McKinsey & Company

State of Grocery in Central Europe 2023

The battle for the new shopper

Contents

Foreword

In 2022, the main concerns of CE consumers were soaring prices due to inflation that reached unprecedented levels, leading to heightened price sensitivity. In 2023, we are observing a normalization of the market, although negative sentiment towards inflation will remain. Consumers will once again be forced to adjust to a “new normal”, after navigating through the market shift caused by COVID-19. Our report concludes that consumer behaviors are focused on trading down, declining loyalty towards grocers and brands, and have greater willingness to buy private-label items in order to save up on shopping.

The focus of this report is to understand how grocery retailers and Consumer Packaged Goods (CPG) companies should acquire consumers that are adapting to ration their grocery spending in the forthcoming months. Are consumers trading down in general, decreasing basket size or resigning from specific categories reducing consumption of unnecessary items? How will the fact that consumers plan to save more money affect formats and frequency of shopping? Consumer price sensitivity is not the only concern for industry leaders—margin squeeze is also affecting profitability and operations. This report outlines strategies by interviewed market leaders, introduced with the goal to maintain a healthy margin during challenging times.

The State of Grocery report is an annual global publication covering three continents, with dedicated reports for Asia, Europe, and North America. This year we focused our efforts on preparing region-specific insights, publishing our first edition of the CE report titled “State of Grocery in Central Europe 2023: The battle for the new shopper”. The report is designed to provide executives with a comprehensive view of the market and future trends. In preparing the report, we surveyed more than 4,500 consumers across five European countries and interviewed leaders and pioneers from the grocery and CPG industry. We combined our market knowledge with McKinsey’s global expertise and analytical rigor.

We hope this report will offer insights into how the industry should respond to the challenges of customer acquisition during inflationary pressures and a time when consumers are challenging the status quo.

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Key market KPIs

Food market segment growth		Unit		Poland	Romania	Czechia	Croatia	Ukraine
Offline grocery retail[1]	Offline grocery retail value (Retail Value RSP excl Sales Tax)	€ million	2022	72,489	21,600	20,684	8,671	15,763
	Offline grocery retail growth, % change	%	vs 2021	12%	16%	9%	13%	–26%
	Offline grocery retail growth, % change	%	vs 2020	19%	29%	13%	23%	–14%
	Offline grocery retail growth, % change	%	vs 2019	21%	33%	18%	22%	–6%
Online grocery retail[2]	Online grocery retail value (Retail Value RSP excl Sales Tax)	€ million	2022	1,202	442	1,116	52	no data
	Online grocery retail growth, % change	%	vs 2021	21%	31%	19%	19%	no data
	Online grocery retail growth, % change	%	vs 2020	54%	92%	53%	45%	no data
	Online grocery retail growth, % change	%	vs 2019	236%	319%	129%	161%	no data

Food market revenue by format								
Hypermarkets[3]	Hypermarkets growth, % change	%	vs 2021	6%	2%	7%	3%	–26%
	Hypermarkets growth, % change	%	vs 2020	4%	12%	7%	5%	–18%
	Hypermarkets growth, % change	%	vs 2019	7%	16%	11%	10%	–17%
Supermarkets[3]	Supermarkets growth, % change	%	vs 2021	11%	7%	5%	10%	–19%
	Supermarkets growth, % change	%	vs 2020	9%	14%	4%	22%	2%
	Supermarkets growth, % change	%	vs 2019	21%	27%	15%	29%	20%
Discounters[3]	Discounters growth, % change	%	vs 2021	16%	9%	11%	12%	n/a
	Discounters growth, % change	%	vs 2020	30%	25%	14%	23%	n/a
	Discounters growth, % change	%	vs 2019	46%	61%	28%	27%	n/a
Convenience retailers[2]	Convenience stores growth, % change	%	vs 2021	14%	6%	9%	5%	–21%
	Convenience stores growth, % change	%	vs 2020	26%	25%	13%	11%	–7%
	Convenience stores growth, % change	%	vs 2019	34%	31%	4%	11%	3%

Selling space growth per format[3]								
Offline grocery retail	Offline grocery retail growth, % change	%	vs 2021	6%	1%	2%	2%	–14%
	Offline grocery retail growth, % change	%	vs 2019	11%	6%	5%	11%	–8%
Hypermarkets	Hypermarkets growth, % change	%	vs 2021	1%	3%	1%	–6%	–13%
	Hypermarkets growth, % change	%	vs 2019	-12%	10%	1%	–1%	–2%
Supermarkets	Supermarkets growth, % change	%	vs 2021	5%	3%	3%	–1%	–21%
	Supermarkets growth, % change	%	vs 2019	2%	22%	8%	16%	–13%
Discounters	Discounters growth, % change	%	vs 2021	9%	8%	5%	8%	n/a
	Discounters growth, % change	%	vs 2019	28%	32%	14%	31%	n/a
Convenience retailers	Convenience stores growth, % change	%	vs 2021	7%	3%	0%	–7%	–18%
	Convenience stores growth, % change	%	vs 2019	24%	13%	–2%	5%	–2%

Revenue per selling space format[3]

		Unit		Poland	Romania	Czechia	Croatia	Ukraine
Offline grocery retail	Offline grocery retail growth, % change	%	vs 2021	14%	15%	8%	11%	–14%
	Offline grocery retail growth, % change	%	vs 2019	33%	25%	19%	10%	3%
Hypermarkets	Hypermarkets growth, % change	%	vs 2021	6%	–1%	7%	9%	–15%
	Hypermarkets growth, % change	%	vs 2019	7%	5%	11%	11%	–15%
Supermarkets	Supermarkets growth, % change	%	vs 2021	11%	4%	5%	11%	2%
	Supermarkets growth, % change	%	vs 2019	21%	4%	15%	12%	38%
Discounters	Discounters growth, % change	%	vs 2021	16%	1%	11%	4%	n/a
	Discounters growth, % change	%	vs 2019	46%	22%	28%	–3%	n/a
Convenience retailers	Convenience stores growth, % change	%	vs 2021	6%	3%	9%	13%	–3%
	Convenience stores growth, % change	%	vs 2019	24%	16%	16%	6%	5%

