CBI MARKET SURVEY

The natural stone and stone products market in the Czech Republic

Publication date: April, 2010

Introduction

This CBI market survey gives exporters in developing countries (DC) information on some main developments in the natural stone and stone products market in The Czech Republic. The information is complementary to the information provided in the CBI market survey 'The natural stone and stone products market in the EU', which covers the EU in general. That survey also contains an overview and explanation of the selected products dealt with, some general remarks on the statistics used, as well as information on other available documents for this sector. It can be downloaded from http://www.cbi.eu/marketinfo.

Note: In Chapter 1 Market description: consumption and production, we address the following product groups:
- blocks & slabs
- landscape design
- monumental and funeral

Monumental & funeral is an aggregate of flooring & cladding and funeral & other arts sub products groups which are disaggregated and dealt with separately in the Import/Export section. For more information about the product groupings, refer to Appendix A in the CBI survey 'The natural stone and stone products market in the EU'.

1 Market description: consumption and production

Consumption

The Czech Republic is inhabited by 10 million people making it the 13th most populated country in the EU. In Czech Republic, € 34 million of natural stone and stone products were consumed in 2008, of which 23 million of finished stone products.[1] The Czech Republic is a small market for finished stone products in the EU. It accounts for 0.4% of the total EU consumption and is ranked 18th based on consumption, above Luxembourg (0.3%) and below Sweden (0.4%).

Table 1.1 Czech consumption of natural stone and stone products per product group, 2004 – 2008, € million / 1'000 tonnes

	2004		2006		2008		CAGR*
Product group:	Value	Volume	Value	Volume	Value	Volume	
Blocks & slabs	n.a.	n.a.	10	153	8.6	190	n.a.
Landscape design	n.a.	n.a.	n.a.	n.a.	1.5	37	n.a.
Monumental & funeral	14	n.a.	22	n.a.	21	n.a.	11%

*CAGR: Compounded annual growth rate
Source: Eurostat (2009)

In 2008, Czech consumption consisted of monumental and funeral products (71%), blocks & slabs (25%) and landscape design (4.4%). The Czech economy grew in average 5.2% during the years 2004-2008 well above the EU, but it dropped in 2009 (-4.8%), in line with the

[1] Finished stone products are the sum of product groups landscape design and monumental & funeral, therefore blocks & slabs are excluded.

general economic slowdown. The Czech economy is picking up in 2010 and a 0.8% growth has been predicted for the whole year, but solid recovery is likely to take place in 2011 (+2.3%)[2].

Czech authorities granted 14% more building permits in 2008 compared with 2007. From this total, 57% of the permits were related to new construction projects –mostly residential ones- and the rest were linked to the modernization and renovation of buildings. The sector also witnessed activity in the infrastructure sub-segment primarily due to investment by the Czech government in the re-development and modernization of highways and railway stations.

The future developments in the natural stone sector depend heavily on the construction sector and the economic situation. East European countries are currently the least affected by the economic situation and construction outputs are quickly recovering (see EU funding). The improving living standard has also been a driver of stone demand in the consumer market. This is supported by the growth of consumption of monumental & funeral products (+11% per year). Moreover, construction output is expected to rise 1.8% in 2010 and reach 4.3% in 2011. Growth rates above 5.0% are forecasted in the years after that. Therefore prospects are optimistic regarding the Czech natural stone and stone products current and future demand.

EU funding
Because the Czech Republic has recently joined the EU it is receiving many funds in the period 2007-2013 (http://www.mpo.cz/en/eu-and-internal-market/eu-structural-funds) that are going towards improving infrastructure, medical and educational facilities etc. Usually these projects entail large quantities of flooring & cladding and landscape design. Orders for construction are allocated through tender processes. If you are interested you are advised to contact the relative municipalities and local contractors this year. After 2013 EU funding will go down and the demand for natural stone will be strictly dependant on the actual demand of Czech consumers.

Market segmentation
The Czech market can be divided into the following segments:
- Building industry (construction): It has been a key driver of the country's growth, especially relevant in larger cities and determined by demographic conditions, low mortgage rates and increasing standards of living since the accession to the EU in 2004.
- Natural stone processing industry: a small industry that relies on imports of blocks and slabs, finished and semi-finished stones. The Czech Stone Association has been recently created therefore it has not reached yet a strong position in the market.
- Funeral industry: a large retail sector selling funerary art, such as tombstones, gravestones and urns. Natural stone for funeral art is very common in the Czech Republic.
- Consumer market: other retailers including Do-It-Yourself (DIY) outlets, garden centres and tiles specialists continue to gain market share.

