

# Revamp your profitability with excellence in serviced counter offerings

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## Why supermarkets and hypermarkets should maintain attractive serviced counters, even in times of crisis

Despite ongoing inflationary concerns, a cost-of-living crisis and rising uncertainty hampering consumer demand, the long-term profitability of supermarkets and hypermarkets today still depends on their ability to differentiate from discounters and between themselves. As an element in providing a broad assortment to consumers, an attractive serviced counter offering is one of the key factors allowing for such differentiation. To maintain and improve on this crucial competitive advantage against other players, retailers must work on providing attractive serviced counter offerings while operationally running the counters even more efficiently than ever to keep costs under control.

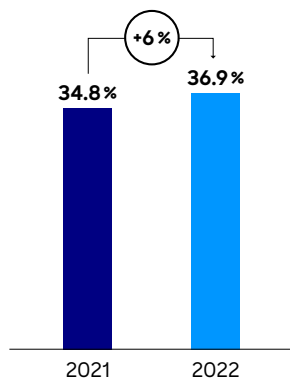
### 1. A challenging landscape for retailers today

In times of economic uncertainty, consumer confidence is relatively low, especially in Germany. Across Europe and the UK, customers are trading down in what they buy and are increasingly switching to discounters from supermarkets and hypermarkets. With inflation high, estimated household spending is still growing faster than disposable income, which puts retailers under additional pressure to build the right value proposition to win customers. Germany's negative GDP growth at the start of

2023 feeds this uncertainty. As the outlook for 2024, particularly for Germany, heralds no substantial improvement, we are likely to see these changed consumer preferences persist into the foreseeable future.

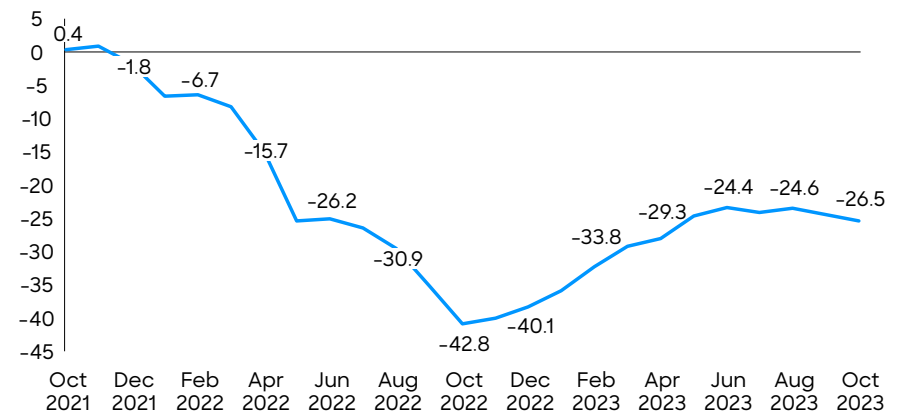
## Having been recovering until last June, consumer sentiment is falling again, hinting at a potential further increase in the revenue share of discounters in 2023

Revenue share of discounters in food retail in Germany, 2021-2022 [%]



Source GfK, Roland Berger

GfK consumer climate index for Germany, 2021-2023 [#]