Market indicators

		Unit		Poland	Romania	Czechia	Croatia	Ukraine
Inflation[4]	Inflation, %	%	2023 July YTD avg	14%	11%	15%	10%	n/a
	Inflation, %	%	2022 avg	13%	12%	15%	11%	20%
	Inflation, %	%	2021 avg	5%	4%	3%	3%	9%
	Inflation, %	%	2020 avg	4%	2%	3%	0%	3%
	Inflation, %	%	2019 avg	2%	4%	3%	1%	8%
Food & beverage inflation[5]	Food & beverage inflation, %	%	2023 July YTD avg	21%	21%	20%	16%	n/a
	Food & beverage inflation, %	%	2022 avg	14%	16%	17%	16%	20%
	Food & beverage inflation, %	%	2021 avg	3%	3%	1%	2%	9%
	Food & beverage inflation, %	%	2020 avg	4%	5%	5%	2%	3%
	Food & beverage inflation, %	%	2019 avg	5%	6%	3%	0%	8%
Other key grocery indicators[2]	Online–channel market share, %	%	2022 avg	1.6%	2.0%	5.1%	0.6%	no data
	Online share change, p.p. change in share from year to year	p.p.	vs 2021	0.1	0.2	0.4	0.0	no data
	Online share change, p.p. change in share from year to year	p.p.	vs 2020	0.4	0.7	1.3	0.1	no data
	Online share change, p.p. change in share from year to year	p.p.	vs 2019	1.0	1.4	2.4	0.3	no data
Private label market share[6]	Private label share value, %	%	2022	21.1%	14.7%	28.0%	13.1%	15.1%
	Private label share change, p.p. change in share from year to year	p.p.	vs 2021	0.8	–0.1	2.3	0.6	–0.1
	Private label share change, p.p. change in share from year to year	p.p.	vs 2020	1.8	–0.5	3.6	0.7	–0.5
	Private label share change, p.p. change in share from year to year	p.p.	vs 2019	2.7	–0.6	5.3	0.9	–0.7
Consumer indicators[7]	Consumer confidence (index)		2023 July YTD avg	–11	no data	–19	–19	–27
	Consumer confidence change, p.p. change	p.p.	vs 2022	5	no data	8	5	2
	Consumer confidence change, p.p. change	p.p.	vs 2021	–3	no data	–17	–12	6
	Consumer confidence change, p.p. change	p.p.	vs 2020	1	no data	–10	–3	7
	Consumer confidence change, p.p. change	p.p.	vs 2019	–15	no data	–21	–14	–21

1. Source: Euromonitor (Poland, Czechia, Croatia, Ukraine); European Supermarket Magazine (Romania)
2. Source: Euromonitor
3. Source: Europanel
4. Average from monthly data for a given time period; Source: Eurostat (Poland and Czechia, Romania, Croatia); World Bank (Ukraine)
5. Average from monthly data for a given time period; Source: Eurostat (Poland and Czechia, Romania, Croatia); EIU (Ukraine)
6. Source: Europanel (Poland and Czechia; Romania, Croatia) EMIS (Ukraine)
7. Average from monthly data for a given time period. Source: Eurostat (Poland and Czechia, Romania, Croatia); The Global Economy (Ukraine)

Source: Euromonitor, EIU, EMIS, Europanel, World Bank, Eurostat

State of Grocery in Central Europe 2023: The battle for the new shopper

The grocery sector's defining event in 2022 was an unprecedented inflationary spike as a consequence of the post-COVID-19 recession, disruptions in the supply chain, the war in Ukraine, and sanctions on Russia. The overall market value of online and offline grocery retail grew in all Central European (CE) countries, excluding Ukraine, driven mainly by price.

In the coming months, market conditions are expected to normalize, although negative sentiment towards inflation may linger due to price pressures spreading beyond volatile sectors such as the energy sector. Consumers will once again need to navigate a new normal, which will likely result in changes in their behavior, such as trading down, declining loyalty towards grocers and brands, and a greater willingness to buy private-label items.

All this provides an opportunity for grocers and consumer-packaged-goods (CPG) manufacturers to demonstrate their perceived value and become the preferred choice for consumers during an economy-wide squeeze on earnings. The CE market is influenced by four key trends from the perspective of both consumers and sellers: a focus on grocery affordability; the need to offer more for less; a new generation challenging the retail status quo; and a margin squeeze due to consumers' price sensitivity and increasing cost pressure.

Summary of key trends driving the CE market in 2023 and beyond

McKinsey conducted exhaustive research to summarize and outline key forces driving market changes in the next 12 months. After speaking with a large numbers of consumers, interviewing leaders of CE retail and CPG manufacturers, and combining those insights with additional research, we conclude the grocery sector is experiencing a remarkable transition. This shift may alter the way consumers shop, the way grocers build their value propositions, and the way manufacturers build their brands. The main insights we are sharing in this report are as follows:

1. **Consumers trading down at scale, shifting to cheaper grocers, switching brands, and giving up on quality:** After the severe inflationary shock of the past 18 months, consumers have become more sensitive to increasing price points and are looking for cheaper options. Although this means being cautious about how much they buy, it's mostly about finding the best places to shop, identifying name-brand products they can replace with private-label brands, and reducing overall grocery spending to compensate for lower disposable income. All of this has resulted in a greater willingness to swap usual shopping destinations or favorite brands with acceptable replacements. This means CPGs and retailers need to rethink their post-pandemic value propositions and make adjustments to reflect the needs of their customers.

2. **The search for promotions and discounts:** Promotions have always played an important role in driving traffic for the grocery business, when done properly. Bearing in mind the current all-time high interest in attractive promotions, retailers and suppliers need to increase their focus on crafting the right selections to lure shoppers and increase brand attractiveness. Going forward, retailers will also need to fine-tune promotional planning with advanced analytics, which may be the only way to optimize investment, increase effectiveness, retain loyalty, attract new customers, and regain margins.

3. **The commoditization of health and locality:** Inflation is cooling consumer sentiment towards healthier and more sustainable products. In our view, this shift is driven by an increasing penchant to purchase affordable products. Consumers are no longer willing to pay extra for products with already-inflated prices, which holds true for all age groups except Gen Z, who understand the value of organic and locally sourced products, and are willing to pay more. Key actions for retailers include understanding where each customer segment is shopping and adjusting product offerings accordingly. Another action includes keeping production under control, for example, by using the farm-to-fork approach to provide flexibility in setting an opening price. Retailers should also explore design-to-value strategies to adjust packaging size, which may expand the customer base to those who can afford such offerings.

