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The quest for quality in fresh-food retailing

In fresh foods, quality is critical—but hard to define and measure. Here's how retailers can make the quality investments that yield the highest returns.

Raphael Buck, Daniel Läubli, and Nora Ottink

Just a few years ago, European consumers in search of high-quality fresh food would never even have considered going to a discount store. Supermarkets were the only modern format with credible offerings in fresh fruits, vegetables, meat, fish, dairy, baked goods, and delicatessen. That's no longer true. In recent years, discounters have significantly upgraded their product range and presentation in fresh-food categories.

According to surveys in several European countries, consumers believe that discounters' fresh products are as good as—and sometimes even superior to—those at supermarkets, and lower priced to boot. This perception is worrisome to supermarkets, and rightly so, because fresh products drive store traffic, basket size, and customer loyalty. Recent

research has shown that if customers are satisfied with a retailer's fresh offerings, they will shop there more frequently, spend more money on each visit, and start to buy from the retailer's other departments as well. For instance, a leading retailer found that more than 50 percent of its loyal customers would highly recommend its fruits, vegetables, and meat departments (compared with 20 percent for the health and beauty department, or 13 percent for sweet snacks). Another large grocery retailer found that fresh-food quality—not price—was the number-one driver of satisfaction among its customers.

The intensifying competition in fresh food means that retailers must become known for consistently high-quality products. That's no easy task. Grocers and discounters are all

too familiar with the execution challenges of selling fresh food. The products are highly perishable. The assortment is large and diverse—a typical delicatessen counter alone has more than 100 products. Each offering has different handling requirements, and the quality of goods that suppliers provide can vary from week to week.¹ Which products are worth the investment in higher quality? Out of tens of thousands of them, how can a retailer know which ones have the greatest influence on perceptions? Better-tasting garlic, for example, may please some consumers, but in most Western European countries, that alone won't substantially increase sales or customer loyalty.

Furthermore, quality can be difficult to define and isolate. When consumers judge the quality of fresh-food products, they take into account much more than just taste and appearance. Depending on the item in question, other intrinsic attributes, such as smell, consistency, and ripeness, can play important roles as well. External factors—for instance, packaging, pricing, and advertising—may also affect consumer perception.

In our experience, retailers can achieve distinctiveness in quality by following a three-pronged approach: 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. The impact of using such an approach is almost immediate: at one European food retailer, sales of fresh produce rose by as much as 24 percent in certain categories, and customer satisfaction and loyalty increased dramatically.

Conduct dynamic consumer research

As one retail executive lamented, “We have tens of thousands of SKUs; I don't know

where to focus our quality efforts.” The most successful retailers choose their focus areas by figuring out what matters most to consumers—they conduct consumer research to zero in on the exact products and product attributes that shape perceptions of quality.

The idea of quality-focused consumer research can be unappealing and overwhelming to fresh-food retailers. They don't relish the thought of asking throngs of consumers an endless number of questions about tens of thousands of products, and possibly ending up with nothing but generic insights that don't provide clear direction on what or how to improve. But we know from experience that consumer research can be rigorous and rich without being unwieldy: the secret is in carefully structured, dynamic surveys—in which questionnaires automatically route respondents to new questions based on their answers to previous questions.

To kick off a major quality-improvement effort, a leading European grocery chain conducted in-depth, dynamic surveys of more than 8,000 households in its markets. Through a series of structured questions, the retailer identified fruits, vegetables, and meat as the categories that most influenced the consumers' decisions about where to shop.