The segmentation is generally similar to the trade channels discussed in this survey. Therefore for more information regarding these segments in the Czech Republic, please refer to chapter 2. For more information on market segmentation in the EU please refer to chapter 1 of the CBI survey 'The natural stone and stone products market in the EU'.

Consumer trends and developments
- ***Traditional and authentic taste:*** Czech customers appreciate warm shades when choosing natural stone and stone products. They commonly prefer pink tones like salmon pink, greys and pearl tones for marble (used mainly in indoor applications). Among granite stone particularly suitable for outdoors are the blue, grey and brown the most demanded colours. In big projects, quality is considered the main consumer trend, while in the case of individuals, the Czech population remains highly price sensitive.

[2] Source: Eurostat

- ***Neighbouring countries:*** Due to the directly proportional relationship between transport costs and the final product price, neighbouring countries of the Czech Republic (Slovakia, Poland, Hungary, Austria and Germany) take on a higher relevance as trading partners. Austrian and German companies however predominantly invest; for example, Baumax is Austrian and Hornbach is German. This provides good opportunities for DC exporters that want to supply other countries as well.
- ***Alternatives:*** alternative innovative products are growing in popularity, such as composite materials like quartz for kitchen countertops and tiles. Czech consumers appreciate its wider colour range, durability and light weight. Prices are similar or even higher than natural stone. Other popular alternatives are ceramic tiles. However, natural stone is still preferred and have a greater presence because of its unique appearance. Composite is processed by the same machines as natural stone and sometimes has the same trade channels. Processors in DC can therefore decide to focus on both markets.
- ***Ageing population:*** The Czech Republic's population is ageing: over 15% (1.6 million) is now 65 years or older. The number of people over 65 will double by the year 2065. Additionally, more people will be dying than being born starting in 2016[3]. In contrary to Western Europe, elderly in Eastern Europe are generally not wealthy. In the long term therefore it will be an increased demand for funerary art (tombstones and urns).
- ***Hot spots****:* The Czech market is relatively small with a low percentage of the population living in urban settings. There are however some large urbanized area's most notably the capital Prague (1.1 million), Brno (0.4 million) and Ostrava (0.3 million). It is in these areas where the average GDP per capita is highest and where most development and construction takes place. There lies the highest concentration of housing and purchasing power[4]. The best prospects for DC exporters are therefore in those urbanised areas.
- ***House ownership on the rise***: It is forecasted that the market for natural stone products for in and around the house will continue to rise as social housing is giving way to home ownership. The main factors supporting this fact are increases in living standards and low mortgage rates. This will create for suppliers of natural stone used in and around the house.
- ***Renovation on the rise***: Renovation is popular with an increased number of reconstruction and restoration projects involving historic buildings, monuments and residential dwellings. With forecasted increased salaries (23% in average per person between 2005-2008) which result in higher tax incomes together with EU subsidies, this market is likely to continue growing. The stone used in renovation projects are often local stone. Therefore, DC exporters should find out what types of stones these are.

Production

In the Czech Republic, about 364 thousand tonnes of natural stone and stone products were produced in 2008 worth € 23 million. The Czech Republic accounts for 0.2% of total EU production of finished products and ranks 16th above Hungary (0.2%) and below Romania (0.3%).

Table 1.2 Czech production per product group, 2004 – 2008, € million / 1'000 tonnes

	2004		2006		2008		CAGR*
Product group:	**Value**	**Volume**	**Value**	**Volume**	**Value**	**Volume**	
Blocks & slabs	n.a.	n.a.	9.7	203	6.7	227	n.a.
Landscape design	5.2	60	5.0	n.a.	8.6	122	13%
Monumental & funeral	3.7	n.a	5.0	8.0	8.2	15	22%

*CAGR: Compounded annual growth rate
Source: Eurostat (2009)

3 Source: Czech Statistical Office (CSU)
4 Source: Wikipedia

In 2008, Czech production consisted of landscape design (37%), monumental & funeral products (35%) and blocks & slabs (28%). Quarry owners and stone masons have benefitted greatly from the favourable economic situation in the Czech Republic in recent year as witnessed by the 22% annual growth of monumental & funeral products.

