OLIVER WYMAN

WINNING IN POLISH GROCERY

A GUIDE TO CUSTOMER PERCEPTION OF THE POLISH FOOD RETAIL SECTOR

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WINNING IN POLISH GROCERY

POLISH GROCERS NEED TO BE CLEARER ABOUT THE ADVANTAGES THEY OFFER CONSUMERS

Poland's grocery market has grown into one of Europe's largest after years of rapid growth. But now it's maturing, and retailers can no longer hope to boost revenues simply by setting up shop in an underserved neighborhood. Instead, they need to figure out how to differentiate themselves from the competition through attractive prices and promotions ("value" dimension), as well as the "offer" they provide in the form of quality, range, and service.

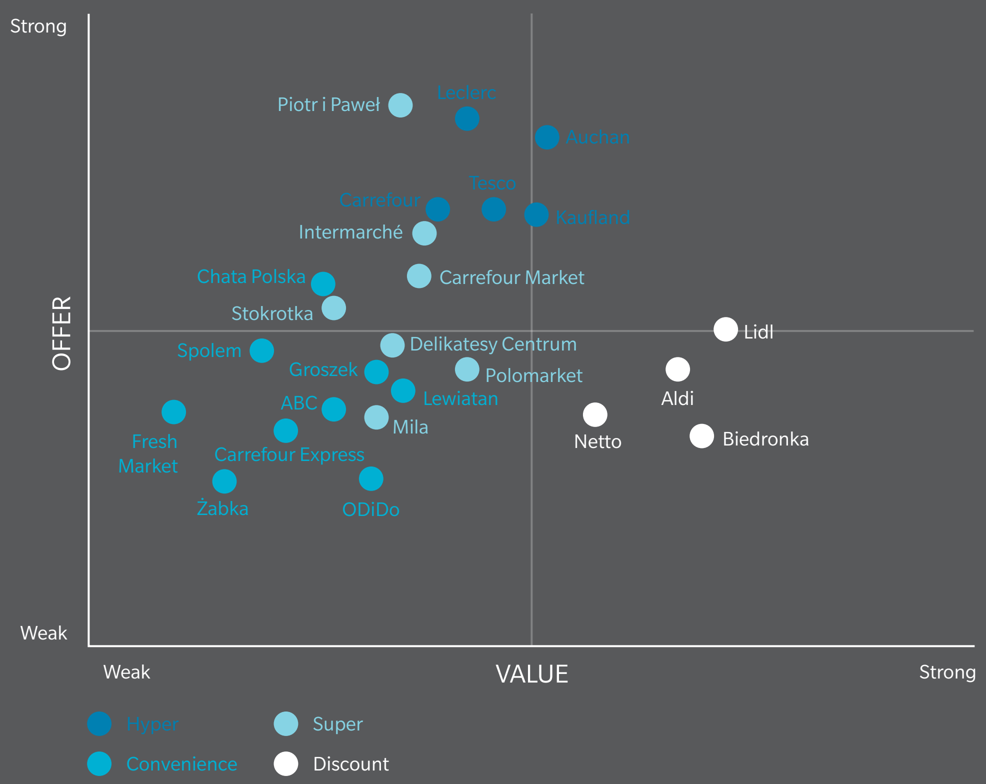
To decide where to focus their efforts, retailers first need to understand their market positions as perceived by consumers. To help, Oliver Wyman has produced its first Customer Perception Map (CPM) for the Polish grocery market. Based on a comprehensive survey, this places all the country's significant grocers on a chart to show how they are perceived in terms of offer and value (see Exhibit 1).

The map contains a couple of clear warnings for certain types of Polish food retailers. Supermarkets mostly have not yet set out significant differences that might attract customers away from discount stores. And convenience stores are seen as overpriced, leaving them vulnerable when better-value stores open nearby and cancel out their key advantage of proximity.

The Customer Perception Map for the Polish grocery market was also presented at the 2017 Poland & CEE Retail Summit in Warsaw.

CUSTOMER PERCEPTION MAP

EXHIBIT 1: CUSTOMER PERCEPTION MAP FOR THE POLISH GROCERY MARKET 2017



Explanation and application on Polish grocery market

The CPM takes into account years of Oliver Wyman research and experience and is built on the premise that customer experience in retail can broadly be summarized in two categories: offer (which covers factors like range of products, quality, and service) and value (prices and promotions). We have asked more than 4,000 Polish customers for this research and plotted integrated customer approval scores for each retailer along these two dimensions. This is a simple but powerful tool to understand the competitive landscape of a given market overall and the relative position of different players and their evolvement over time.

