

# In fresh-food retailing, quality matters more than price

Our survey of 23,000 European shoppers reveals specific ways grocers can win in fresh fruits and vegetables, boosting sales by as much as 10 percent even in a flat market

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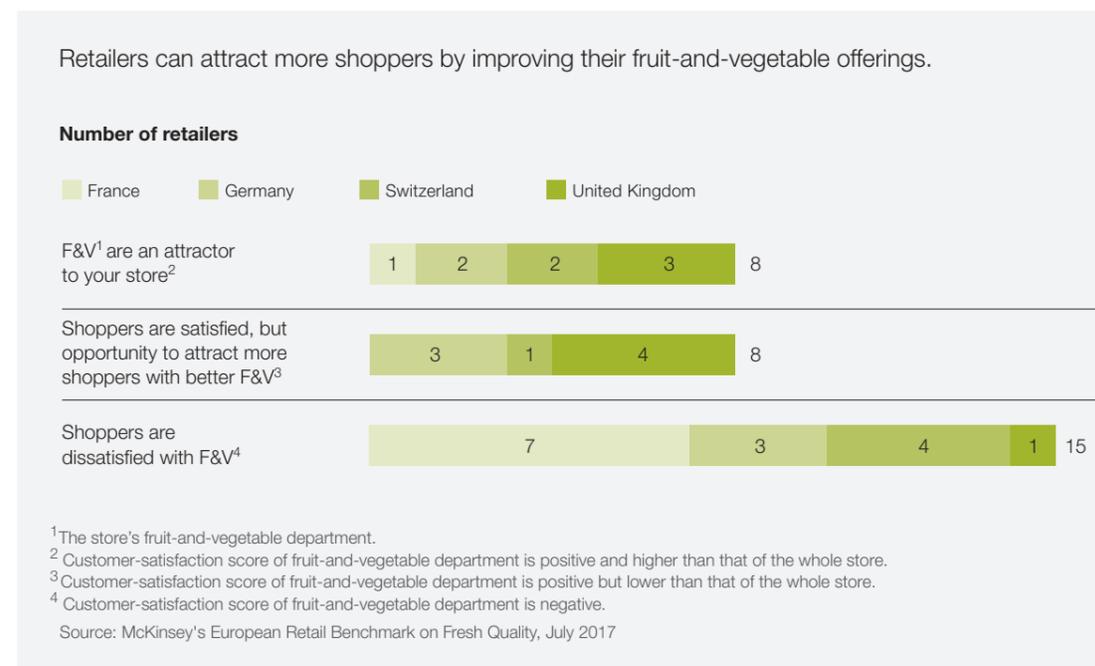




If you're a fresh-food retailer in Europe, your apples and bananas better be top-notch. European consumers tend to judge the quality of a retailer's fresh-produce department based on those two particular fruits. Vegetable preferences are more varied: British shoppers closely inspect the quality of potatoes, whereas courgettes (zucchini) are important for the French. Germans will notice tomatoes the most. For the Swiss, it's lettuce.

These detailed insights were among those generated in our pan-European benchmarking survey of 23,000 grocery shoppers (see sidebar, "About our research"). We sought to develop an in-depth fact base on the perceived quality fruits and vegetables sold by food retailers in Europe. We found that, in each of the four countries we surveyed, consumers are satisfied with the fresh-produce department of only a few retailers—underscoring an opportunity for most European grocers to up their game in fresh fruits and vegetables (Exhibit 1).

### EXHIBIT 1



But how exactly do consumers judge the quality of fruits and vegetables? And what role does this judgment play in their overall satisfaction with a retailer?

According to our research, quality is the biggest factor in whether a customer will recommend a store's fresh-produce department to other people (Exhibit 2). Low prices and frequent promotions matter, too, but not as much as quality. These findings hold true in all four countries surveyed. This is good news for grocery retailers. Quality improvements in fruits and vegetables require less investment and yield higher returns than retail-price reductions. In our experience, quality-improvement programs in a fresh-produce department can increase the department's sales by more than 10 percent year on year, even in a flat market. And the benefits don't end there. Quality improvements also result in more customer traffic and higher sales in the store's other departments. There's an undeniable halo effect: if shoppers perceive high quality in the fresh-produce department, their perception of the retailer's other departments improves as well.