4. **Local one-stop shopping reinvented:** Consumers still require proximity to a shopping destination. Regardless of how price sensitive they become, some weekly shopping will always be carried out in a local store. More importantly, the better the value proposition of a local store, the more shopping will be done there. Retailers need to rethink their own proximity, either by distance, store format, or overall value proposition. Consumers are aggressively looking for one-stop shops where they can quickly fill up on basic needs, but also on additional items. The key for retailers is to understand their customers and adjust their format strategy to address consumer needs and build loyalty.

5. **The search for a competitive edge in online:** Online grocery shopping in Central Europe continued to gain share in 2022, building on pandemic-related gains from 2020–2021. This differs from Western Europe, which experienced a market correction last year. At the same time, CE consumers intend to spend less on online grocery in the coming year, with price being the key barrier to entry. Central Europe is also not a uniform market, since Czechs and Romanians shop online primarily for convenience, while Poles often hunt for deals. Across the region, affordability needs to become a driver of market growth (via a combination of price/promo investments and private label growth) in order to grow the customer base. This does not mean online grocers need to sacrifice margins, since some players reported profitability thanks to building retail media networks (RMNs), which can relieve advertising budget.

6. **Adapting to the Gen Z-driven market shift going forward:** One of the most important trends impacting the market in the next couple of years will be the increasing role of Gen Z consumers as primary household spenders. The growing economic clout of Gen Z means networks will need to adjust their value propositions accordingly. This includes meeting the increased interest in specific types of products—which can be done by proper assortment management and building seamless experiences—to increase attraction and loyalty. Combining online and offline experiences into a seamless one will be crucial in convincing Gen Z shoppers to stick with specific retailers, despite their greater willingness to switch between players. Equally important is the need to build exceptional

loyalty programs that go beyond an app to offer personalized experiences tailored to their needs, keeping them constantly engaged in the retailers' or manufacturers' worlds. Introducing such a tailored approach to Gen Z consumers may be the key to success in coming years, but will require significant effort and investment.

7. **Addressing cost and margin pressures are a paramount priority for grocery players:** Recent inflationary pressures affected both retailers and CPG manufacturers, with 53 percent of CE companies reporting lower profitability in 2022. In order to maintain or recover profits moving forward, retailers and CPG manufacturers should focus on pulling all key levers to help them rebuild their fundamentals. Advanced analytics that support performance measurement, commercial initiatives that use consumer insights to drive margins, and optimized trade investment and negotiation processes may all be keys for recovery, and should serve as core ideas to regain what was lost during a challenging period of inflation and macroeconomic instability.

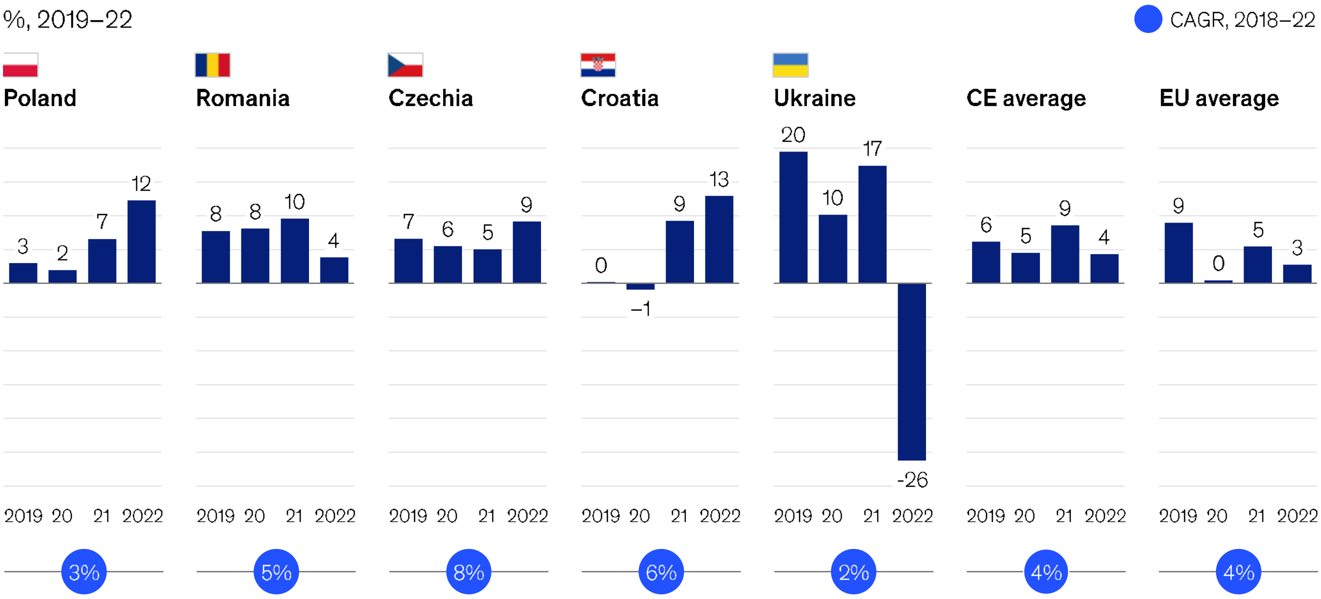
Looking back at 2022

The 2022 outlook was full of pessimism due to increasing pandemic-related inflation. In our 2022 CEO Survey of 57 European grocery leaders, 60 percent of respondents cited a belief in deteriorating market conditions. With the benefit of hindsight, they were correct, but underestimated the magnitude of the headwinds impacting the economy. Russia's full-scale invasion of Ukraine accelerated negative trends such as food and energy inflation beyond expected levels, resulting in a growing tendency of consumers to trade down.

Household budgets experienced unprecedented pressure as the pace of inflation outpaced the per capita increase in disposable income. Overall grocery sales in the largest Central European[1] markets grew by 4 percent in 2022, versus 9 in 2021, mainly due to turbulent situation in Ukraine, which impacted CE average. Volume-wise, it remained ahead of the pre-COVID peak, and can expect further corrections in 2023 (Exhibit 1). Meanwhile, the food inflation skyrocketed in 2022 reaching ca. 15 percent in 2022 (Exhibit 2).