Although extraction of natural stone in the Czech Republic is not a relevant activity, there is granite mining activity going on. Production of marble and slate is however minimum and this demand needs therefore to be covered through imports. This site provides information on the main Czech quarries and the natural stones link to them as well as their specific features: http://www.geology.cz/portal/page/portal/extranet-eng/geodata/databases/decoration-stones

Alternatives
For an overview of natural stone extracted in the Czech Republic refer to the website of Graniteland (www.graniteland.com). You might be able to offer similar stone and compete with local suppliers on price. Therefore it good to be well informed before approaching buyers.

Some Czech natural stone companies have stopped providing services due to the rough competition brought by lower prices, particularly stone from DC. DC exporters are then expected to get a stronger hold on the Czech market forcing local producers to concentrate on niche markets such as specific natural stones that can handle the Czech weather conditions (i.e: provide good heat insulation and/or water absorption), stones directly linked to decorative purposes in the residential segment and the use of innovative colours.

In the Czech Republic there are different types of quarries exploitation. Among them, it is important to outline the presence of state-owned quarries (or reserved), therefore only accessed through licensing. These state-owned quarries are less competitive due to lack of market drive.

Opportunities and threats
+ The Czech Republic will continue to develop generating an increased demand for natural stone which the domestic nature stone industry cannot accommodate.
+ Due to labour costs, domestic production has become more expensive than DC imports.
± The economic situation negatively impacted the construction sector and slowed down the demand for natural stone. However, the Czech market is now recovering due to EU funds.
± In the hot spots still many developments are planned. However, sometimes put on hold until the economic situation gets better.
- Due to its size the Czech market provides limited market opportunities.

2 Trade channels for market entry

The Czech market is diverse as companies usually act as producers, importers, wholesalers and distributors or a combination of any of these. In the Czech Republic most natural stone businesses are importers and distributors who process or commercialise granite, marble and limestone. They supply stone basically for large public and private projects. There are also small firms such as construction material stores.

Trade channels are mainly integrated into the Austrian, Slovak and Polish trade channels but also integrate with other East European trade channels incl. Russia. However, most imports are directly coming from DC per container. Wholesaler/importers buy their natural stone directly from supplying countries. The market is dominated by a few large companies. Below examples of importers active on the Czech market are listed:

- Vlamax exports-imports - http://www.vlamax.cz – a natural stone processing, importer and exporter of sandstone, slate, limestone and marble
- Stone connection - http://www.stoneconnection.cz - a big player in the Czech natural stone market offering granite, marble, sandstone, travertine and onyx

- Mramor Bohemia - http://www.mramorbohemia.cz – imports Chinese natural stone for indoor use, landscape design and funeral art
- Business information center - http://cz.wlw.cz/en/ProductList/Default.aspx?&search=natural+stone – offers an overview of businesses active in the Czech natural stone market.

Retailers like Do-it-Yourself (DIY) stores and tiles specialists buy mainly from wholesalers/importers, although the larger DIY outlets are also known for buying from exporters directly. Retailers mainly focus on the consumer market but some installers and contractors also get their material from retailers. DIY stores are very popular among Czech households and small local construction companies. Baumax, on the other hand, has the highest number of stores of all DIY chains with 23 stores. Hornbach stores have the largest average store sales area with four stores in the Czech Republic currently generating 10% of their worldwide turnover. Below examples of retailers active on the Czech market can be found:
- OBI - http://www.obi.cz - DIY chain active throughout Europe including the Czech Republic
- Granitec - http://www.granitec.cz - granite products retailer for interior and exterior uses
- bauMax - http://www.baumax.cz – large Austrian DIY with 24 stores in the Czech Republic
- Hornbach - http://www.hornbach.cz – a German DIY with 6 stores in the Czech Republic
- Alacra store - http://www.alacrastore.com/research/d-and-b/Czech+Republic/DIY - an overview of all DIY stores in the Czech Republic