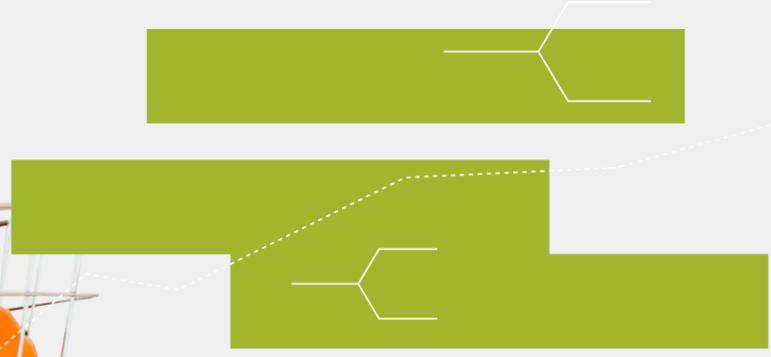
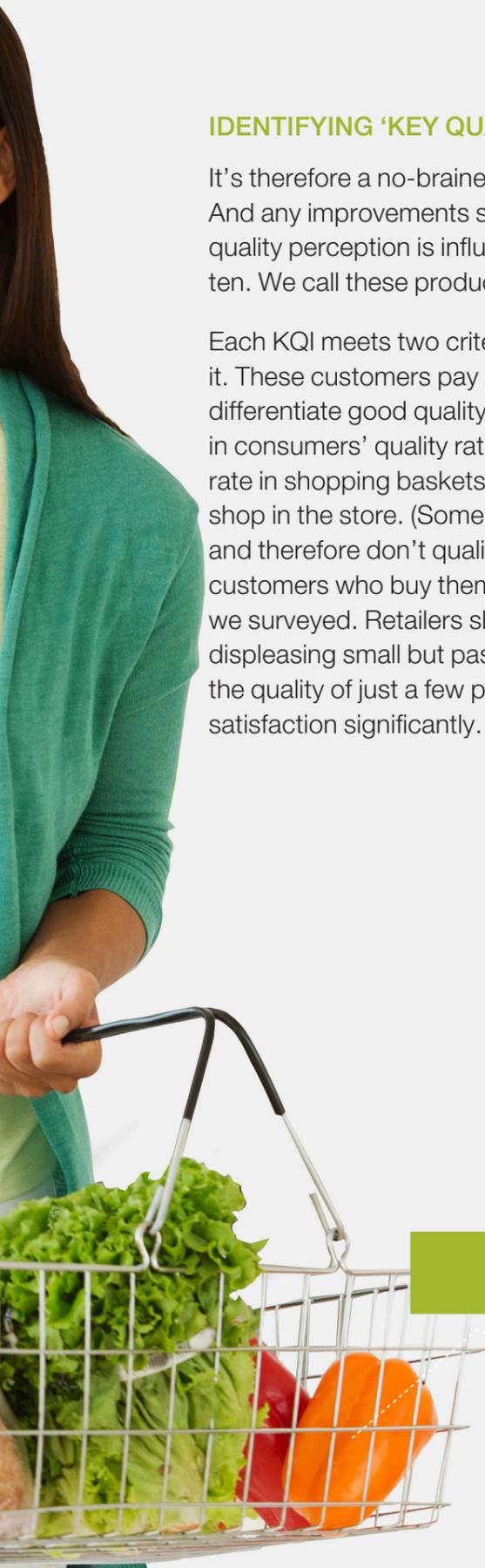
### EXHIBIT 2



## IDENTIFYING 'KEY QUALITY ITEMS'

It's therefore a no-brainer: quality improvements should be a grocer's main focus. And any improvements should be targeted and specific. Our research shows that quality perception is influenced by only a handful of products—usually fewer than ten. We call these products key quality items (KQIs).

Each KQI meets two criteria. First, the item is important to the customers who buy it. These customers pay close attention to the item when shopping, and they can differentiate good quality from poor quality, so there are typically larger variations in consumers' quality ratings of this item. Second, a KQI has a high penetration rate in shopping baskets. In other words, many customers buy the item when they shop in the store. (Some items have a low penetration rate in shopping baskets and therefore don't qualify as KQIs, but they are nevertheless very important to the customers who buy them. This is true of asparagus, for example, in all four countries we surveyed. Retailers should monitor the quality of such items as well, to avoid displeasing small but passionate groups of customers.) In short, if a retailer improves the quality of just a few products in its stores, it will move the needle on customer satisfaction significantly.



