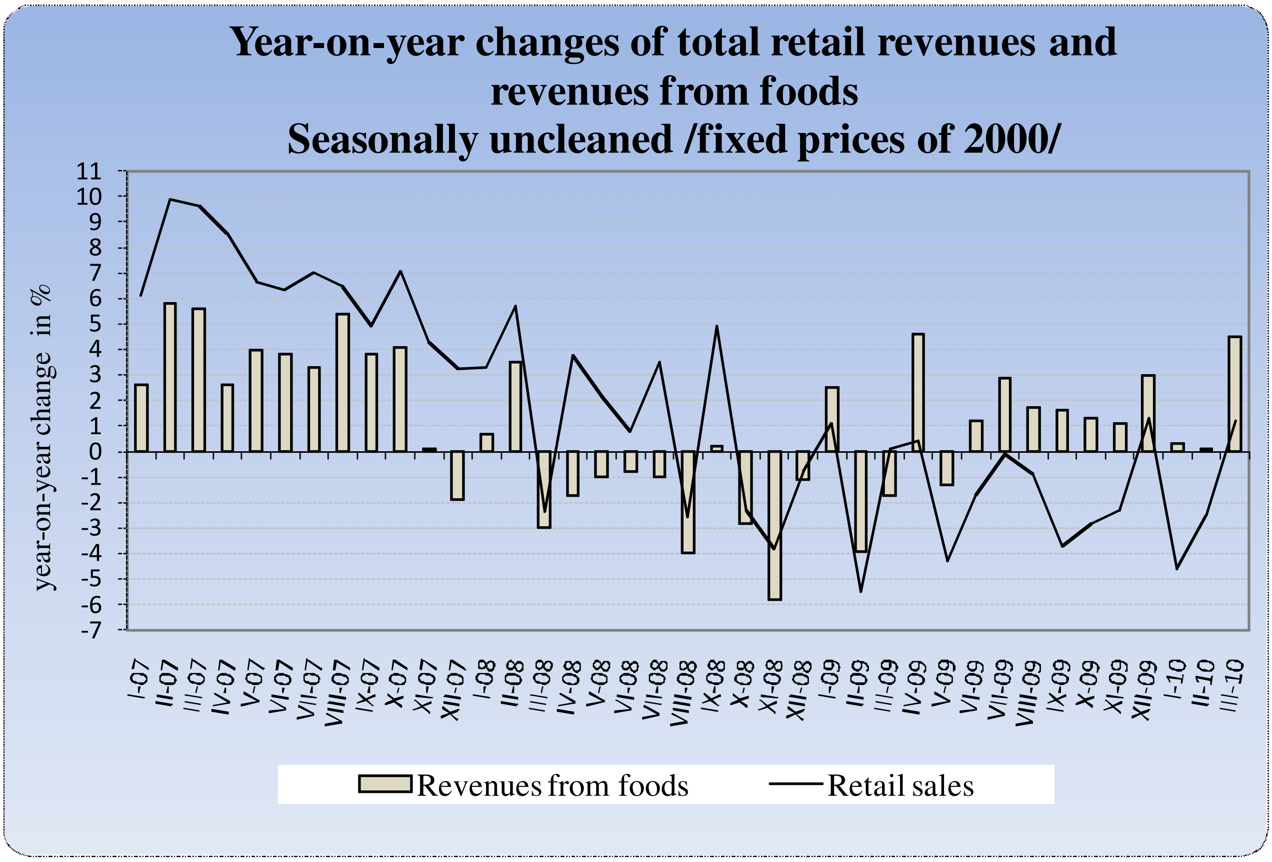
Graph 2.

materials, and the reduction in intervening purchases in Europe. Further reasons include the significant impact of the economic and banking crisis in the CR, the unbalanced position of subjects in agrarian markets, the quota system, the imbalance of direct supports for agriculture in particular EU member states, and the development of world prices for dairy products.

2. The economic crisis and its influence on the price of raw milk

A certain reflection of the crisis in household budgets is evident. Gross wages in the CR are not decreasing year-on-year; however, job security and long-term financial security are declining. Along with people's growing fears, expenditures for food are also decreasing. The consumer could be less willing to spend money for purchasing food and may choose cheaper products, or prefer smaller packages. Generally, the crisis is changing the consumer´s idea of the price which he/she is going to accept when shopping, as well as the amount which he/she is going to buy. This was traced back to the start of falling prices for milk and milk products, and also the decrease in retail sales from foods in 2008 /Graph 3 /

In January 2007, the year-on-year growth of retail sales was 6.1 %, and in February 2007 it was as much as 9.9 %. The growth in retail sales for foods was not so significant; however, it was positive. The year 2007 still did not indicate a problem. The crisis in food purchasing appeared just at the beginning of 2008. Retail sales started to show significant variations, although only seasonal at first. Revenues from foods also showed a permanent decrease, and did not get into positive numbers throughout the whole year. The situation changed again in January 2009. Retail sales showed predominantly negative changes, except for the periods of Easter and Christmas when there was a slight recovery. Revenues from foods also increased during Easter and showed positive gains by the end of the year. Retail sales showed a negative change in 2009.