The natural stone processing industry buys from wholesalers/importers, quarries its own stones or, depending on the size of the company, buys directly from supplying countries. The processing industry processes raw material and/or semi-finished products and supplies the retail market with their value added product. There are also processing companies that act as retailers. Below an example processing companies active on the Czech market is given:
- Přírodní Kameny - http://www.prirodnikamen.cz – owns several factories in India and processes marble, sandstone, slate and granite slabs and finished products
- Granio - http://www.granio.cz - quarry owner and processor of granite
- KMK Granit - http://www.kmkgranit.cz - quarry owner, processor and exporter of granite products

Independent buyers in the Czech Republic are mainly major companies (e.g. building). Governmental order has to go through a tender process. Architects and construction companies can be contacted through:
- Czech Chamber of Architects - http://www.cka.cc/en ➔ go to 'List of Licensed Architects'
- eStav - http://www.estav.cz – building database with information on construction companies, products, materials and latest news from the sector

Czech partners
Czech firms increasingly seek partnerships in a way to supply the demand which cannot be fulfilled locally. Tenders are therefore also most often responded upon by international coalitions. Czech tenders are listed on:
- Czech internet B2B market of Buying and Selling Leads - http://tenders.abceu.eu/construction
- Ministry for Regional Development - http://www.mmr.cz
- Tenders ZEAL (construction work) - http://www.tenderszeal.com ➔ go to 'Çountries'

Price structure
Research done between different Czech natural stone importers revealed that margins on flooring products from DC, specifically granite tiles, vary between 30%-35%.
If you want to sell your natural stone products in the Czech Republic, it is recommended to avoid as much intermediaries as possible. This will prevent the final price to increase unnecessarily and therefore might help maintaining your price competitiveness. For more

information about price structure refer to chapter 3 of the CBI survey 'The natural stone and stone products market in the EU'.

Useful sources
For other potential trading partners please use the following links:
- HBI Online database - http://www.hbi.cz/index.php?Lang=en ➔ go to 'Building industry'
- Strecha Special - http://www.strechaspecial.cz - directory of Czech companies that trade with building materials (in Czech)
- International Building Fair - http://www.bvv.cz/i2000/Katalogy/2008/cat_ibf08.nsf/WWW-HP1C?ReadForm&NAV=1&USE=U&LANG=GB – select the product group of your interest
- Prago Fair - http://www.pragointerier.cz/main.php?pageid=1935 ➔ go to 'Previous years' and select 'List of Exhibitors'
- Europages - http://www.europages.com – international directory that includes natural stone companies in the Czech Republic ➔ fill in 'natural stone' and select Czech Republic

3 Trade: imports and exports

Imports
In the Czech natural stone and stone products market, about € 41 million or 66 thousand tonnes of natural stone and stone products were imported in 2008. Czech imports increased by an annual average of 19% in value between 2004 and 2008. EU imports in total increased at a slower pace (+4.7% per year). The Czech Republic is the 16th largest importer in the EU accounting for 1.1% of EU imports; just above Cyprus (1.0%) and below Sweden (1.1%).

Table 3.1 Czech imports of natural stone and stone products per product group between 2004 – 2008, € million / 1'000 tonnes

	2004		2006		2008		CAGR*
Product group:	**Value**	**Volume**	**Value**	**Volume**	**Value**	**Volume**	
Blocks & slabs	2.7	9.2	3.7	15	5.1	21	17%
Landscape design	0.6	3.8	1.3	2.3	1.2	6.4	19%
Flooring & cladding	4.3	6.2	9.3	8.0	17	11	41%
Funeral & other art	12	18	18	23	17	28	9.1%
Total	**20**	**37**	**32**	**48**	**41**	**66**	**19%**

*CAGR: Compounded annual growth rate
Source: Eurostat (2009)

In 2008, Czech import of natural stone consisted of flooring & cladding (43%); funeral & other art (42%); blocks & slabs (12%) and landscape design (2.9%). When comparing figures it can be presumed that the increase in the consumption of monumental & funeral products[5] (+21% per year) between 2004 and 2008 benefited both production (+8.2%) as well as imports (+17%). Because the former increased more, it is assumed that the Czech Republic is becoming more reliant on imported natural stone at the expense of Czech processors.