Retailers should prioritize KQIs for quality investments. The KQIs in the fresh-produce department differ by country and by season (Exhibit 3).

## EXHIBIT 3

'Key quality items' differ across countries.

### Top 5 fruits by importance of quality for retailer in the summer season<sup>1</sup>

France	Germany	Switzerland	United Kingdom
1. Bananas 0.78	1. Bananas 0.91	1. Bananas 0.87	1. Apples 0.93
2. Peaches 0.74	2. Apples 0.86	2. Nectarines 0.81	2. Bananas 0.81
3. Nectarines 0.72	3. Strawberries 0.84	3. Peaches 0.71	3. Grapes 0.62
4. Strawberries 0.69	4. Nectarines 0.65	4. Apples 0.68	4. Strawberries 0.52
5. Apples 0.68	5. Kiwis 0.65	5. Pears 0.64	5. Raspberries 0.46

### Top 5 vegetables by importance of quality for retailer in the summer season<sup>1</sup>

France	Germany	Switzerland	United Kingdom
1. Courgettes <sup>2</sup> 0.76	1. Tomatoes 0.79	1. Lettuce 0.96	1. Potatoes 1.00
2. Lettuce 0.67	2. Lettuce 0.74	2. Tomatoes 0.87	2. Tomatoes 0.70
3. Tomatoes 0.66	3. Peppers 0.67	3. Courgettes 0.80	3. Mushrooms 0.67
4. Peppers 0.56	4. Fresh herbs 0.66	4. Peppers 0.71	4. Lettuce 0.60
5. Cucumbers 0.49	5. Cucumbers 0.64	5. Potatoes 0.63	5. Cucumbers 0.58

<sup>1</sup> Average of the normalized correlation of the perceived product quality with the perceived quality of fruit-and-vegetable department and a normalized share of customers buying the product.

<sup>2</sup> Zucchini.

Source: McKinsey's European Retail Benchmark on Fresh Quality, July 2017

When assessing the quality of fruits, consumers in every country tend to pay attention to three attributes in particular: taste, texture, and juiciness. These attributes often relate to the specific fruit variety (which is a sourcing issue) and/or the ripeness of the fruit (which is more of a supply-chain and store-operations issue).

## ABOUT OUR RESEARCH

To create a benchmark of the quality of fruits and vegetables across Europe, in July 2017 we surveyed **23,000** shoppers in more than 30 retail stores in four countries: France, Germany, Switzerland, and the United Kingdom. We asked shoppers a set of structured questions, eliciting information about which products and attributes mattered most to them. The survey gauged consumers' overall satisfaction with each retailer at the store level, their perceptions of the quality of each retailer's fresh-produce department, and their quality judgments of 28 specific fruits and vegetables.



## A COMPLETE REFRESH

In our October 2016 article, we described a proven methodology that retailers can use to identify KQIs and to improve the quality of each KQI<sup>1</sup>. The methodology has three main parts: conducting structured consumer research using dynamic surveys, systematically identifying and addressing the root causes of quality problems, and instilling a quality-focused organizational culture to ensure continuous improvement.

A quality-improvement effort should be part of a comprehensive transformation program—a complete “refresh” of the fresh-food department, so to speak. Such a program should start with a brief diagnostic to understand the retailer's strengths and opportunities with regard to a number of critical elements, including its value proposition, merchandising, sourcing and supply chain, store operations, and shrink management. Although retailers might think that a focus on quality necessarily leads to higher shrink rates (because products that don't meet the quality bar will need to be discarded), we've found that there's no such trade-off. In fact, quality issues and shrink issues often have the same root cause, whether it's poor demand planning or suboptimal sourcing processes. Addressing these root causes is the core goal of a holistic transformation program.

Some retail executives use a “save to invest” logic to govern the transformation. Any near-term savings generated—as a result of better sourcing and lower shrink, for instance—are invested right back into improving the quality of KQIs.

Grocery retailers would do well to take these steps right away. If they launch targeted, systematic, and sustainable quality-improvement efforts now, they can begin to see positive effects on sales and customer satisfaction in a matter of months.



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<sup>1</sup> Raphael Buck, Daniel Läubli, and Nora Ottink, "The quest for quality in fresh-food retailing," Perspectives on retail and consumer goods, October 2016, McKinsey.com.