Exhibit 1

Total grocery market value year on year growth

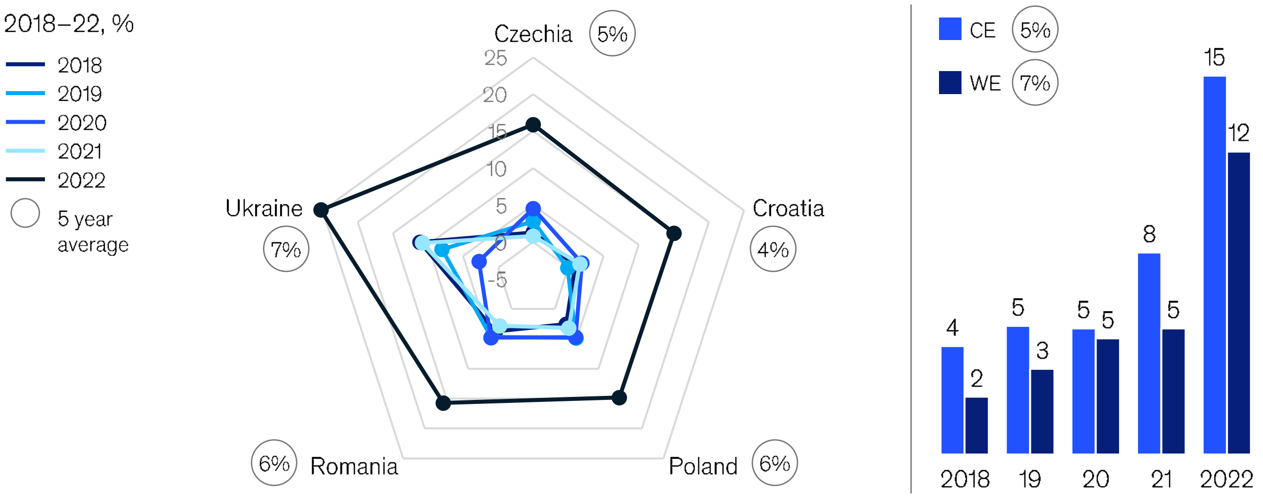


Source: Euromonitor

[1] CE including Czechia, Croatia, Poland, Romania, Ukraine

Exhibit 2

Food Price Index (FCPI—Food Consumer Price Inflation)



Source: World Bank

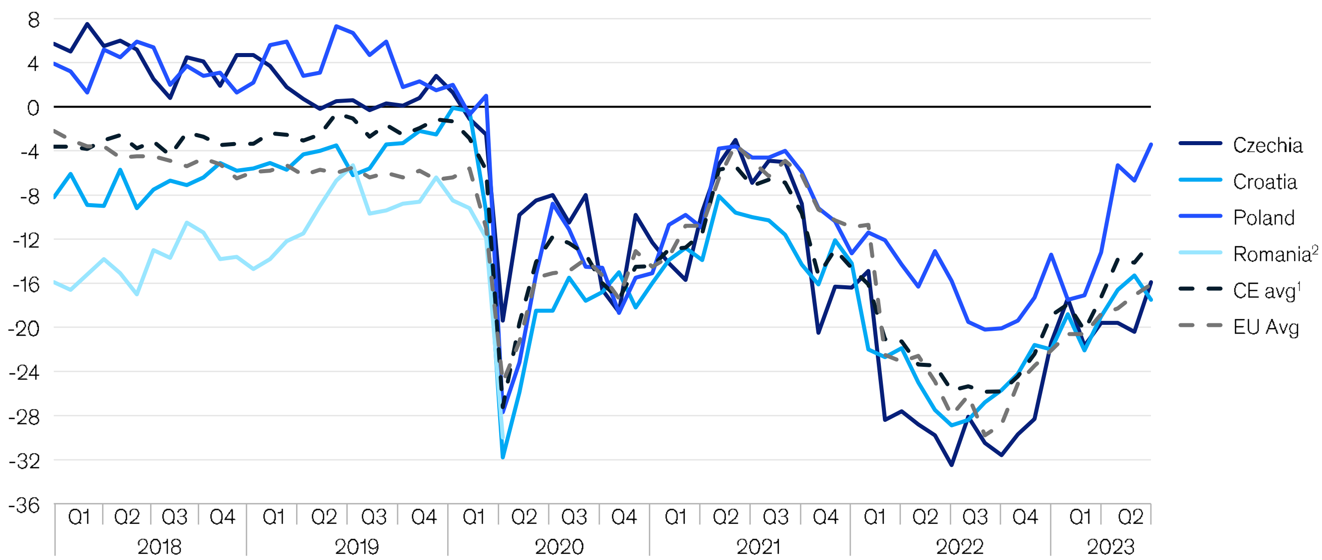
2023: Low consumer confidence dictates grocery sector reset

The slight increase in the CE consumer confidence index, as inflation eases and shoppers become used to higher prices, is no cause for joy. Average consumer confidence in CE has increased by 0.6 percentage points (p.p.) compared to the same period in 2022 (–20.7 percent in March 2023 vs. –21.1 percent in March 2022) (Exhibit 3). It remains low and failed to recover during the post-pandemic period (–12.8 percent in March 2021) (Exhibit 3).

Both consumers and CEOs remain cautious as they try to respond to this new realm. Some of the trends reinforce patterns highlighted in the State of Grocery Report for Europe in 2022[2], along with emerging strategies by consumers to adapt to the less favorable market conditions that linger in the CE economy.

Exhibit 3

Consumer Confidence Indicator 2018–23



[1] Data for Poland, Czechia, Croatia and Romania
Source: Eurostat Sentiment Indicators

[2] Data until Apr 2020

[2] https://www.mckinsey.com/industries/retail/our-insights/state-of-grocery-europe-2022-navigating-the-market-headwinds

Key trends shaping consumer industry in 2023

1 Focus on grocery affordability

Trade down at scale—shift to cheaper grocers, switch to own brands and giving up on quality

— In Central Europe, inflation for food and non-alcoholic beverages might be easing to around 12 percent from its February peak of 17 percent, although is still twice as high as the general inflation for most countries.

— 60 percent of CE consumers declare spending higher proportion of disposable income on groceries. Such squeeze on expenses is driving trade down trend amongst consumers willing to ease their household budgets. Pivotal shifts in trade down include:

- Purchasing more from lower cost retailers, namely discounters.
- Buying private brands as cheaper alternatives to A-branded products for selected categories, where loyalty for brands is lower and strong private labels exist.
- De-prioritizing quality—consumers are more likely to abandon purchase of high-quality products.

54%

surveyed respondents in 2023 declare that they intend to buy more from lower cost retailers, while 53 percent plan to save money by purchasing store-brand products.

15 percent show a reluctance to purchase high quality products, compared to 5 percent in WE.