Czech natural stone companies are importing, based on orders, more than 300 varieties in blocks and slabs of different sizes and finishes to process. However, there is a growing trend of importing finished products at the expense of raw materials and semi-finished products, with the exception of slate. Old processing machinery, low profitability and productivity when working with large stone blocks, especially at the cutting phase, makes it cheaper to buy the stone already manufactured.

Imports from DC
Of the total percentage of imports, approximately 75% was imported from intra-EU countries, 0.4% from extra-EU countries and 24% from DC. The share of imports from DC has increased

[5] Because production and consumption figures of other product groups are partly missing, conclusions can only be drawn for monumental & funeral products.

substantially over the years from 16% in 2004 to 24% in 2008. In 2008, China (15%) was the most important country exporting to the Czech Republic. Other large DC suppliers are India (4.7%), Turkey (1.5%) and Brazil (1.0%). DC market is especially high in the product groups landscape design (45%) and funeral & other art (40%). In the other product groups DC market share is lower: blocks & slabs (19%) and flooring & cladding (8.8%). The value of DC imports increased in all product groups: landscape design (+59% per), funeral & other art (+36%), flooring & cladding (+30%) and blocks & slabs (+18%). Overall imports from DC (+33% per year) have been developing faster than imports in general (+19%). The share of DC is therefore expected to keep developing in coming years.

Exports
In the Czech natural stone market, about € 30 million or 230 thousand tonnes of natural stone and stone products were exported in 2008. The Czech Republic exports 0.8% of the total EU export. It ranks 13th above Sweden (0.7%) and under the UK (0.8%).

Table 3.2 Czech exports of natural stone and stone products per product group between 2004 – 2008; value € million, volume in 1'000 tonnes

	2004		2006		2008		CAGR*
Product group:	**Value**	**Volume**	**Value**	**Volume**	**Value**	**Volume**	
Blocks & slabs	3.6	60	3.0	64	3.1	57	-3.7%
Landscape design	9.6	125	10	113	8.3	91	-3.6%
Flooring & cladding	4.9	45	7.8	73	11	79	22%
Funeral & other art	1.2	0.8	1.6	1.3	8.1	2.8	61%
Total	**19**	**231**	**22**	**251**	**30**	**230**	**12%**

*CAGR: Compounded annual growth rate
Source: Eurostat (2009)

In 2008, Czech exports consisted of flooring & cladding (35%); landscape design (28%); funeral & other art (27%) and blocks & slabs (10%). Czech exports have increased by 12% annually between 2004 and 2008. For funeral and other arts exports increase by 1.5 thousand tonnes to 2.8 thousand tonnes, strengthening the presumption that the Czech Republic is increasingly exporting natural stone products (possibly with added value after working the imported blocks and slabs). Furthermore, exports of monumental & funeral products (aggregate of flooring & cladding and funeral & other art) increased more (+41% per year) than consumption (+11%), production (+22%) and imports (+25%). This supports the assumption that the Czech Republic is increasingly re-exporting natural stone and stone products.

With increasing exports of high quality finished products from DC into the EU, it is expected that the demand for Czech natural stone products will decrease, especially as the added value (after working the imported stones) does not exceed that of finished stones from DC.

Opportunities and threats
+ The best prospects for DC exporters can be found in the finished stone product groups.
+ The strategic location of the Czech Republic could provide opportunities for DC to also enter other EU markets.
+ There is a potential for increased market share when competing on price at the expense of Czech producers and stone masonries.
- The Czech Republic is still a small importer of natural stone and stone products.
- The Czech Republic has no port. Products have to be transported by boat, train or truck.

<u>Note that</u> the above-mentioned developments and trends can be an opportunity for one exporter and a threat for another. Exporters should analyse the developments and trends discussed in the previous chapters to make their own analyses. Outcomes of this analysis depend on the specific situation of an exporter. For an example, please refer to Chapter 7 of the CBI market survey 'The natural stone and stone products market in the EU'.

Useful sources

- Exports Helpdesk for Developing Countries - http://exporthelp.europa.eu
- Eurostat – official statistical office of the EU - http://epp.eurostat.ec.europa.eu
- Understanding Eurostat: Quick guide to easy Comext – http://www.eds-destatis.de/en/database/download/Handbook_Comext_Database.pdf

4 Price developments

Import figures show that the average price of natural stone and stone products increased by 3.3% per year. Prices also increased in two product groups: flooring & cladding (+23% per year) and landscape design (+4.2%). However, prices of blocks & slabs and funeral & other art dropped: -4.3% and -3.3% per year respectively. In general prices of natural stone imported from DC has shown the least growth (+2.5% per year) compared to imports from other countries (extra-EU: +23%, intra-EU: +5.8%).