The retailer then sought to find out which products in those categories made the biggest impression on consumers. Again using the dynamic questionnaire, it identified some 50 products—out of 7,000-plus in the fresh categories—that met three criteria: the product strongly affected the consumers' opinions of the quality of a store's fresh offering, consumers gave the retailer lower marks than competitors for the quality of that product, and the product accounts for a substantial part of the department's

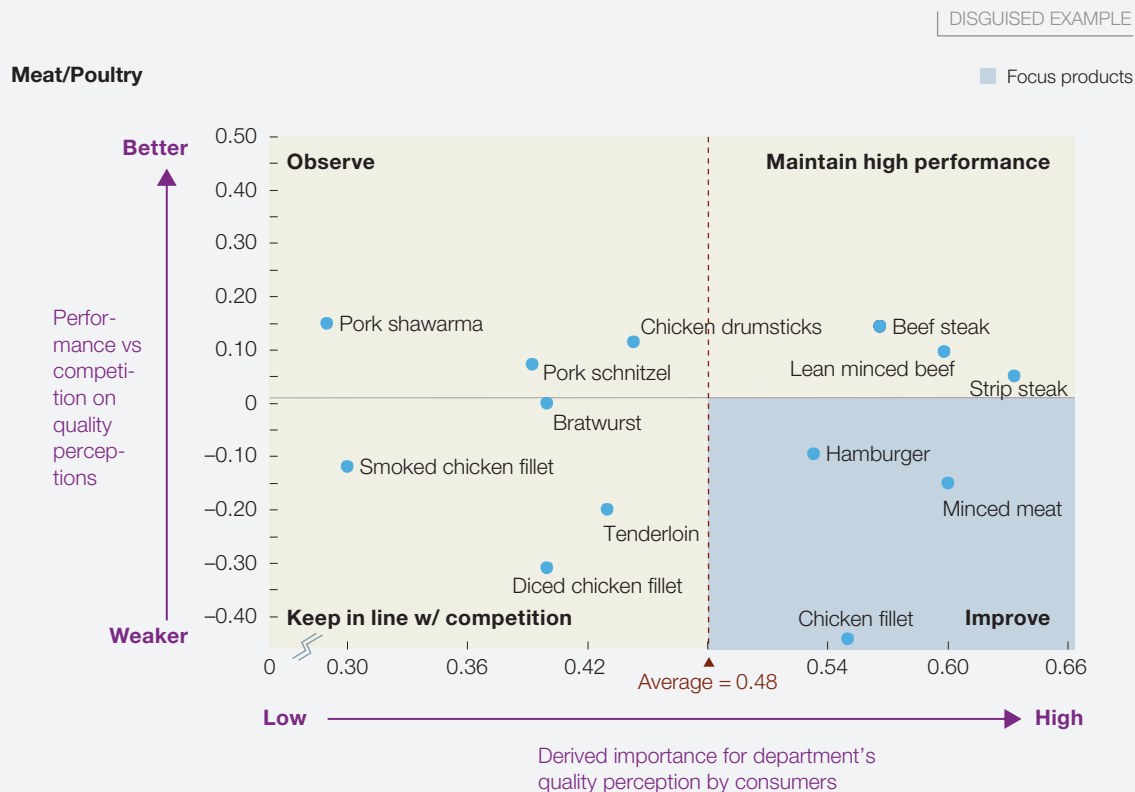
revenue. In the meat department, minced meat and chicken fillets met these criteria (Exhibit 1). Other products that met the criteria included strawberries and asparagus. The retailer prioritized these 50 products for quality improvements.

Another set of structured survey questions elicited the attributes that most affect consumers' quality perceptions of each high-priority product. For minced meat, the top quality indicators included taste, roasting properties (especially water content), and smell. For strawberries, what mattered most to consumers were juiciness and smell—not color and size, as the retailer had initially thought.

Analyze and address root causes

Conducting structured consumer research is crucial to unearthing actionable and precise insights, but it's only one part of a robust data-gathering exercise. The retailer also conducted "blind" tastings of products, performed chemical analysis on the products, and linked the results to the consumer research. In this way, the retailer determined which quality issues were intrinsic to products and which resulted from the consumers' perceptions of them. For instance, if the chemical analysis showed that the retailer's strawberries had a high brix level (a measure of sweetness) but consumers complained that the strawberries were bland, the issue was perception related, not intrinsic.

Exhibit 1 Quality efforts should focus on products that matter most to consumers.