Actions for retailers/CPG

— Optimization of assortment price ranges—expanding depth of price points, especially within entry- and mid-segments.

— Strengthening Private Label offering—building private label strategy and capabilities that allow to quickly launch new ranges to prevent deteriorating of margins.

— Focus on customer acquisition—consumers now have higher propensity to switch between chains. Retailers should leverage data driven marketing (media mix modeling) and promotions to excel in localized traffic attraction.

Active search for promotions and discounts

— Customers are looking for ways to save money, but since there are categories in which they are more skeptical towards private label and not willing to give up their favorite brands. As a result, they:

— Search for the most attractive prices between networks and channels.

— Screen promotional offerings in multiple retailers even if it requires spending more time and traveling greater distance to secure attractive prices.

— Buy in bulk and stock up items on promotion.

48%

intend to actively look for promotion and 59 percent to stock up.

If prices go up further by 10–15 percent, 43 percent of customers will hunt further for discounts across different stores.

Actions for retailers/CPG

— Leveraging granular data driven understanding of promotional effectiveness to build promotions that drive incremental store traffic and basket size.

— Prioritizing the expansion of loyalty ecosystems that allows to stay connected with customers and drive engagement through personalization.

2 A proposition that addresses customers' needs at no price premium

Commoditization of health and locality in grocery

- Categories such as healthy and sustainable food are most affected by consumers' drive towards affordability. That said, nutrition and local food remain a key concern for current and future shoppers.
- Consumers are not willing to accept higher prices for healthier and more sustainable food. They show a positive intent to purchase items with better nutrition values from local farmers only when their price is on par with standard products.
- Although there is a slowdown, retailers can't ignore sustainability and need to assure it in their offering, being mindful of cost squeeze.

80%

of CE consumers declare they do not plan to pay higher price for healthier products. At the same time, 20 percent of respondents claim healthy nutrition is important, while 16 percent are willing to buy food from local farmers.

Actions for retailers/ CPG

- Deep understanding of micro markets and ability to tailor assortment to local consumers.
- Vertical integration (farm-to-fork) to minimize production costs.
- Design to value—understanding optimal package size that consumers are willing to accept for a given price

Local, one-stop shop reinvented

- Despite increasing importance of affordability, proximity remains the key factor when choosing a shopping destination.
- Consumers look for formats and banners that provide "convenience" fitting to consumer age, location and income level.
- Negative sentiment towards small neighborhood stores indicates that consumers are not willing to compromise on price attractiveness and assortment selection.

-15%

15% of consumers express a negative intent to shop in a small chain store. However, only 36% would drive further for a better price.

Actions for retailers/ CPG

- Expansion strategy driven by granular, and data-driven understanding of micro location requirements.
- Continued focus on format adjustment through range tailoring to consumer needs enhanced by localized pricing and promotions.

Search for competitive edge in online

- Online continues to grow in CE, without post-COVID correction observed in several WE markets.
- Sustaining growth is not certain, as consumers across Central Europe express negative net intent in increasing online spend. Key barriers remain price-related, mainly delivery charges and price-premiums.
- Consumers take shopping decisions separately for online and offline, maximizing price and promotion value they can get in each of the channels.

3pp

Promotions are becoming nearly as important as convenience for eCommerce grocery—16 percent of consumers seek intensified promotions in online channel, while 19 percent prefer products delivered, leaving only a 3 percentage point gap between the two.

Actions for retailers/ CPG

- Update of customer acquisition strategies—convenience as trigger is not enough—implement smart pricing and assortment strategies that allow to defend the margin and maintain competitiveness.
- Prioritizing online profitability by adding new revenue sources, such as media advertising.

3 New generation to ruffle the market status quo

Gen Z are driving the market shift going forward—their needs must be met

Generation Z seems to be stepping away from mass trends. They will soon be shaping the market through higher fluidity to switch between channels, retailers and brands—exhibiting lower loyalty, higher openness to new options. Also, they are willing to pay a premium if they believe in the value of the product. Grocers will need to address the following needs:

— "New era convenience", with more value added (new services, better shopping experience).

— Willingness to try private brands.

— Importance of sustainable & bio products as well as meat alternatives, which are significantly more important than for older generations.

2x

more Gen Z seek additional features in online that make shopping easier and are willing to purchase meat/diary alternatives compared to older counterparts.

On average, 9 p.p. more Gen Z consumers are visiting grocery stores up to 2 times/week compared to older generations.

Actions for retailers/CPG

— Understanding Gen Z consumers and crafting adequate value proposition in terms of assortment, but also brand/network story that appeal one's beliefs.

— Building loyalty ecosystem that will keep Gen Z engaged, interested and informed.

— Introduction of true omnichannel experience that allows to stay connected with consumers 24/7.

4 Double trouble: price sensitivity and cost pressures

Grocery players try to address cost and margin pressures as a paramount priority starting from 2023

— Financial performance of grocers in 2022 endured substantial setbacks, with heightened pressures on profit margins, cash flows, and cost of capital expected to persist at elevated levels through next years.

— Short term retailers and producers were able to get through profitability squeeze, but long term its time for saving and operational excellence.

+50%

Financial performance of grocers in 2022 endured substantial setbacks, with heightened pressure on profit margins, cash flows, with the cost of capital expected to persist at elevated levels throughout the year 2023. In the short term, retailers and producers were able to get through the profitability squeeze, but in the long term they need to focus on cost savings and operational excellence.

Actions for retailers/ CPG

— Rethinking and planning for optimization of critical cost items, i.e., personnel and utilities—today's investment should be tomorrow's payback.

— Adopting a new operating model based on Zero Based Budgeting and Zero Based Organization principles that can unlock funds for investment into profitability drivers, e.g., customer acquisition.

— Cost excellence covering e.g., efficient store operations, push for COGS optimization through insights-based negotiations and data driven marketing spend decisions.

1

Focus on grocery affordability

Consumers are trading down at scale by shifting to cheaper retailers, lower price points, and giving up on product quality

Introduction

Inflation entails higher prices, forcing consumers to spend more of their disposable income. Almost 60 percent of Central European (CE) consumers said they spend a greater share of earnings on groceries this year compared to last year (Exhibit 4). At 7 p.p. more than their Western European (WE) counterparts, CE consumers are more inclined to trade down in order to keep spending in check (Exhibit 4).

