

# GETTING FRESH

LESSONS FROM THE GLOBAL LEADERS IN FRESH FOOD



# GETTING FRESH

## LESSONS FROM THE GLOBAL LEADERS IN FRESH FOOD

Fresh food is at the heart of grocery retail: a compelling fresh food offer is central to any successful, differentiated proposition. At the same time, it presents a complex challenge, requiring a coherent strategy “from field to fork”, in which sourcing, handling, distribution, visual merchandising, and service are aligned to deliver maximum customer appeal and attractive economics. Different retailers have adopted very different approaches – but what is most effective?

To answer this question, it’s important to understand what consumers want, and what they think of the fresh food offering of different retailers today. Oliver Wyman surveyed more than 10,000 consumers who shopped at 120 retailers across the US, UK, France, and Germany. Not surprisingly, customers view some fresh food offers much more favorably than others; what’s perhaps more interesting is how powerfully the attractiveness of the fresh food offer influences store choice. This paper presents some of the key findings from this work, and suggests some lessons that all retailers can learn from the global leaders in fresh food.

Over the last decade, “value” has been the dominant theme in grocery retail, particularly in the US and Germany. Discounters and mass merchants have focused consumers’ attention on price and promotions, and economic headwinds have encouraged trading down. For traditional supermarkets, the fresh food offer has been a vital defense mechanism – in an increasingly value-sensitive world, it can still pull in customers and provide a crucial point of difference.

More recently, other types of retailers have also begun developing compelling fresh food propositions. From Walmart’s investment in 70,000 produce department managers to AmazonFresh’s plan to be in 40 US markets by the end of 2014, the leading retail players are moving fresh food up the agenda.

Looking ahead, as economic growth remains subdued and the marketplace becomes increasingly competitive, consumers are signaling that they demand more than value alone. The next battleground – and the place that will separate the winners from the losers – is fresh.

## HOW IMPORTANT IS FRESH, REALLY?

The fresh offer is a primary driver of store choice, just behind value and convenience in terms of overall importance. In fact, 70% of US consumers in our recent global study say that “access to the best quality fresh products is the most important consideration” when choosing where to shop – see Exhibit 1.

When we look at the performance of food retailers across all geographies, a common theme emerges: the top overall performers have a highly-rated fresh offer. In fact, we see that the majority of their lead in overall customer satisfaction can be attributed to the gap they have opened up with their fresh offer (Exhibit 2). The difference in satisfaction between top and bottom performers is almost four times as large in the fresh departments as it is in the rest of the store. **Fresh is the wedge that the most successful food retailers are driving between themselves and the competition to attract and retain customers.**

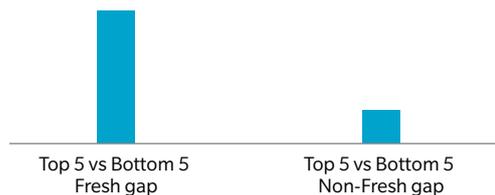
### EXHIBIT 1: IMPORTANCE OF ACCESS TO QUALITY FRESH FOOD

Proportion of consumers that say access to the best quality fresh products is the most important consideration when choosing where to shop

COUNTRY	PROPORTION
United States	70%
United Kingdom	60%
France	52%
Germany	43%

### EXHIBIT 2: CUSTOMER PERCEPTION LEADERS DRIVE MOST OF THEIR ADVANTAGE FROM FRESH

Difference in customer satisfaction scores – Top 5 vs Bottom 5 food retailers



Fresh is also a key driver of sales and profitability. Customers who are satisfied with the fresh offer of their store shop more frequently and spend much more each trip, both on fresh products and in the rest of the store. In our work with retailers on this topic, we commonly see 5–10% sales gains and 2–4% margin improvement in the fresh categories from efforts to improve the proposition and customer satisfaction. Moreover, a compelling fresh offer also encourages additional visits to the store, generating a significant halo impact for other categories – for the average store in our study, a \$1.00 increase in fresh sales generated \$1.38 in total store sales.

While fresh represents a huge opportunity, it’s not easy to get right – and getting it wrong can be very costly, both in immediate financial terms and in terms of customer satisfaction. The majority of consumers we surveyed say they will change where they shop if they are dissatisfied with the fresh offer at their main supermarket, and nearly 40% already shop elsewhere for some fresh items. As all retailers know, losing customers and volume can quickly undermine store economics – it can also kick off a vicious cycle of reduced inventory turns and poorer freshness which in turn further damages customer perception and drives more volume loss.