Roland Berger

### Major revenue challenges

#### Footfall

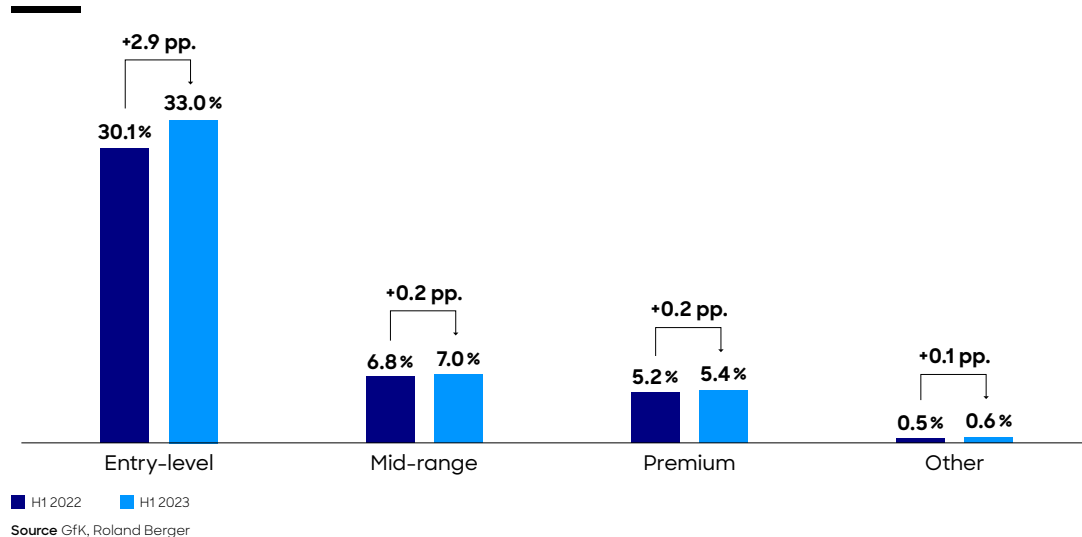
Firstly, the current economic situation and negative consumer sentiment are impacting footfall in supermarkets and hypermarkets. With their future income expectations lowered, more and more customers are reconsidering their spending and switching to discounters for at least part of their grocery shopping. Ultimately, the least affluent households who formerly shopped at supermarkets or hypermarkets will switch to discount grocery stores. At the same time, we are also seeing greater polarization in consumer preferences. More affluent customers, for example, are becoming more health and environmentally conscious and choosing to shop at specialty stores instead of traditional supermarkets.

#### Basket size and mix

In the past, most supermarkets were able to compensate for the fall in store traffic with higher sales per shopping trip by increasing the average transaction value or number of items per purchase by offering a wide assortment and smart pricing strategies. Other strategies to achieve this include loyalty programs, in-store promotions, cross- and upselling, and offering premium products. However, offsetting the declining footfall with these approaches is becoming increasingly difficult in the current market. Notably, mass-market customers are more cautious about their spending and are adjusting their behavior by either switching to lower-cost items or leaving higher-ticket products on the shelves, driving down the overall basket size.

## In 2023, the retail market share of entry-level private label goods increased further by 2.9 pp. compared to 2022

Total retail market share of private label price segments in Germany, H1 2022 vs. H1 2023 [%]



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### *Ongoing cost pressure*

Currently, the cost of operating physical stores, such as rent and utility bills, is outpacing sales productivity. The present economic situation, characterized by high energy prices and wage increases cancelling out consumer price rises, only adds further pressure.

As a result, brick-and-mortar grocery stores are facing a challenge to their very existence, especially if their shopfloor size is disproportionate to the revenues they can achieve. If they are unable to cope with the trend in declining foot traffic to their stores combined with the rising pressure on costs, profits will be under even more strain. Fewer shopping trips translate to less customer contact, less customer loyalty and even fewer opportunities for supermarkets and hypermarkets to differentiate themselves against discounters. While online grocery deliveries were once seen as a significant threat, their growth rate has stabilized since COVID-19, particularly in the UK and Europe.

## • 2. Fresh food counters offering – a customer magnet

### *Mitigating revenue risk*

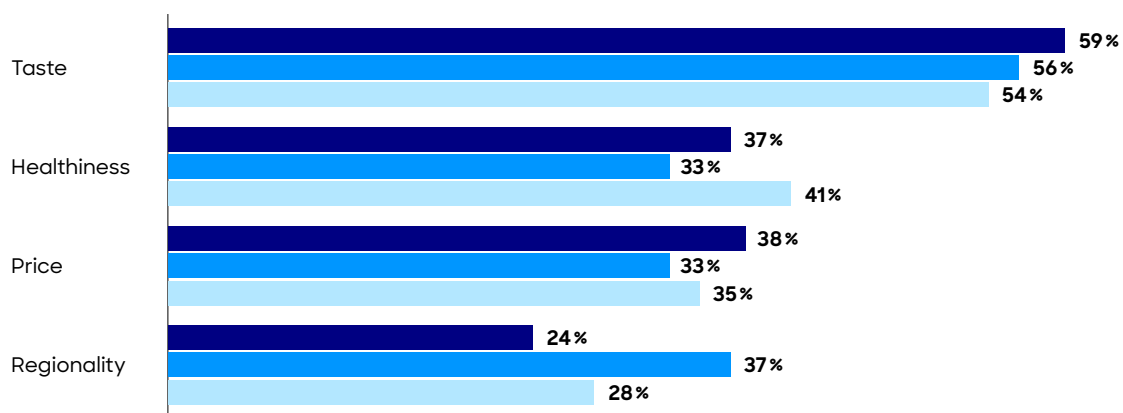
There are various measures leading retailers can implement to combat the declining footfall and basket size trends. While online shopping options, click-and-collect, new marketing campaigns, increased advertising and customer loyalty schemes have their merits, one of the most effective ways to drive store traffic and basket size is with an attractive serviced counter offering.