The most important task this year is understanding how consumers are adapting to ration their grocery spending in the forthcoming months. They are already adjusting where they shop, how much they spend, and what they buy, challenging the market status quo. A key factor influencing this dynamic is the inflation rate. Food inflation across Central Europe averaged 17 percent[3], which was substantially higher than the general inflation rate in many countries. This inflationary jump imposed pressure on household budgets, where expenses outpaced disposable income growth[4].

As a result, the grocery industry is facing trade down at scale. According to our survey, 54 percent of CE consumers said they would shop for groceries at cheaper retailers to save money starting from 2023 (Exhibit 4). Consumers also plan to save by choosing private label brands (53 percent of respondents) at lower price points (51 percent of respondents), and reduce overall grocery volume (48 percent of respondents) (Exhibit 4). Furthermore, retail shoppers in Central Europe say buying smaller quantities of products is a main lever for saving when grocery shopping. This effect is observed in both low- and high-income groups, albeit to varying degrees.

3 Based on Faostat
4 Euromonitor

Exhibit 4

Change in shopping behavior, 2023 vs 2022

% of respondents[1]

		CE	Delta to WE, p.p.
How much do I spend	I spend significantly more on groceries	59	↑ +6
	I spend significantly higher share of my income on groceries	60	↑ +7
Where do I shop	I have switched to cheaper retailers to buy groceries to save money	54	↑ +4
What do I buy	I have switched to cheaper food brands to save money	51	↓ –1
	I have switched to store's own brands to save money	53	↓ –5
	I have cut down/reduced certain foods from my grocery list because I can't afford them anymore	48	↑ +5
How do I save money	I drive further/go more out of my way to get a good price	36	↑ +5
	I do more stock ups when things are on promotion	59	↑ +2

[1] Q: "Think about the way you shop for groceries changed in Q1 2023 compared to Q1 2022. How much do the following statements apply or do not apply to you? Compared to Q1 2022…" percent of individuals answering "Probably applies to me" and "Definitely applies to me"
Source: CE Consumer Survey 2023, n = 4,500, sample to match general population 18+ years

Saving money on groceries at cheaper retailers
Discounters are maintaining momentum in Central Europe at the expense of other formats, and have grown in retail value at a compounded annual growth rate (CAGR) between 4 and 12 percent in analyzed countries, while traditional non-chain stores and hypermarkets have been declining (Exhibit 5). The growing importance of discounters is driven by the consumer perception of good value for money, where this format excels.

Historically known for limited assortments at low prices, discounters have gradually managed to combine proximity, greater variety, and improved value propositions, while still maintaining competitive prices. For example, Lidl expanded its selection of quality fresh foods, Kaufland provides a large product selection, Auchan offers a good variety of healthy products, and Biedronka offers personalized promotions[5].

Exhibit 5

Retail market channel structure

% of retail value sales

CAGR, 2017–22, % ↑ >0 ↓ <0

0–10% 11–15% 16–20% 21–25% 26–30% 30%+

	Poland		Romania		Czechia		Croatia		Ukraine	
Discounters	35	↑ 7%	17	↑ 12%	26	↑ 4%	12	↑ 8%	0	–
Convenience	27	↑ 4%	11	↑ 11%	11	↓ –2%	21	0%	8	0%
Supermarkets	13	↑ 2%	11	↑ 1%	14	0%	31	↑ 3%	65	↑ 2%
Hypermarkets	7	↓ –9%	24	0%	33	↓ –1%	17	↑ 1%	6	↓ –7%
Other (incl. traditional trade)	17	↓ –10%	37	↓ –3%	16	0%	18	↓ –1%	21	↓ –16%

Source: Euromonitor, fixed 2022 exchange rate

[5] Consumer Survey 2023, n = 12,777, sample to match general population 18+ years

Discounters have learned that product quality and the breadth of the opening price point assortment are nearly as important as the price itself. This enabled them to gain a competitive advantage as they successfully increased a well-curated assortment to match full-line retailers on top-selling products. As a result, they continue to lure customers with low prices and the ability to shop for essential, everyday items at a single store. Product portfolio curation by discounters is not limited to expanding the stock keeping unit (SKU) base, as they balance price tiers to serve customers at different affordability ranges.

With various grocers offering increasingly fragmented weekly baskets, discounters are able to offer consumers distinctive value propositions that are gaining more traction than ever. Players such as Lidl, Biedronka, and Dino increased their value propositions by expanding their selections of fruits, vegetables, and baked goods, essentially transforming themselves into soft discounters that provide a strong in-store experience. Improved product quality helped them to compete with mid-tier alternatives, such as traditional supermarkets.

The increasingly positive attitude of CE consumers towards discounters becomes clear when comparing their net intent to change shopping behaviors per channel. Central European respondents are more inclined to give up on small chain stores, including traditional trade, (18 percent), and specialty stores (13 percent), while only 4 percent are willing to abandon discount grocery stores (Exhibit 6).

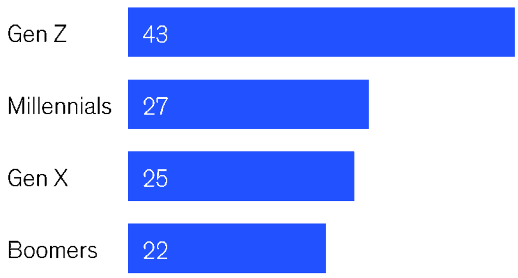
Exhibit 6

Net consumer intent to change shopping per channel

%

Consumers that declare plan to change shopping behavior within next 12 months

%



Question: In the next 12 months, do you expect to shop more, less or the same the following way?
Source: Consumer Survey 2023, n = 4,500, sample to match general population 18+ years