## WHO ARE THE “WINNERS” TODAY?

There are a handful of retailers who consistently excel in fresh – we refer to them here as the fresh “winners”. Wegmans, Whole Foods and H-E-B are amongst the leaders in the US, with relative newcomer Mariano’s taking top spot. They are joined at the top by Waitrose and Marks & Spencer in the UK, and Globus in Germany – as shown in Exhibit 3. Unsurprisingly, these companies are at or near the top of the list for overall performance and customer satisfaction as well as for fresh satisfaction.

EXHIBIT 3: GLOBAL “FRESH WINNERS”<sup>1</sup>

1		Wegmans	11		Super U
2		Waitrose	12		Harris Teeter
3		Marks & Spencer	13		Auchan
4		Whole Foods	14		Edeka
5		H-E-B	15		Stater Bros Mkt
6		Globus	16		Hyper U
7		Publix	17		Costco
8		Morrisons	18		Giant Eagle
9		Meijer	19		Albertsons (LLC)
10		Schnuck’s	20		Asda

Source Oliver Wyman Fresh Survey and analysis. The survey covered the US, UK, France, and Germany. Retailer scores are geography and competition adjusted. Minimum number of responses required.

<sup>1</sup> US grocery chain Mariano’s has been excluded from this ranking due to low number of responses.

The fact that the global winners have very different approaches to fresh suggests there's more than one way to get it right. The real leaders at the top of the table have differentiated formats, not just differentiated fresh offers. Their business models are built around "outer draw", the ability to attract customers from a larger catchment area than a traditional grocer, pulling them past other, more convenient retailers. The premium outer draw players, such as Mariano's, Wegmans, Marks & Spencer, and Whole Foods, employ high-touch service counters and in-store theater, pursue niche sourcing and sustainability policies, and design stores with food courts, ready meals and other high-end amenities to draw customers in. Outer draw retailers rely on high traffic and sales densities to be profitable, with high turnover reinforcing the freshness of the offer.

Some of the other more traditional grocers who lead in fresh, such as Waitrose, Globus, H-E-B and Publix, succeed with a more rounded offer and by selectively investing in what is most important to consumers. They are "inner draw" formats, winning battles with other traditional supermarkets to capture a high local share, and pulling in many of the customers for whom they are a convenient option. A high inner draw rate also typically translates into high sales densities, which in turn support a better fresh offering and a virtuous cycle of success.

There are clearly different ways of winning in fresh, and lessons to be learned from each of the top-ranked retailers. While retailers with traditional formats cannot copy all aspects of the winning outer draw models, there is a recipe for fresh success, whatever your proposition might be.

## SO, WHAT CAN YOU DO?

Consumers tell us there are many different ways to win in fresh, and given what we know about the underlying economics, we agree. That said, there are some common themes. We have identified five "ingredients for fresh success" (Exhibit 4).

## EXHIBIT 4: FIVE 'INGREDIENTS' FOR FRESH SUCCESS

### STORE

#### WHAT IS IT?

- Store format, layout and space allocation
- Look and feel of the fresh departments, including displays
- Service offering, including counters and prepared foods

#### WHAT DOES SUCCESS LOOK LIKE?

- A great overall shopping experience that reinforces core values
- Optimal space allocation and presentation for each department, category and item
- The right counters, features and customer service touch points in each store

### PRODUCT

#### WHAT IS IT?

- Overall fresh product catalog
- Sourcing choices, product specifications and "input quality"
- Provenance (e.g. local vs regional/national)
- Store assortment and localization

#### WHAT DOES SUCCESS LOOK LIKE?

- Products that create excitement and an emotional connection with customers
- A catalog that delivers "true choice" and innovative products, not just SKU count
- Where it matters, strategically sourced product with high/differentiated quality specification
- Assortment localized and "right-sized" for each store – maximizing choice without creating freshness and shrink issues