Source: CSO /13/

Graph 3.

This confirms the fact that when there is an active economic crisis, households confine their spending only to essential items. Total expenditures, including expenditures for food, decrease. In times of lingering financial uncertainty, households confine themselves only to the purchase of food and, for example, pharmaceuticals.

Retail sales of foods increased in 2009 and often had a higher growth rate than total retail sales. Unfortunately, this cannot be said about the price of raw milk. Its biggest decrease was seen in that very year, 2009. Revenues from foods were already growing and the purchase prices of raw milk still decreased.

3. Unbalanced position of players within the framework of the production business vertical

Some elements of the entrepreneurial environment can be influenced by their own farmers. One possible way to cope with a problematic situation is to change positions in the product verticals. This creates business relationships such that primary producers can be sure they will be able to achieve their production with an adequate price and time-frame.

The unbalanced position of particular market players is obvious. A need for association, cooperation and communication arises. Various levels of cooperation are offered in an agri-food complex:

A: farmer-farmer - <u>*Sales cooperatives*</u>
A cooperation among primary producers, common sales among members of the processing industry. Example: sales of milk, meat, vegetables.

B: farmer-processor - <u>*Cooperative processing businesses*</u>
A cooperation of primary producers and processors, in which producers have a property interest in members of the processing industry.

C: processor-farmer - <u>*Cooperation in EU known as vertical integration*</u>
An enterprise of the processing industry manages and organizes production on one or more farms. They are separate but economically dependent on the integrator.

D: processor-processor - <u>*Association of processors*</u>
A cooperation of processors who can significantly enforce their requirements towards chain stores.

Of course, there is no certainty that all integration types will be formed. However, it is certain that these types of cooperation can provide an important non-price support for Czech agriculture. Terminology throughout the whole Western world which indicates that producers cooperate on the sale of their products is absolutely heterogeneous. The names that are used include marketing organization of producers, marketing group of farmers, sales cooperative, and cooperative association, among others. In many cases (not all) this name does not describe a legal form of organization but gives a general picture of its main objectives, i.e., an organization securing the sale of production for particular members.

In the Czech Republic, the largest integrated dairy complex at the present time is the company MLECOOP – a sales cooperative. It includes 8 separate dairy sales cooperatives from throughout the Czech Republic. Its main task is central trading. It can contribute to clearing the market by stopping deliveries to processors who do not pay on time, or are unable to react to the required rise in prices. However, the bargaining ability of a central sales organization is not always unambiguously successful. A couple of cases in the history of Mlecoop itself confirm that. For example, the year 2001. A price increase pushed through by a central sale organization was not accepted at the time by producers, nor later by chain stores. Dairies held by farmers in Moravia were not able to obtain a higher price either. The central organization had the option of bargaining for the price and reducing it, or shifting milk to dairies with a better price. The effort to convince all members of Mlecoop that raw milk should be shifted to other dairies was unsuccessful. Concerns were obvious. If a milk customer changed and the newly-accepted customer got into trouble, it would be difficult to return to the original customer. This problem arose mainly in high-lying southern Bohemian regions where the problem of collection places is complicated. Some members of Mlecoop then closed separate contracts directly with dairies and eliminated the sales trade organization from negotiations.

