



# How to drive value-for-money perception beyond price

The value-for-money perception of many supermarket chains has been under pressure in recent years. The economic crisis has caused this challenge to become even more important to overcome. Competing on price alone won't be enough. Our research shows that value-for-money perception is driven by several other factors that need to be addressed.

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Historically, price has been one of the fundamental sales drivers for grocers, and that still holds true today. In our January 2021 customer research across ten EU countries, value for money was one of the two most important factors influencing where consumers decided to shop.

But a core aspect of winning on value for money is striking the right balance by remaining competitive on prices while also figuring out where grocers can increase them without ruining price perception. Maintaining a good value-for-money perception has become more challenging and intense over the past decade—and we see three developments driving this:

**Consumers are shopping more frequently across different grocers and stores.** This trend has led to fragmented baskets and more variety in products and brands. Indeed, our survey reveals that only 13 percent of European customers shop at a single grocer; 36 percent use two stores, and 30 percent shop at three different grocers. This remains true across Europe, although there are some regional differences. Dutch, French, and Swedish customers, for example, seem to be more loyal, with the majority shopping at no more than two stores. On the other end, 23 percent of Germans, Poles, and Russians shop at four or more grocers. Typical customers know the market well, enabling them not only to compare prices of individual items across grocers but also to pick and choose where to buy them.

**The rise of discounters has intensified price competition.** Retailers used to match discounters on price and quality across a limited assortment (800 to 1,000 SKUs). But

in recent years, discounters have expanded the competitive set to 2,000 to 2,500 SKUs, so full-line grocers now often have to match pricing on more than 50 percent of sales.

In addition, the discounters over time have improved quality significantly and now compete with midtier products of typical supermarkets, putting pressure on the supermarket in terms of both price and quality.

### **The rise of online grocery shopping has increased price transparency and generates complexities around omnichannel pricing.**

Although not all grocers have the same prices online as they do offline, online pricing provides customers an additional data point and makes it much easier to check and compare prices.

Additionally, digital platforms such as Cimri.com (Turkey—20 million visits in January 2021), Supermarktcheck.de (Germany—one million visits in January 2021), and Soysuper.com (Spain—500,000 visits in January 2021) provide the ability to compare prices. First came item-by-item comparisons, which monitored online stores to provide rankings for identical products. Now, consumers can compare full grocery baskets, a development that has significantly increased price transparency in the market, making it more difficult for grocery retailers to differentiate on price.

## **Drivers of value-for-money perception**

It is key to understand what drives consumers' value-for-money perception to improve it in an economically sustainable way.

Our research shows that value for money is mainly driven by four money-related attributes, with value attributes playing a secondary role (see exhibit). First—unsurprisingly—it's important for grocers to provide attractive shelf prices on products where cost matters. Second, with nearly the same importance, it is crucial to offer a large variety of cheap products. This is closely linked to the third most important attribute: a low overall basket price. A grocer can have great prices, but if it offers mainly premium products it is still perceived as more expensive than a competitor that also offers affordable products at good quality. The fourth important driver is promotions. Of course, all of the above need to be framed in consistent customer communications that reinforce the value-for-money message.

## **Three elements to improve the perception**

Among the many ways to improve value for money, there are three main levers we have found particularly helpful in most situations:

### **Use analytics to set low shelf prices on items and in locations that matter most**

While using key value items to drive perception is nothing new, the ability to use analytics to identify key value items takes this approach to the next level.

With analytics, grocers can focus their price investments in an even more targeted way. Analytics allow for the application of a multitude of lenses—for example, to more accurately identify products that drive price awareness: they are items that are bought mainly by price-sensitive customers or that

show a high price elasticity. In addition, it is possible to identify how the key value items differ between different stores and offline versus online. This allows grocers to define a highly accurate set of key value items that are unique to a given store cluster, region, or channel, and therefore to target any price investment where it matters most for the customers in these stores and channels.

When applying this investment approach, grocers should simulate the financial impact, including competitor reaction. Historically, price elasticities have been used to estimate customer reaction (volume) to price changes and provide recommendations for how to optimize margin and ensure constant revenue. But in recent years, mature grocery players have realized that elasticities are often overrated and that they need to include competitor reaction. This enables retailers to conduct war-gaming scenarios to fully understand the impact of potential price changes.

When implementing advanced analytics, it's important to remember that pricing is both an art and a science. While data are gold, analytically derived prices need to be complemented with guardrails and business rules to achieve an optimal result, and organizational capabilities and buy-in cannot be overemphasized.