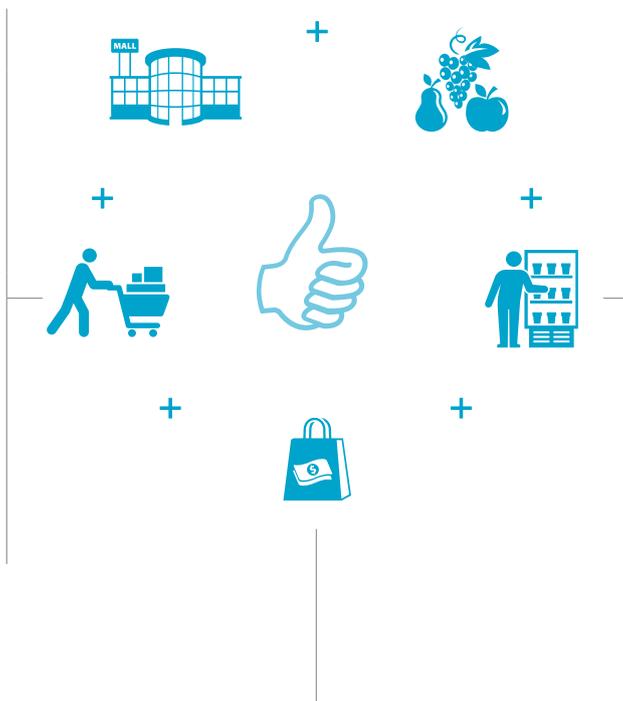
### DELIVERY

#### WHAT IS IT?

- Flow of product, end-to-end:
  - Logistics and cold chain
  - DC network and operations
  - Quality control
  - Inventory management and demand forecasting

#### WHAT DOES SUCCESS LOOK LIKE?

- Supply chain configured to maximize velocity – which delivers truly fresher product for the stores
- Forecasting and ordering is optimized – to ensure delivery of the right quantity of product, at the right time and in the right place, in peak condition



### EXECUTION

#### WHAT IS IT?

- Store operations and management
  - Inventory management – e.g. ordering, rotating, culling
  - People management – e.g. scheduling, accountability
- Store standards and practices

#### WHAT DOES SUCCESS LOOK LIKE?

- Consistent execution of best practice across stores
- Transparent KPIs and fact-based decision-making
- Great customer service and in-stock position, particularly at key times of day
- Cross functional working – across merchandising, store operations and supply chain

### VALUE

#### WHAT IS IT?

- Value for money in the fresh departments
- Price and promotions strategy – e.g. Hi/Lo vs EDLP – overall and for each category

#### WHAT DOES SUCCESS LOOK LIKE?

- A winning value strategy for fresh – appropriate for the brand and market situation
- Strategies that foster product freshness and availability...
- ...which typically means investing a bit more in value to drive volume and turns

Of course, most retailers are doing something in each of these areas – but doing the right things is trickier, particularly when it comes to embracing change across large parts of the organization.

However, when you get it right, the gains can be significant – we describe a recent case study demonstrating how one retailer improved their fresh offer dramatically by focusing on the “ingredients of fresh success”.

## CASE STUDY

The retailer was facing challenging market conditions, and declining volumes and sales were putting pressure on the economics of the business. To generate short-term margin, the retailer started raising prices – particularly in fresh categories where competitor items and prices were much less comparable than in branded goods.

This approach boosted margins in the short term but led to a further decline in volumes, particularly in fresh. Because of this, shrink became more difficult to control in stores, and stores were then instructed to manage shrink downwards, which in turn caused availability problems and stifled volumes and sales even further.

As product in stores turned slower and slower, this started to take a toll on freshness, driving away even more customers. How could this retailer get out of such a death spiral, particularly when the business was short of cash to invest to get back to growth?

This retailer started by improving in-store **execution**: incentivizing and helping stores to do the right thing for the customer. A cultural shift was needed across the whole organization – instead of focusing on shrink and cost, people were told to focus on freshness instead. For example, store teams were trained to follow best practices around replenishing, presentation and culling. At the same time, new metrics (e.g. on-shelf product availability) were introduced, along with incentives and an accountability process. These efforts started to pay off almost immediately – particularly in those stores with a lot of opportunity to improve. But it was not enough to just tell everyone to get better – key processes and tools were upgraded to help stores and trading teams make better decisions.

Getting **delivery** right is often one of the most powerful ways to improve fresh. A fundamental problem faced by this retailer was that product was spending too much time in the supply chain and sitting on the shelf in stores. Stores had no tools to guide them on how much to order for when. As a result, stores frequently over-ordered – creating freshness and shrink problems – or under-ordered – creating availability issues. Supply chain, on the other hand, had no way to anticipate what stores would order and would hold large inventories to meet store demand. Large amounts of fresh inventory “dwelling” in the supply chain reduced freshness further.

