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Central Europe's consumers: Looking for value

To attract the region's value-oriented consumers, retailers and manufacturers in Central Europe must expand their assortments, both in stores and online.

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Consumers across Central Europe are worried about their finances. But that doesn't mean they're buying the cheapest products. This is a value-oriented market, where smart shoppers are finding ways to stretch their budgets without sacrificing quality. And they're looking for deals at traditional retail stores as well as in digital channels.

To win with Central European consumers, companies can't simply offer products of mediocre quality at entry-level prices. The most successful retailers and consumer-packaged-goods (CPG) manufacturers in the region have found ways to provide added value while keeping prices low, whether it's by improving product quality, offering a larger assortment, or providing a seamless and satisfying customer experience.

The Central European shopper: Strapped yet selective

On average, Central Europeans are feeling less financially secure than their Western European neighbors. Take Poland as an example: almost a third of the country's consumers (compared with only 16 percent of German consumers) said they were either "moderately" or "very" fearful of losing their jobs.¹ The average monthly wage in Poland is less than half that in the European Union as a whole.² In a recent McKinsey consumer-sentiment survey, 30 percent of Polish respondents said they live paycheck to paycheck, compared with 20 percent across Western Europe. Only 14 percent said they felt optimistic that their financial situation would soon improve.³

Despite this sense of financial insecurity, consumers in Central Europe aren't necessarily purchasing the least expensive products when they shop. Instead, they look for the best value for their money—products and experiences that offer additional benefits or better quality, but at affordable prices.

One might assume that Central European consumers would gravitate toward private-label (PL) products, but that hasn't been the case. They're willing to trade down from their preferred brands to cheaper options, but they haven't been switching to PL products as enthusiastically as consumers in other countries. And when they do decide to give PL products a try, many aren't satisfied with the experience—which may not be surprising, since the PL products available in Central Europe today tend to be of relatively low quality. The share of PL grocery products is therefore lower in Central Europe (22 to 25 percent across countries) than in Western Europe (36 percent on average). In 2016, PL accounted for only 3 to 10 percent of Central European sales in apparel and footwear and for only 5 to 8 percent in beauty products.⁴

Digital and omnichannel growth

Convenience stores, the region's fastest-growing modern format, are expected to sustain annual growth rates of 6 to 10 percent in some Central European markets (including Poland, Romania, and Slovakia) over the next few years. In Poland, modern retail formats have become dominant. But across Central Europe, traditional (or “fragmented”) trade still accounts for a considerable fraction of retail sales, ranging from 11 percent in Slovakia to 46 percent in Romania.⁵

Some modern retailers are tapping into the Central Europeans' affinity for traditional trade. A few large retailers, for instance, have opened outdoor and indoor seasonal stores that prominently display ultrafresh dairy products, meats, fruits, and

vegetables. These seasonal stores recreate the feel of old-style farmers' markets. By selling their wares in this format, modern retailers aim to strengthen their credibility in fresh, ultrafresh, artisanal, and regional products.

But in the search for the best value-for-money deals, consumers across the region aren't shopping only in physical stores—more and more of them are turning to digital channels. Depending on the country, 60 to 80 percent of households in Central Europe already have Internet access; those figures are expected to reach 80 to 90 percent by 2020. Young people in particular are digitally connected: Internet usage among Polish consumers under 35 years of age is on par with US figures.

Online grocery still accounts for less than 1 percent of total grocery sales in Central Europe, but other categories have made considerably more headway online. In the current digital battlegrounds—health and beauty products, as well as apparel—the online share ranges from 7 to 9 percent. Across all categories, growth in online sales, projected at 16 percent a year for the next five years, will far outpace growth in the offline CPG retail market, estimated at only 3 percent a year over the same period.

Excluding grocery, online retailing accounts for 11 percent of total sales in Poland, with sales volumes comparable to those in Spain and Italy. The percentage is slightly lower in other countries in the region: 10 percent in the Czech Republic, 6 percent in Slovakia, and 5 percent in Hungary. Small as the numbers may seem, e-commerce is here to stay, and we fully expect these figures to rise steadily in the coming years. Across all of Central Europe, mobile commerce is expected to grow as well, at a rate of 25 to 30 percent between now and 2021.