What makes a serviced counter such a powerful way for retailers to fight declining footfall?

- Firstly, customer research confirms the importance of fresh food counters as a critical factor in choosing a shopping destination. Besides the essential product criteria, the factors of taste, in which fresh food counters play a crucial role, healthiness, low prices and the availability of regional produce are crucial to a customer's decision-making process.

## Taste is one of the key drivers of store traffic, and a serviced counter offering is one of the key components of taste

Product criteria for grocery purchases, 2021 [%]<sup>1</sup>



<sup>1</sup> N = 1,000 for Germany and Switzerland, n = 1,014 for Austria

■ Germany ■ Austria ■ Switzerland

Source Danone & Too Good To Go, Roland Berger

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- Secondly, according to our experience, customer perception of "choice" not only depends on the depth and breadth of the assortment but is also strongly linked to visibility and service at the fresh food counter. Offering a wide variety of meat, fish, sausage, cheese or delicatessen products at serviced counters is more effective in improving customer satisfaction and driving store traffic than carrying a broader assortment on the refrigerated shelves. Serviced counters allow retailers to create a perception of a refined and "special" offering that serves as a customer attraction point.

What makes a serviced counter such a powerful way for retailers to fight decreasing basket size?

- Firstly, a well-serviced fresh food counter drives traffic to a store, consequently having a halo effect across the entire store as many customers will then choose to shop in this store for different occasions.
- Secondly, customers who choose the store because of an attractive counter offering typically buy more products and have higher basket sizes.

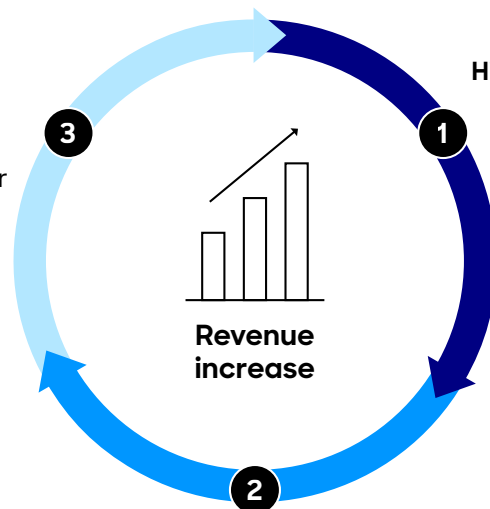
- Moreover, if the customers are satisfied with the range, freshness, quality, prices and other elements of the store's value proposition, they develop loyalty and more of them become return customers.

The fresh food categories allow retailers to significantly boost revenues by driving an increase in the total number of transactions on the basis of improved footfall and higher average transaction values. Today, despite the turbulent times, supermarkets and hypermarkets are also trying out new models for fresh food counters by hyper-localizing them in terms of offering and design, which will further support their differentiation efforts and increase revenues.

## Serviced counters sustainably improve revenues via a three-step process

Cycle of increasing revenue

**Improved loyalty** as customers return for the counter offering



**Higher traffic** as more customers choose the store

**Higher footfall and larger basket size** and mix as customers shop at the counter

Source Roland Berger

Roland Berger

## Balancing costs

Running serviced counters in stores is complex and costly. Still, with operational excellence, precise forward planning based on analytics, close monitoring and quick decision-making, stores can overcome these challenges and realize the advantages outlined in this paper.