Private-label brands on the rise

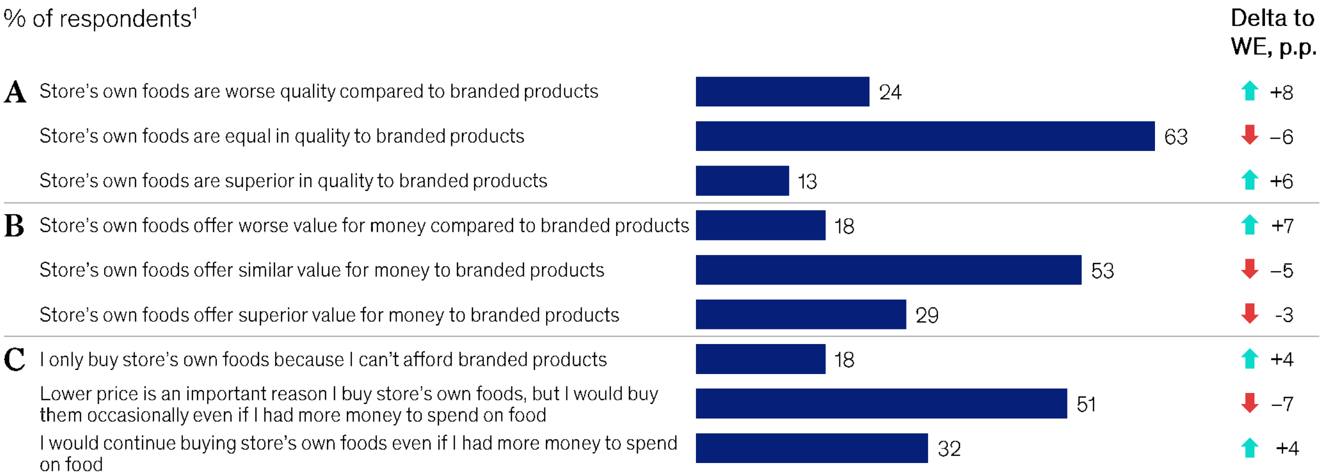
Central European consumers still lag behind Western European ones in terms of attitudes towards private labels, ranking them lower, overall on both perceived quality and value for money compared to branded products (Exhibit 7). In our view, the root cause for this behavior lies in thei unfamiliarity with private labels. In WE countries like Germany, private labels have been stocked on store shelves for more than 30 years, while in CE, they remain relatively new, making them ripe for further market penetration.

When COVID-19 first hit, some consumers had difficulties finding their favorite brands due to supply shortages and panic buying, forcing them to look for alternatives. In many cases, these alternatives were private-label products, which consumers continued to buy even after the COVID-19 pandemic subsided. Reasons for this behavior included economic uncertainty, increased costs of living, and financially strained consumers more prone to tighten their purse strings. This private-label boom looks set to continue for a while longer, leveraging its two main advantages: availability and affordability.

Private-label products are well placed to benefit from the increasing consumer focus on price and value for money. 82 percent of CE consumers believe the value for money of private labels is on par with—or even superior—to branded products (Exhibit 8). Selected players are also lowering their private-label entry prices by relaunching cheaper lines, such as Carrefour's "Simply" brand and Auchan's "Zawsze się opłaca" in Poland (It always pays off).

Exhibit 7

Attitude towards store's own brands in CE



[1] Q: In each line, please, select which statement you agree with the most regarding store's own brand foods?
Source: Consumer Survey 2023, n = 4,500, sample to match general population 18+ years

Exhibit 8

Attitude towards store's own brands in CE

% of respondents[1]

0–20% | 21–30% | 31–40% | 41–50% | 51–60% | 60%+

	Statement	CE	Poland	Romania	Czechia	Croatia	Ukraine
A	Store's own foods are worse quality compared to branded products	24	25	22	21	21	38
	Store's own foods are equal in quality to branded products	63	66	56	69	67	49
	Store's own foods are superior in quality to branded products	13	9	22	10	12	14
B	Store's own foods offer worse value for money compared to branded products	18	17	20	18	17	21
	Store's own foods offer similar value for money to branded products	53	60	43	61	56	36
	Store's own foods offer superior value for money to branded products	29	22	37	21	27	43
C	I only buy store's own foods because I can't afford branded products	18	18	18	17	16	23
	Lower price is an important reason I buy store's own foods, but I would buy them occasionally even if I had more money to spend on food	51	61	47	50	44	50
	I would continue buying store's own foods even if I had more money to spend on food	32	22	34	33	40	27

[1] Q: In each line, please, select which statement you agree with the most regarding store's own brand foods?
Source: Consumer Survey 2023, n = 4,500, sample to match general population 18+ years

Sizeable investments by players such as Lidl, Biedronka, Studenac, and Penny into private-label lines have only increased their importance alongside branded products. But the private-label play is more than just a price game. Retailers are focusing on meeting a broad range of customer needs, penetrating multiple segments, and offering unique ingredients and product packaging. But the ultimate trajectory of private labels relies on the consumer perception of them as both a remedy for difficult economic times and a quality product comparable to, or better, than mainstream brands.

Our research indicates high consumer satisfaction with private labels. 76 percent of CE respondents say private label foods are equal in quality, or superior, to branded products. Only Ukrainians exhibit skepticism, with only 63 percent agreeing with this statement (Exhibit 8). Private-label brands are even better positioned in terms of value for money, as 82 percent of surveyed grocery shoppers view them as equal in quality, or better, than branded products (Exhibit 8). And although 51 percent CE consumers say price is important when choosing private labels, they would continue occasional purchases even without budgetary constraints. Among all CE nationalities, more Poles (61 percent) say affordability is the key driver for private-label purchases.

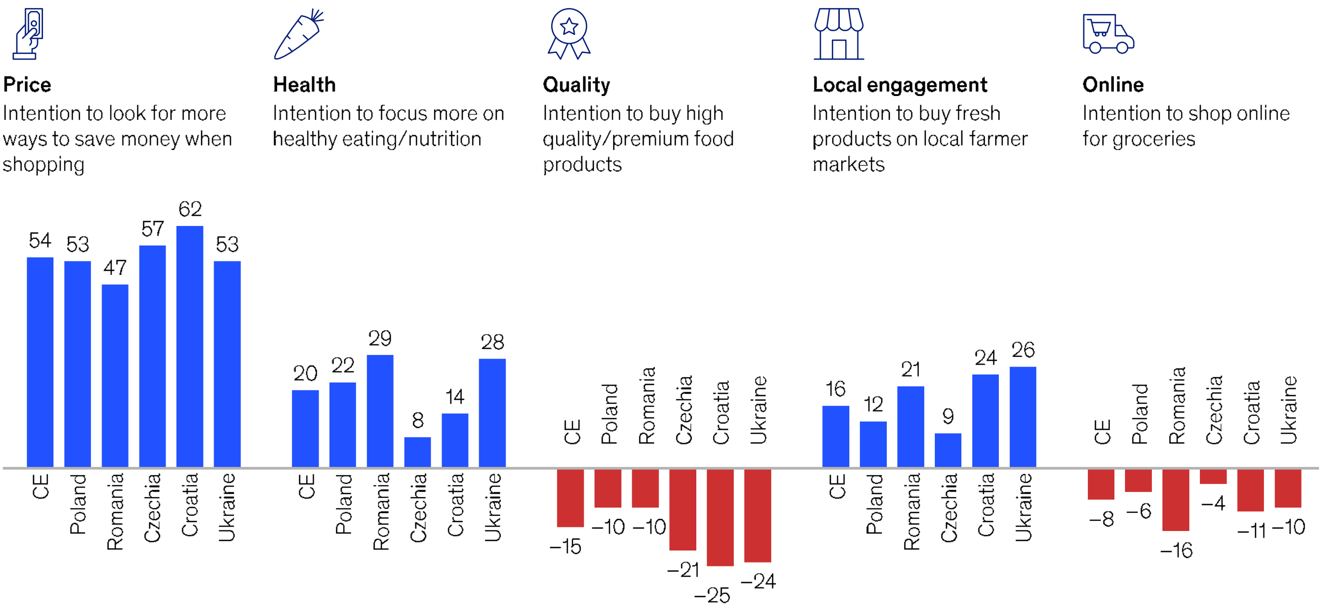
Premiumization no longer a consumer priority
Inflationary pressure is forcing consumers to sacrifice on product quality. Overall, we found that in net terms 15 percent of surveyed CE consumers decided to decrease purchases of high quality, premium foods, a number that was even higher across countries such as Czechia (21 percent), Ukraine (24 percent) and Croatia (25 percent), (Exhibit 9). Premiumization across multiple categories has been an ongoing trend for some time, as disposable incomes per household continues to rise.