CPMs look very different for different geographies and regions, but there are common patterns in how they evolve – and in the long term, movements on the map really do translate into changes in local market share.

Source: Oliver Wyman Customer Perception Map Poland 2017

Such weaknesses could be fatal if not remedied. In retail, as in many other sectors worldwide, businesses that fail to generate a strong customer perception find themselves unable to differentiate themselves from their competitors – a dangerous, unsustainable position. On the other hand, businesses that achieve strong perceptions in both value and offer typically prosper and grow rapidly.

So, Polish grocers' individual success or failure at differentiation will have a big influence on their fate in the coming wave of consolidation we expect. The Polish grocery market is highly fragmented, and over coming years weaker stores are likely to be swallowed up by stronger ones. The further "northeast" on the CPM a grocer is, the more likely it is to be an acquirer rather than one of the acquired.

DIFFERENT FORMATS, DIFFERENT STRENGTHS

In mature Western markets, retailers typically display clear distinctions, both intra- and inter-format. Hypermarkets have a strong offer and medium perception of value, but often require a lengthy drive to reach and impose long waits at cash registers. Supermarkets might be weaker in both price and offer, but are often easier to get to and attract shoppers with enhanced customer service. Hard discounters are very strong on value and medium on offer. Convenience stores, in contrast, are pricey and have a weak offer, but compensate with proximity.

Polish grocers, which have enjoyed overall market growth for a couple of decades now, have mostly not yet felt the need for differentiation. While discounters and hypermarkets are perceived clearly, retailers in other formats show much-less-pronounced distinctions. Convenience stores are traditionally important for Polish consumers, and they have advantageous locations. But they are perceived as having a mediocre offer and poor value, putting them at a disadvantage if discounters or other competitors open stores in convenient locations.

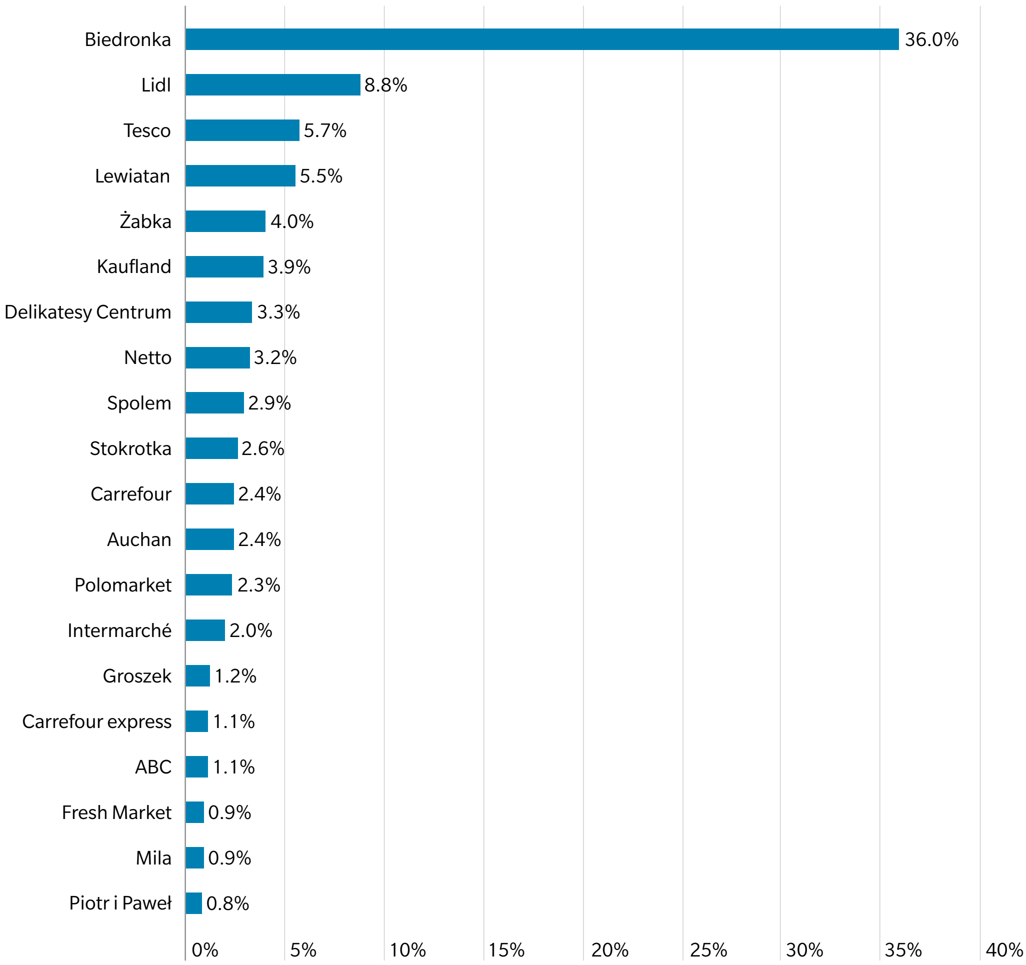
Supermarkets, despite having been present in Poland for several decades, have not yet established an offer proposition that differentiates them in customers' minds either from convenience stores or hard discounters. One exception is Piotr I Pawel, whose wide range of high-quality own-brand products has given it a superior perception for its offer. But in general, supermarkets have just average scores for both value and offer.