In the past, Czech farmers have already strongly criticized the pressure which chain stores exert on them. The Czech Republic has taken legislative action. A law regarding significant market power and its misuse was submitted by members of parliament as early as 2008, and a draft law was supported by the Food Chamber. After complicated negotiations, even the veto of the CR president was overridden. In November 2009, the law was adopted. The new law prohibits, for example, the collection of unfounded charges, and bans the action of selling at a price lower than the purchase price (supplements to the law No. 1-4). In the case of misuse of market power, chains are faced with a fine as high as ten million crowns, or have to pay a penalty of ten percent of their sales. In more detail about particular kinds of payments which exist within business relationships between suppliers and chain stores now: Management, headed by a general manager, decides on the size of the financial sum received from all suppliers for the whole chain store. The level of payments is budgeted within particular departments. Some payments are covered by suppliers of consumable goods, different ones by suppliers of electronics, and other bonuses are paid by food suppliers. It all depends on the turnover rate of goods and their price. Individual purchasers know the exact monetary sum which they have to document for the business link and to settle accounts. If they do not fulfill this task, they are afflicted financially or positionally. Every contract for the delivery of goods, which is always valid from Jan. 1 of the given calendar year even though it can in fact be signed at any later date, contains points laid out by the Commercial Code. In the contract, a list and range of marketing (fixed) payments is agreed on as a percentage of turnover. The marketing payment is made at the beginning of the year and is dealt with, e.g., by an entry fee to a chain store. A listed payment is levied for each given product. The supplier pays any additional charges for promotion (advertisement leaflets, shows or tasting of goods), a payment for enlargement of the sales area, and a payment for the label „New“ or „Lowest Price“. Bonus payments (variable payments) constitute the second part of the payments. They are not listed exactly in the annex to the contract. Their level is not known in advance. They are collected at any time throughout the year, whenever buyers address suppliers. They are represented by, for example: unspecified spring or autumn discounts, Christmas and Easter events, annual discounts, discounts for celebrating mothers, or the start of the school year. If the supplier fails to make any of the mentioned payments by return, it foregoes any further opportunities of supplying goods to the chain. And not only that; there can be more reasons. Any omission, objections to contractual and non-contractual conditions, or the proposal of a judicial process on the part of the supplier. Beware of some problems connected with the implementation of goods in chains. It can happen that buyers themselves decrease the price of products without the knowledge of the supplier. In the case of a planned action the seller can deliver the goods, but it does not have to take care of the actual implementation of the action. Finally, the seller returns the goods to the supplier with the information that the goods were not sold. The return of the goods is charged to the suppliers, who then have to secure re-sale of the products in another way, with a cost increase. In the worst case, the foodstuffs which enable this (e.g. bread) are again „recycled“ in production.

„One of the new methods used by chain stores is timely payment of invoices. If customers pay their invoices in time, they will receive a certain percentage of the invoiced sum back from the supplier.“ /7/

This is one of the options used by chains in their search for new income. The law regarding significant market power does not prohibit it.

However, there are also positives to the newly-applicable law. Chains try to make the payments more transparent; some business networks decrease bonuses or cancel them for selected kinds of products. An example of a company which undertakes deliveries of dairy products to chains in the CR is shown below. Information was anonymously provided by a mid-sized Czech supplier of dairy products. The data obtained are not yet a reality; they are a plan for 2010. Their amount is not final; it can move upwards several times during the year. It is not expected that chains would decrease the bonus percentage, already agreed on in advance, during the year.

It can be seen from the table that not every chain always requires bonuses for the appropriate kind of goods. On the other hand, the total bonus of some chains for a selected kind of goods can reach more

		BONUSES					
	total turnover (CZK)	**Percentual pyments (fixed)**		**Marketing payments (variable)**		**In total (fixed + variable)**	
		% of turnover	CZK	% of turnover	CZK	% of turnover	CZK
A /1/	11 649 518	14,8	1 724 129	1,03	119 990	15,83	1 844 119
B /1/	10 003 493	12,43	1 243 434	0	0	12,43	1 243 434
B /2/	54 623 424	12,43	6 789 692	0	0	12,43	6 789 692
B /3/	363 253	7,5	27 244	0	0	7,5	27 244
C /1/	22 990 895	0	0	0	0	0	0
D /1/	4 321 352	22,23	960 637	4,63	200 079	**26,86**	1 160 715
D /2/							
- a	7 188 428	14,05	1 009 974	1,15	82 667	**15,20**	1 092 641
- b	4 476 867	0	0	0	0	0,00	0
- c	6 549 545	0	0	0	0	0	0
	974 084	1	9 741	0	0	1	9 741
E /1/	5 197 017	1,23	63 923	1,88	97 704	3,11	161 627
F /1/	15 375 427	16,3	2 506 195	4,52	694 969	**20,82**	3 201 164
G /1/	10 825 504	14,2	1 537 222	1,34	145 062	**15,54**	1 682 283
H /1/	3 354 242	15,45	518 230	4,02	134 841	**19,47**	653 071
I /1/	1 674 026	3,5	58 591	6,57	109 984	10,07	168 574
J /1/							
- a	1 270 304	4,5	57 164	0	0	4,50	57 164
- b	27 662 624	0	0	0	0	0,00	0
- c	5 200 717	0	0	0	0	0	0
K /1/	72 250 316	0	0	0,13	93 925	0,13	93 925
Total	**265 951 036**	**6,2**	**16 506 174**	**0,63**	**1 679 220**	**6,84**	**18 185 394**

Notice.