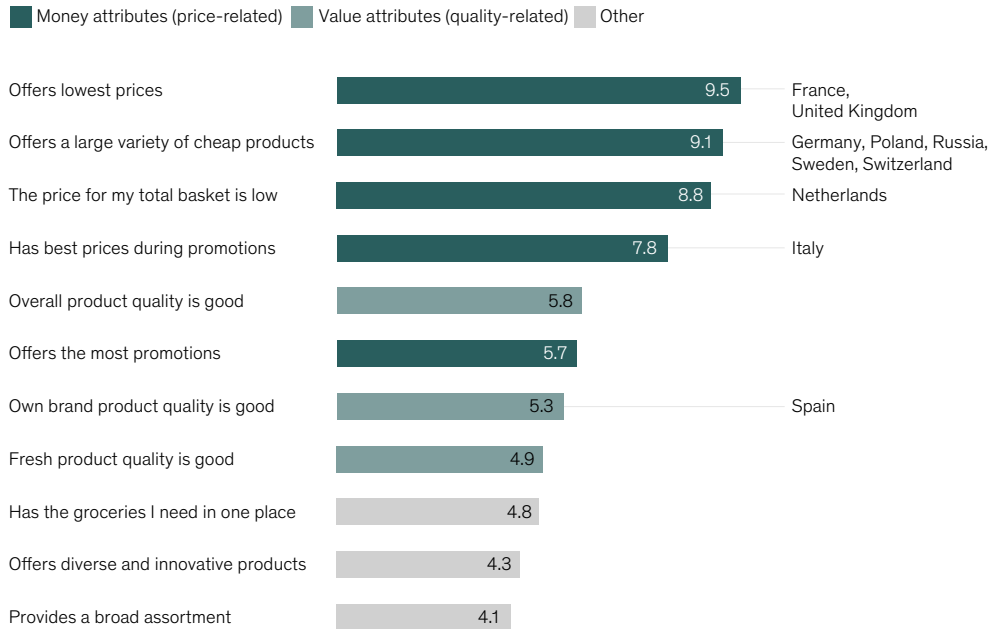
### **Understand how customers compare prices for private labels and fresh**

Customers compare prices not only between the national brands but also between similar items—such as fresh products and private-label products. The challenge is finding out

## For consumers, money is more important than value in the ‘good value-for-money’ equation.

Top attributes correlated with ‘Offers good value-for-money’ statement, relevance of value-for-money scoring, average across 10 European countries<sup>1</sup>

Top attribute, country view



<sup>1</sup>Relevance rebased to sum up to 100 for all attributes (total of 22 attributes).

which specific items customers are comparing. Our research shows that customers usually compare items that are perceived to be of similar quality. Interestingly, many grocers overestimate their product quality and match their private labels to competitor private labels of a better quality. For example, consumers often compare products from hard discounters not only with the entry-price tier of a supermarket but also with the midprice tier. In such a scenario, a grocer might believe

its prices are on par with discount through its entry-price tier, while consumers perceive a substantial price gap as they compare the hard-discounter prices with the more expensive midprice tier of the supermarket.

When comparing prices with those of competitors, grocers must therefore understand which products are of a similar perceived quality, not necessarily a similar specification. Some grocers have established

units with the sole task of creating product-price matches that are based on consumer research and identify quality gaps that need to be addressed.

### **Improve the quality and breadth of the opening-price-point private label**

While shelf prices are the foundation for value-for-money perception, other levers are needed to achieve the full potential of that perception. For instance, the quality and breadth of the opening-price-point assortment are nearly as important as pricing.

In the past, many supermarkets competed on opening price points with 400 to 800 private-label products that were often low quality and

had unattractive packaging. As discounters have increased their assortment sizes and have improved quality, this type of opening-price-point private label is not competitive enough anymore. Its (perceived) quality is, for many SKUs, typically below that of the hard discounters, and the offering simply does not cover a wide enough assortment.

To be competitive with the opening price point in many markets today, it takes more than a 1,000 quality products and attractive packaging. In many categories, this means that the quality of the opening price point for private label becomes very comparable to, or the same as, the quality of products within the midtier price range. Some players, such as Albert Heijn, have therefore started

## **Further levers for value-for-money perception**

In addition to the three main levers, there are several other commercial levers that are needed to fully drive value-for-money perception:

### **Communicate value for money.**

Grocers should create one umbrella message about value and reinforce it consistently across various channels.

### **Focus on effective promotions.**

Analytics can enable grocers to analyze and invest in promotions wisely to maximize a store's sales, margins, and traffic effect.

### **Increase quality of products.**

By deploying design-to-value principles, grocers can focus spending on the quality-enhancing dimensions of products—particularly in important categories, such as fresh food.

### **Improve in-store experience.**

Grocers can increase the perception of high quality and competitive pricing by optimizing the placement of high-quality products and items that have strong value for money.

**Use personalization.** Loyal customers have a significantly

more accurate perception of prices. Grocers that tailor offerings based on consumer insights on an individual level can target them directly to build loyalty—an increasingly important lever that will become more relevant in the future.

to use main brands within the midtier price range to compete at the opening-price-point level. Separately, in light of the pandemic and economic crisis, some retailers have also returned to entry-price-tier products (such as Système U's Prix Mini product line) to cater to increased price sensitivity from consumers.



Taking a more sophisticated approach to pricing is all the more crucial today because of the rise of online shopping, which has increased price transparency, fragmented consumer baskets, and grown competition from discounters.

Improving value-for-money perception goes beyond pricing, though. As our research shows, other levers, such as offering a wide selection of high-quality entry-price-tier products, are as important to value-for-money perception as low shelf prices—and in some markets even more important. By understanding what really matters to consumers through pricing analytics and market research, grocers can make the focused investments to meet those needs across multiple levers and double down on value perception in the most economical way possible.