Fixing these interrelated delivery issues was a hugely important step forward for this retailer. The key was the introduction of a forecast-based ordering tool for fresh categories which enabled stores to order much more accurately while retaining control and accountability. This radically improved the balance of inventory in store, but also created more predictability for the supply chain so that dwell time could be reduced.

Creating a great **store** experience is very often an important element of winning in fresh; however, it is something that requires significant time and investment – and this client had neither to spare. While winning retailers expend a lot of time and money on creating innovative fresh concepts, it is just as important to get the basics right – setting the right amount of space for each department and each item, and having product presentations that look attractive and are easy to replenish.

The challenge for this retailer was that most stores had been designed and fitted several years back when sales volumes and mix were very different, and display planning was influenced by ambitious (over-) forecasts. As a result, the space allocated to many fresh departments and categories was wrong. For example, in one store an over-sized produce department called for far more product inventory than was sensible to carry. The store manager had to make the choice between accepting excessive shrink (not allowed by company policy) or disappointing customers with poor-looking, under-filled displays. In that same store, the meat department only had a third of the space that it required given its sales – and could not keep up with replenishment throughout the day. The solution was to rapidly implement a program of quick wins to systematically analyze, identify and address the most egregious space mis-matches with a moderate investment in store furniture and labor to implement.

Last, but not least, getting the right **product** in the right store is key to a great fresh offer. Like many retailers, this company was shying away from the perceived complexity of localizing the fresh assortment of each store, tuning the assortment to what the customers really wanted to buy. The business was lacking the tools to manage assortments at such a granular level and IT systems were unable to support it. Therefore, a ‘one-size-fits-all’ approach was applied, and every store was assigned a similar assortment with minimal regional adaptation.

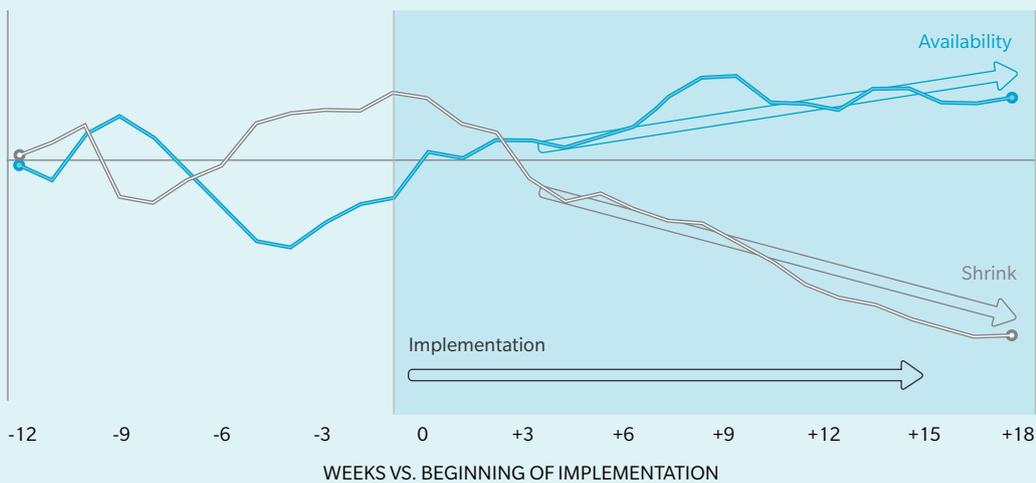
The result was that many stores were forced to carry items that simply did not sell well, which of course drove shrink. At the same time, other stores were frustrated because they felt that the opportunity existed to sell much more than the standard range. The implementation of a cluster-led approach to the fresh range enabled the assortment to be “tuned” according to customer demand in each location. As a result, shrink was significantly reduced by cutting assortments in low-volume stores, while additional sales were generated overall from stores where there was demand for extended assortment.

**EXHIBIT 5: IMPROVEMENT IN SALES, ON-SHELF AVAILABILITY, AND SHRINK**

PROJECT EXAMPLE: LFL SALES GROWTH VERSUS PREVIOUS YEAR IN FRESH PRODUCTS



IMPROVEMENT IN ON-SHELF AVAILABILITY AND SHRINK



Taken together, these actions were overwhelmingly successful. Within a period of 12 months the fresh business had been turned round – from volume declines to volume growth. On-shelf availability was significantly improved and shrink reduced at the same time (Exhibit 5). Overall, fresh sales grew by an impressive 9.2% while margins also improved due to shrink reduction.