This supports the assumption that the Czech natural stone and stone products market is threatened by increased competition from DC suppliers. In recent years technology and know-how have slowly transferred to low-wage countries. Some manufacturers of raw material in important DC supplying countries like China and India are now able to produce according to the quality demands of the Czech market. These countries are also in the comfortable position of having the first pick of raw material giving them an important competitor advantage. As a result Czech Republic will increasingly import cheap but quality stone.

Prices are usually available on request. Listed below are several websites that include price data on the natural stone market in Czech Republic and Europe in general:

- Vlamax exports-imports - http://www.vlamax.cz – prices are available throughout the site
- Přírodní Kameny - http://www.prirodnikamen.cz ➔ go to 'Ceník' (Price)
- Stone contact - http://www.stonecontact.com ➔ go to 'Pricelist' ➔ write down 'Stone' and press 'Search' ➔ go to the box that says 'All countries' and click on it to select Czech Republic for an overview of several Czech natural stone companies that display their prices online
- Stone source - http://www.stonesource.com ➔ go to 'Search Stone' ➔ make a selection per material, price range or other criteria
- Find Stone - http://www.findstone.com/pricelists.htm ➔ make a selection per material ➔ choose Czech Republic for an overview of some Czech natural stone companies displaying their price lists online

5 Market access requirements

As a manufacturer in a developing country preparing to access the Czech Republic, you should be aware of the market access requirements of your trading partners and the Czech government. For information on legislative and non-legislative requirements, go to 'Search CBI database' at http://www.cbi.eu/marketinfo, select natural stone products and Czech Republic in the category search, click on the search button and click on market access requirements.

Detailed information on packaging can be found at the website of ITC on export packaging: http://www.intracen.org/ep/packit.htm.

Information on tariffs and quota can be found at http://exporthelp.europa.eu

6 Doing business

Information on doing business like approaching potential business partners, building up a relationship, drawing up an offer, handling the contract (methods of payment, and terms of delivery) and cultural differences can be found in CBI's export manuals 'Export Planner', 'Your image builder' and 'Exporting to the EU'. These can be downloaded from http://www.cbi.eu/marketinfo - go to search publications.

For further information on investing and doing businesses in the Czech Republic, the Czech Ministry of Industry and Trade has created the following website: http://www.doingbusiness.cz

Trade associations

- Czech Stone Association - http://www.kamenici.cz – quarries, manufacturers, exporters and importers association
- SPS - http://www.sps.cz - Association of Building Entrepreneurs of the Czech republic
- SPCR - http://www.spcr.cz - Confederation of Industry of the Czech Republic
- Czech Trade - http://www.czechtrade.cz – governmental agency that promotes foreign trade and international cooperation

Trade fairs

Foreign fair trade participants consider the Czech Republic a gateway to access Eastern Europe markets, and the strategic position of the capital Prague, in the heart of Europe, is very advantageous indeed.

- Venia – http://www.bvv.cz/venia-gb - international funeral fair held every four years in Brno: next event 12-14 May 2011
- International Building Fair (IBF) - http://www.bvv.cz/ibf-gb - biggest international building trade fair in the Czech Republic that takes place every year in Brno: next event 13-17 April 2010
- For Arch – http://www.forarch.cz – international annual construction fair held in Prague: next event 21-25 September 2010
- Stone Tec - http://www.stone-tec.com – largest European trade fair held biannually in Nuremberg, Germany: next exhibition 22-25 June 2011

Trade press

- Kámen - http://www.revuekamen.cz – currently the only Czech natural stone (granite and marbles) publication. Published three times a year
- Stavitel – http://www.stavitel.ihned.cz - monthly publication on building materials, machines and technologies
- Těžební Unie **–** http://www.tezebni-unie.cz **-** quarterly magazine specialised in the construction minerals sector of the Czech Republic, Poland and Slovakia
- Czech business weekly - www.cbw.cz – weekly Czech business and financial markets publication

This survey was compiled for CBI by CREM BV