How to win the Central European consumer

As consumers in Central Europe become omnichannel shoppers, they are educating

themselves more on price and on product features. Retailers and CPG manufacturers must therefore ensure a consistent, value-oriented presence across channels. In addition, they must act on the following priorities:

Invest in—and advertise—value-for-money brands

Retailers and CPG players are now offering higher-quality and premium products and brands, even at mainstream price points. In many retail sectors—including apparel, beauty, and grocery—retailers are launching midtier and premium PL products and advertising them heavily. Some are of considerably better quality than the PL goods that soured Central European consumers on PL brands. In a few cases, these retailers' PL investments have paid off handsomely, with PL products taking significant share away from branded CPG products.

In Central Europe and elsewhere, the discounter Lidl, for instance, offers high-quality, affordable products under its Deluxe brand. Aimed at strengthening Lidl's food credentials, the advertising for Deluxe engages the emotions, helping to establish the company as a retailer for everyday products as well as special-occasion ones. Other retailers, too, are communicating emotional cues in their advertising—whether through TV commercials that tell sentimental or humorous stories about family, romance, and special occasions, or print ads that show PL products as indispensable parts of daily life.

Broaden the assortment, especially in fresh food and prepared meals

The most successful retailers are providing a broader assortment. Grocers, for instance, are expanding their selections of vegetarian, vegan, and organic products. They're also selling more ready-made meals—a category pioneered in Poland by Biedronka, which now carries a large assortment of frozen dinners.

Biedronka has transformed itself from a no-frills discounter that carries only the basics into a retailer that gives consumers access to more exotic and higher-end fare: its seafood selection, for instance, includes lobster and octopus, and it now sells soup made in a new company-owned factory. Similarly, Lidl operates in-store bakeries that are burnishing its reputation as a credible—even high-quality—retailer in categories that haven't traditionally been discounter strongholds. The food distributor and retailer Eurocash, too, has sought to differentiate itself by investing in factories that make sushi and other prepared foods.

Convenience stores are upping their game in fresh food as well: they've introduced new store formats with larger offerings in fresh produce, ready-to-eat meals, and grab-and-go snacks. Żabka, a chain of convenience stores in Poland, is expanding its ready-to-eat assortment while also venturing into food service with simple items such as coffee and hot dogs. The chain is working on a new format, primarily for shopping malls, with an even stronger emphasis on food service.

Leverage digital technology to improve the customer experience

Retailers and CPG manufacturers alike are investing in technology and building an omnichannel presence. Hypermarkets, for example, are incorporating more digital technology into their stores. One of Carrefour's newest hypermarkets in the Polish city of Poznan offers digital solutions to help shoppers explore broader online assortments in bakery, dairy, and alcoholic beverages. In the wine section, shoppers can consult a "virtual sommelier"—a digital kiosk that suggests specific wines, depending on the occasion, food pairings, or customer preferences.

Central European retailers in other sectors have also introduced in-store technologies. The

bookstore and lifestyle retailer Empik, for example, offers “virtual bookseller’s assistants” and other interactive features in its new Future Store concept. Certain restaurant chains, including McDonald’s, are accepting orders through digital terminals. Some are taking this approach a step further, providing for personalization and customization through digital channels. KFC is piloting a mobile order-and-pickup service at about 170 locations in Poland. Customers can use a mobile app to access exclusive offers, personalize their purchases (for example, by specifying how many drumsticks or wings they would like in a bucket of fried chicken), pay for their orders, and select pickup times. Delivery is also available at more than a dozen KFC locations.

CPG companies, for their part, are starting to experiment with selling some of their products—particularly basic and value-oriented assortments—through e-marketplaces. They are also making their higher-end and premium brands available exclusively through their own e-commerce sites or specialty e-tailers, such as online health-and-beauty stores. The most sophisticated CPG players have developed a detailed omnichannel strategy that helps them to benefit from the growth of e-commerce and, at the same time, to maintain strong relationships with retail partners.



The Central European consumer now has much higher expectations of retailers and CPG companies, both offline and online. That means companies in the region have little choice but to innovate constantly across channels. Several have risen to the challenge; the rest should take action soon or risk losing out to faster-moving competitors.

¹ Labour Market Monitor survey, Randstad Research Institute, December 2016.

² Based on Eurostat data, 2015.

³ McKinsey Global Consumer Sentiment Survey, September 2016. For highlights from it, see Max Magni, Anne Martinez, Rukhshana Motiwala, and Alex Rodriguez, “Consumer sentiment around the world: Trending upward,” May 2017, McKinsey.com.

⁴ According to the Private Label Manufacturers Association.

⁵ In this article, data and projections for retail formats and digital channels come from Euromonitor unless otherwise noted.

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