With the cash generated, the business was able to make a significant investment in price reductions in fresh categories, improving **value** for customers. Our research shows that fresh categories are an extremely strong driver of overall value perception and that they have a positive halo on footfall and basket size beyond fresh, driving additional sales and margin growth across the store. In this case, the theory worked in practice, and price cuts in fresh led to volume gains that in turn had a positive impact on shrink and freshness, continuing the virtuous circle of growth.

## CONCLUDING REMARKS

Fresh is already a clear point of differentiation for grocery retailers, and its importance will only grow in the coming years. Customers see – and value – the differences between one retailer and another, and this ultimately has a powerful influence on where they choose to shop. This makes fresh an enormous opportunity, where the right approach can yield transformative results: 5–10% LFL sales gains and 2–4% margin improvement over the short term, as well as improved customer perception and significant market share gains over the longer term.

When we look at which retailers customers rate most highly for fresh, it's clear that there are many different ways to win. Nonetheless, there is a common theme: getting to grips with the complex challenges that fresh presents, understanding how sourcing, supply chain, merchandising and service interact to affect product choice, quality and value, and targeting investment accordingly. The winners in fresh have aligned the five key levers – store, product, delivery, execution, and value – to create a fresh food offer that customers will love that also makes a positive contribution to the bottom line.

## ABOUT OLIVER WYMAN

Oliver Wyman is a global leader in management consulting that combines deep industry knowledge with specialized expertise in strategy, operations, risk management, and organization transformation.

In the Retail practice, we draw on unrivalled customer and strategic insight and state-of-the-art analytical techniques to deliver better results for our clients. We understand what it takes to win in retail: an obsession with serving the customer, constant dedication to better execution, and a relentless drive to improve capabilities. We believe our hands-on approach to making change happen is truly unique – and over the last 20 years, we've built our business by helping retailers and consumer goods manufacturers build theirs.

[www.oliverwyman.com](http://www.oliverwyman.com)

## FOR MORE INFORMATION PLEASE CONTACT

### JAMES BACOS

Global Retail Practice Leader  
[james.bacos@oliverwyman.com](mailto:james.bacos@oliverwyman.com)  
+49 89 939 49 441

### NICK HARRISON

UK Retail Practice Leader  
[nick.harrison@oliverwyman.com](mailto:nick.harrison@oliverwyman.com)  
+44 20 7 852 7773

### PAUL BESWICK

North American Retail Practice Leader  
[paul.beswick@oliverwyman.com](mailto:paul.beswick@oliverwyman.com)  
+1 617 424 3259

### SIRKO SIEMSEN

Central European Retail Practice Leader  
[sirko.siemssen@oliverwyman.com](mailto:sirko.siemssen@oliverwyman.com)  
+49 89 939 49 574

### BERNARD DEMEURE

French and Iberian Retail Practice Leader  
[bernard.demeure@oliverwyman.com](mailto:bernard.demeure@oliverwyman.com)  
+33 1 45023 209

### RICCARDO TRENTINI

Italian and Turkish Retail Practice Leader  
[riccardo.trentini@oliverwyman.com](mailto:riccardo.trentini@oliverwyman.com)  
+39 02 305 771

Copyright © 2013 Oliver Wyman

All rights reserved. This report may not be reproduced or redistributed, in whole or in part, without the written permission of Oliver Wyman and Oliver Wyman accepts no liability whatsoever for the actions of third parties in this respect.

The information and opinions in this report were prepared by Oliver Wyman. This report is not investment advice and should not be relied on for such advice or as a substitute for consultation with professional accountants, tax, legal or financial advisors. Oliver Wyman has made every effort to use reliable, up-to-date and comprehensive information and analysis, but all information is provided without warranty of any kind, express or implied. Oliver Wyman disclaims any responsibility to update the information or conclusions in this report. Oliver Wyman accepts no liability for any loss arising from any action taken or refrained from as a result of information contained in this report or any reports or sources of information referred to herein, or for any consequential, special or similar damages even if advised of the possibility of such damages.

The report is not an offer to buy or sell securities or a solicitation of an offer to buy or sell securities. This report may not be sold without the written consent of Oliver Wyman.