Source: Market research; McKinsey analysis

Category managers and product buyers, working with suppliers, then held intensive workshops to hypothesize about the root causes of each quality issue. They analyzed the supply chain “from field to fork,” looking closely at how each stage of the supply chain contributes to or detracts from the quality of products. For instance, if a fruit’s color strongly influences the consumers’ quality perceptions, what factors affect the color? Is the fruit variety a factor? Is the fruit getting discolored during handling or transport? Is the lighting in stores somehow altering the fruit’s appearance?

Such workshops are an effective means of fostering a constructive dialogue, getting the right people to think about and collaborate on quality, and challenging assumptions and hypotheses. And as this retailer discovered, bringing in suppliers to participate in root-cause analysis and problem solving can be a powerful way to generate ideas for improvement.

One end product of the workshops should be a targeted action plan that addresses the root causes of perceptions of poor quality. Initiatives could entail switching to new types or varieties of products, adjusting their specifications, or changing certain aspects of the supply chain, store operations, merchandising, or marketing. The aforementioned retailer, for example, introduced a juicier variety of strawberries. For minced meat, it changed its product specs (lower water content and fewer additives). Within weeks, the retailer came up with precise quality-improvement measures for all 50 items.

An end-to-end quality program—including designing survey questionnaires, conducting market research, analyzing results, identifying

the root causes of quality problems, and planning and launching quality-improvement initiatives—typically takes three to four months. The exact duration depends on how much market research is already available, the number of products and departments in scope, and the size of the survey sample.

Instill a quality-focused culture

Executing this disciplined approach shouldn’t just be a one-off undertaking. Rather, it should be part of an ongoing quality-management process, helping to embed a continuous-improvement mentality into the organization’s way of working. A retailer should articulate its quality aspirations—for example, “become number one in both technical and perceived quality in the meat and seafood departments.” It should then define its quality targets and agree on testing tools, guidelines, timing, performance indicators, resources, and roles and responsibilities.

To instill a quality-focused culture, retailers must pull the four levers defined in McKinsey’s influence model.² Exhibit 2 shows a number of tactics that have proved effective in orienting mind-sets and behavior toward a focus on product quality.

Role modeling by senior leaders, for example, can go a long way toward creating awareness and buy-in. One retailer published photos (on its intranet and in internal newsletters) of the CEO participating in blind tastings.

To foster conviction and understanding, a European retailer has its category managers and sourcing staff regularly test the quality of fresh products. Employees buy items from the retailer’s stores and those of competitors, compare them, conduct informal blind tastings at the office, and brainstorm ideas for quality improvements.

Exhibit 2 Retailers can use a range of tactics to instill a quality-focused mind-set.



Capability building is an indispensable element of a quality-focused culture. Retailers should train and coach category managers and purchasing staff to analyze consumer-research findings, to detect the sources of quality problems, to look across the entire value chain for hypotheses about root causes, and to develop and implement action plans.

Finally, formal mechanisms should reinforce the quality culture. As an executive at a

leading European retailer said, “Our category managers are trained to focus on sales and margins, so it can be difficult to convince them to give quality the attention it deserves.” Retailers should therefore incorporate quality-focused metrics into the performance-management system and link them to compensation schemes for category and sourcing managers.



We've found that a quality-focused culture makes employees much more engaged: it generates energy and excitement, and they begin to take more pride in their products—in part because the quality improvements are immediately obvious, both in the stores and in the retailer's financial results. Indeed, the payoff for disciplined quality programs includes not only motivated employees but also significantly higher sales, greater customer loyalty, and a true competitive advantage. ■

¹ For more on the challenges and opportunities in fresh food, see Raphael Buck and Arnaud Minvielle, "A fresh take on food retailing," *Perspectives on retail and consumer goods*, Winter 2013/14, McKinsey.com.

² For more on McKinsey's influence model, see Tessa Basford and Bill Schaninger, "The four building blocks of change," *McKinsey Quarterly*, April 2016, McKinsey.com.

Raphael Buck and **Daniel Läubli** are partners in McKinsey's Zurich office, and **Nora Ottink** is an associate partner in the Amsterdam office.

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