A - K Business network

/1/ Kind of product: Butter 82 % of fat

/2/ and /3/ Kind of product: Flavoured milk beverages

a, b, c Localities in Central Bohemia region – a placement of links of business network

Source: Czech supplier of milk products in business networks in the CR

Table 1: Planned height of bunuses in chains in the CR for 2010 (milk prducts).

than 25 % of turnover. It is necessary to repeat that this is the case for dairy products. Other sectors and products with a different added value have different bonus values, of course. In that case it is possible to identify with the following statement: „*Suppliers levy various fees and discounts on chains at an average of 20-30 % of each order. Roughly 15 % is part of the invoice and the rest is part of marketing payments*“…./7/

Chain stores are still pushing for a decrease in consumer prices. They want to lure customers with low prices. But the pricing pressure of chains negatively and incorrectly affects primarily their own customers. It enables the customer to buy goods in a lower price relation, but are the goods of such a quality as the customer imagines? Probably not. With low purchase prices for goods in markets, food producers cannot achieve production costs which conform to the high quality of the product. In foods, where it is not common, there is a higher percentage of potato starch, more soybean fat than milk fat, and food supplements of type „E“. The substitutes are significantly cheaper than real milk protein or meat. They are added only in a proportion of a few percents, but even at that level they make the goods cheaper. The use of food supplements of type „E“ does not directly damage the health of consumers, but on the other hand, these supplements do reduce the qualitative value of the product. The result: lower consumer prices and in some cases considerably lower quality.

Conclusion

According to experts, there should not be any considerable production price revival because worldwide prices for dry milk will not rise in the near future. This price stagnation is indicated by the world's biggest milk seller, the New Zealand company „Fonterra“. It has decreased prices of dry whole milk for the period from March to September 2010 by an average of more than seven percent. Worldwide commodity prices influence price developments in particular countries, because the world is economically and informationally interconnected. Nevertheless, price developments have to be looked at in a wider context, in order to emphasize a country's own national practices, traditions, current realities and needs. Czech farmers have already reached the pricing bottom, with regard to the purchase price of milk in dairies. Prices begin to rise slowly. However, it is not yet enough. In the topical area of "price scissors" it is still suitable to answer the question, what percent do operational and investment subsidies, a resource of additional income for farmers, make up in the revenues gained from the sale of agricultural production. Direct subsidies alone, as in the case of fixed income for farmers, seem to be another cause of the volatility in the prices of agricultural commodities.

Retail sales for food has shown a growing development in the period from mid-2009. The willingness to buy is increasing again. Therefore it is pointless for chains to create space for the low purchase price of dairy products. Business networks reap profits and consumers accept low prices, often even at the cost of lower quality. The realized loss in the area of raw milk sales is leading to the killing of cattle herds. The numbers of dairy cows is decreasing. A loss was registered against the previous year; in 2007 this loss was 9,968 head (a decrease of 2.45%), in 2008 it was 7,703 head (a decrease of 1.9%), and in 2009 the number of dairy cows decreased by 15,849 head (a decrease of 4.12%). The argument of increasing milk yields is not sufficient. The average annual milk yield is growing. However, in 2009 it grew by only 93.6 liters per dairy cow, while in previous years, the growth was around the value of 200 liters per dairy cow per year. The result of what has been mentioned could be that the Czech Republic will have a problem with the amount of milk produced in the near future. Milk production is decreasing and a slightly growing milk yield will not maintain it. Advocating the development regarding milk quotas is not in place. Since the quota year 2006/2007, the Czech Republic has not totally spent the allotted amount of milk. Despite the fact that the validity of milk quotas runs until March 31, 2015.

On the other hand, direct supports also have to be reduced, since it is necessary to support quality and prosperous businesses. Chain stores can no longer lower retail prices without restraint; purchase prices for milk will have to go up. There is a chance for a slight improvement in the situation.

Czech legislation also tries to prevent chain stores from using coercive techniques on suppliers. A price decrease is not tolerable, and the law on bigger market power will probably not be the solution. It is necessary to allow a much faster natural concentration in agriculture so that really strong concentrated players with a significant position can grow here. It is not possible to subsidize weak businesses. It is not possible to guarantee their survival under conditions which would be liquidating for them in an undeformed market environment. It is essential to reduce operational and investment subsidies in these businesses and to accelerate their exit from the market.

The association at particular stages of the production vertical works in our republic. There are sales organizations as well as processing companies with the equity interests of farmers. It is logical that sometimes even they cannot reach the required price for processors, because even they have to calculate. To calculate for how much they will be able to implement a product in chain stores. How much they will have to pay in bonuses every month. Again, the solution could be in integration. For example, the creation of a Central Dairy Organization which would negotiate supplier and pricing conditions with chain stores. In case the chains are not satisfied with the price, they cannot refuse the all-Czech assortment and replace it with a cheaper foreign one. At a minimum, goods with a short consumption time must only be produced in the CR. With regard to other products, there is a risk of cheaper competition. Other speculation includes letting processing companies create their own trade and sales networks.

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