

*Czech and Slovak Federal Republic***Services Sector Offers Opportunities**

The following provides an overview of specific segments of the services sector and is based, to a large extent, on a November 1991 presentation by Dr. Jan Vanous, President of the Washington, D.C.-based PlanEcon Consulting Company.

Given the historic neglect of non-financial services in the Czech and Slovak Federal Republic (CSFR), and taking into account such factors as market size, growth potential, local competition and profitability, PlanEcon sees above average opportunities for much of this sector. In particular, 'high' or 'superior' opportunities were predicted in the following areas: shopping centres; supermarkets; hardware stores; wholesale distribution networks; international shipping services; courier services; legal services; management and technical services; electronic security services; hotels and other accommodation services; car rental agencies; fast food; cable and regular television; gambling; hunting; cosmetic/plastic surgery; dental services; and language schools.

Distribution and Retail:

Under the Communist government, distribution systems for many products (automobile parts and construction materials) were highly monopolistic and generally combined both the wholesale and retail aspects of distribution into one state organization. The retail units of the state-owned distribution networks are now being offered to private investors through the privatization process.

The fate of the wholesale sector is less clear. On the one hand, privatization could offer investors the opportunity to essentially gain control of the distribution system for

an entire market sector. On the other hand, many wholesalers are heavily indebted and frequently burdened with unsaleable inventory, and may not survive the transformation to private ownership. Regardless, a wholesaling vacuum certainly exists in the CSFR at present and either the acquisition of existing systems or the development of new wholesaling networks could offer significant opportunities for foreign investors.

The retail sector also represents some interesting opportunities, given that for almost all products, the emerging private competition is generally undercapitalized and poorly supplied. For example, a department store in a mid-sized town with no other such store could be a promising investment. In terms of food products, the number of stores relative to the size of the population is low; in addition, 90 per cent of the existing stores comprise less than 100 square metres. Therefore, supermarkets represent excellent potential, with Dutch, German, Austrian and Spanish companies already undertaking some activity in this area.

For retail operations, location and security of supply are clearly the key elements for success. Although some Western goods are doing well here, it is important to keep in mind the limited incomes and price consciousness of CSFR consumers. For example, a Dutch supermarket chain which has established nine outlets in the Republic carries 99 per cent local products because of the much greater cost of imported goods.

On an individual product basis, the examples of Tchibo coffee and Wrigley chewing gum demonstrate the potential effectiveness of well-organized marketing and distribu-

tion networks. Tchibo representatives used marketing blitzes to cover every district in the Republic and have successfully captured virtually the entire CSFR coffee market. Wrigley has used a similar strategy, relying heavily on an effective sales/customer service team to back up its distributor and in only eight months has generated \$6 million worth of turnover on the CSFR market.

Transport:

Local competition is reasonably strong. However, there appear likely to be opportunities in specialized areas such as international shipping services or courier services.

Non-Financial Services:

Western legal and accounting practices are doing well in the CSFR market. A number of British and American legal firms offering "consultancy" services and the "Big Six" accountancy firms are also active. Although domestic competition will develop (for example, in the accounting sector), Western firms should be able to retain a significant market share, particularly in the legal services area.

A number of newly-established private guard services are doing reasonably well in the CSFR market. Over the next few years electronic security systems seem likely to be an area of particularly high growth.

Hotel, Restaurant Services:

The number of high-priced hotel beds has increased significantly since November 1989. However, the unfulfilled demand for mid-priced rooms (\$50-\$80/night) remains extremely strong. As more reasonably-priced rooms become

Continued on page 7 — Services