One of the critical challenges with fresh food counters is inventory and supply chain management. Fresh produce has a short shelf life and is particularly vulnerable to fluctuating temperatures and excessive handling. Swift and efficient processing throughout the entire supply chain is crucial – from suppliers to retail networks to stores and ultimately to customers. Retailers need accurate demand forecasts to make sure they strike a balance between availability and wastage in managing their fresh produce stocks.

As serviced counters serve as a centerpiece of excellent customer service in-store, they demand great attention to detail. On the one hand, running serviced counters calls for special skill in handling the produce. But additional services such as tastings

**"Even in turbulent times, it would be a misstep for large store formats not to fully exploit the potential of fresh food serviced counters."**



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or answering customer queries are also expected, requiring a skilled, motivated and engaged workforce.

It is costly because of the expensive supply chains and additional staffing requirements, which makes efficient management of the serviced counter offering even more crucial. If retailers start introducing new types of counters for further differentiation, they will need to keep a close eye on the costs.

Given these challenges, it is best practice to open serviced fresh food counters only in locations where it makes the most economic sense (such as in high-footfall areas, flagship stores or places where customers value a wide variety the most) and to optimize their presence in smaller stores or in stores in less affluent areas.

If fresh food counters are set up in the right stores and operational excellence is established, striking a balance between availability and wastage, the incremental revenue gains will outweigh the additional costs. For example, we designed a customer value proposition for a large European multi-format grocery retailer for its serviced counter offering. This included a definition of customer needs and recommendations on the assortment to meet these needs. We identified locations where having serviced counters is essential vs. locations where operating serviced counters is not economically viable due to relatively low footfall and sales productivity combined with high complexity and cost. And we produced a set of operational guidelines on execution across purchasing, supply chain and store operations.

### • **3. Proposed way forward for successful serviced counter strategies**

The current challenges in the food retail market have drawn attention to serviced counter strategies as a high-cost element in physical store operations. However, it would be a misstep for supermarkets or hypermarkets not to fully exploit the potential of fresh food counters. In our view, there are three key prerequisites for a successful strategy. Executed properly, this approach can deliver a considerable profitability boost. The current challenges in the food retail market have drawn attention to serviced counter strategies as a high-cost element in physical store operations. However, it would be a misstep for supermarkets or hypermarkets not to fully exploit the potential of fresh food counters. In our view, there are three key prerequisites for a successful strategy. Executed properly, this approach can deliver a considerable profitability boost.

#### **1 Focus on customer needs**

Successful strategies align the produce on offer at the fresh food counters with the needs of the local customers. The depth and breadth of the assortment and the regionality aspect must align with the preferences of the core customers in the store's location. Retailers should leverage serviced counter offerings in stores to create real differentiation, and strike a balance between growth and cost guided by data-driven decision-making.



## **2** *Meet best-in-class standards*

Serviced counters will only have a chance of success if they stand out in quality, variety and uniqueness to ensure that customers are satisfied and ultimately return. Moreover, there must be no hint of price cuts with these offerings. "Never compromise on freshness" must be the mantra. This philosophy should apply not only to how the produce is arranged in-store to improve the shopping experience but also to how all aspects of the process and customer service are handled, including the counter technology, stock management, scales and weighing systems, price labeling, staff training and markdown optimization.

## **3** *Strive for operational excellence*

Counter offering can significantly boost retail sales productivity. The key is to optimally plan the required space in the back-of-house and service area, use hybrid display counters, optimize counter depths and standardize consumables for an optimal process flow. Make sure that staff are trained and friendly, guarantee sufficient staffing levels and ensure that teams are equipped with the best tools for the job. On the cost side, it is crucial to optimize and streamline all counter-related processes, as well as all the upstream-related elements of the information flow and the data flow so that the employees on the shop floor can focus on selling and delivering service to the customers.

### ***Further reading***

- ➔ [FOOD AWARENESS REVOLUTION](#)
- ➔ [PRICE PRESSURE IN THE F&B VALUE CHAIN](#)
- ➔ [CONSUMERS UNDER PRESSURE](#)
- ➔ [RESILIENCE IN RETAIL SUPPLY CHAINS](#)

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