MODERNIZATION BRINGS NEW PRESSURES

These weaknesses in customer perception are damaging at a time when profit margins are already coming under pressure. Partly that's a result of the maturing market, but it's also due to the success of hard discounters, which has prompted other stores to sell a larger share of their products at promotional prices.

Moreover, the market is converging to the structure found in Western Europe, which is more dominated by big chains and features fewer kiosks and corner shops. Poland has plenty of operational optimization potential across all important plays (assortment, pricing, store operations, inventory management, freshness, …): Those retailers that succeed in delivering sustainable operational improvements stand to benefit from a lasting competitive advantage and attract extra funding from local and foreign investors.

Exhibit 2: Which is your nearest grocery store?



Source: Oliver Wyman Customer Perception Map Poland 2017

So, supermarkets and convenience stores need to act to boost customer perceptions if they want to survive the coming battle for market share. Possible tactics include clear price architectures that make customers feel they are paying a fair price for a given quality of product – our regular store visits highlight a persisting lack of clarity in many Polish grocery stores. Own label can help if it is competitive and complements the universal brands available, but also provides for healthy economics for the business. Promotions should be carefully designed so that they boost spending on products at regular prices and do not sacrifice margins. Escaping a promotion trap, when yellow signs are all over the shelves, is an essential survival question for many Polish retailers these days.

At the same time retailers need to constantly ask themselves whether they are giving customers what they want. The CPM survey – of a representative sample of more than 4,000 consumers – also asked consumers for the most important criteria for a store. It found that Poles' biggest priorities are the usual – non-discounted – prices of products; the range and availability of products; and products' taste, hygiene, and freshness (see Exhibit 3).

Customer perception will not be the only influences on financial performance. Changes in stores' design and location can strongly impact sales and profitability, as can the impact of competitors' moves. In the long run, however, a successful retail business in Poland will be defined by how it satisfies its customers aspirations better than – or at least as well as – the competition. As factors such as geographical proximity fade in significance, grocers will need to invest in their stores in ways that make them stand out.

Exhibit 3: The most statistically important criteria for Polish customers (nationwide)

VALUE	1.	The usual prices of products when they are not on promotion
	2.	The price of branded products
	3.	The price of food cupboard products
	4.	The price of premium products
	5.	The price of basic items I buy all the time
RANGE	1.	The range of non-alcoholic drinks and mixers
	2.	The range of specialty or premium products
	3.	The range of food cupboard products
	4.	The overall availability of products
	5.	The range of alcoholic drinks
QUALITY AND SERVICE	1.	The taste, look and freshness of fresh F&V, meat, seafood, and deli items
	2.	The range of service counters
	3.	How clean the store is
	4.	The quality of the staff
	5.	The level of service at the counters for deli, meat and bakery

Note: The criteria listed above represents only a fraction of the most important criteria for a store.
Source: Oliver Wyman Customer Perception Map Poland 2017

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 build theirs.

www.oliverwyman.com

CONTACTS

JAMES BACOS
Global Retail Practice Leader
james.bacos@oliverwyman.com
+49 89 939 49 441

CHRIS BAKER
North American Retail Practice Co-Leader
chris.baker@oliverwyman.com
+1 612 692 7714

WAI-CHAN CHAN
Asian Retail Practice Co-Leader
wai-chan.chan@oliverwyman.com
+852 2201 1700

NICK HARRISON
European Retail Practice Co-Leader
nick.harrison@oliverwyman.com
+44 20 7852 7773

RICHARD McKENZIE
Asian Retail Practice Co-Leader
richard.mckenzie@oliverwyman.com
+852 2201 1700

SIRKO SIEMSSEN
European Retail Practice Co-Leader
sirko.siemssen@oliverwyman.com
+49 89 939 49 574

FREDERIC THOMAS-DUPUIS
North American Retail Practice Co-Leader
frederic.thomas-dupuis@oliverwyman.com
+1 514 350 7208

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