Consumers began looking for extra quality and were willing to spend more to upgrade their product purchases, opting for more exclusive experiences, prestige packaging, innovative formulas, and special ingredients. This switch towards premiumization elevated overall price points, but with soaring inflation, some consumers needed to rein in their expectations. As a result, the premiumization trend is at risk of slowing down due the reduced financial capacity of consumers to keep purchasing products at higher price points.

Exhibit 9

Attitude towards grocery shopping in 2023 compared to 2022 in CE

Net intent[1], % of respondents



[1] Q: Are you planning to do more, less or about the same regarding grocery shopping behavior in 2023?
Source: Consumer Survey 2023, n = 4,500, sample to match general population 18+ years

Trading down on grocery purchases not unified across product categories
With an increased inclination to trade down on groceries, consumers have zeroed in on categories where they plan to save.

Top categories negatively impacted by new shopping behaviors include indulgence products not necessary for daily meals. Accordingly, 43 percent of CE consumers plan to decrease spending on alcohol, and 50 percent on snacks and confectionery goods, a greater percentage in either category compared to their WE peers (Exhibit 10).

Surprisingly, 42 percent of all CE consumers say they will trade down to spend less on historically crisis-resilient categories such as soft drinks and non-alcoholic beverages, with even more among Romanian (44 percent) and Croatian (49 percent) respondents (Exhibit 10).

For all the above categories, consumers are planning to reduce spending by decreasing purchase volumes (Exhibit 11). More respondents also plan to limit purchases of fresh meat, fish, and poultry (26 percent) than on diary and eggs (21 percent), but will save in similar ways, by buying more store brands (Exhibit 11).

Exhibit 10

Change in shopping behavior

% of respondents answering
“I will spend less/save money on this category”[1]

0–10% | 11–20% | 21–30% | 31–40% | 41–50% | 50%+

	CE	Poland	Romania	Czechia	Croatia	Ukraine	CE vs WE, p.p.
Snacks & confectionary	50	47	49	49	55	49	↑ +4
Alcohol (e.g., wine, beer, spirits)	43	42	43	41	45	42	↑ +5
Soft drinks & non-alcoholic beverages	42	37	44	40	49	39	↑ +6
Frozen foods	35	32	37	36	34	34	↑ +8
Hot drinks (e.g., coffee, tea)	30	27	36	30	27	29	↑ +8
Healthcare, beauty and baby	29	23	35	30	31	27	–
Fresh meat, fish, and poultry	26	27	26	30	22	23	–
Bread & bakery	24	17	26	21	30	26	–
Dairy & eggs (e.g., milk, yogurt)	21	21	19	25	18	21	↑ +3
Household products	21	21	23	22	23	17	↑ +1
Fresh fruit & vegetables	18	18	19	25	12	19	↑ +4

[1] Q: Now, think about the following categories you would normally buy in a grocery retailer. How would you shop this category in 2023? Please, select all that apply.
Source: Consumer Survey 2023, n = 4,500, sample to match general population 18+ years

Exhibit 11

How consumers plan to reduce spending in different categories

% of respondents selecting given action[1]

0–20% | 21–30% | 31–40% | 41–50% | 51–60% | 60%+

	I will mostly buy store's own brand	I will buy less quantity/volume	I will only buy on promotion	I will buy in bulk to save on volume	I will mostly buy it from discount stores
Snacks & confectionary	37	53	19	10	32
Alcohol (e.g., wine, beer, spirits)	33	58	14	10	28
Soft drinks & non-alcoholic beverages	36	48	19	13	32
Frozen foods	37	45	20	13	33
Hot drinks (e.g., coffee, tea)	35	44	19	13	32
Healthcare, beauty and baby	42	37	21	15	33
Fresh meat, fish, and poultry	41	47	21	14	35
Bread & bakery	22	49	17	11	33
Dairy & eggs (e.g., milk, yogurt)	40	37	24	16	36
Household products	45	24	28	22	41
Fresh fruit & vegetables	40	40	20	16	37

[1] Q: You mentioned you are planning to spend less/try to save money on the following categories in 2023 What will you do to save money?
Source: Consumer Survey 2023, n = 4,500, sample to match general population 18+ years

Categories where they are least willing to spend less or save money include fruits and vegetables, household products, and commodities such as dairy, eggs, and baked goods (Exhibit 11). However, in fresh goods such as fruits and vegetables, as well as baked goods, more than 40 percent of consumers do plan to reduce their purchasing volume (Exhibit 11).

When it comes to household products, consumers are mostly open to purchasing private label goods (45 percent). But across certain categories, such as cleaning products, they are polarized between purchasing based on promotion (28 percent) and bulk (22 percent), trying to purchase the same products for lower prices rather than trade down or switch to store own brands. For commodity products such as dairy and eggs, they are also open to cheaper product alternatives, with 40 percent expressing a willingness to reduce spending with private label products (Exhibit 11), particularly in categories historically resilient to own store brand penetration (i.e. healthcare, beauty and household products)

Consumer intent to reduce spending is expected to have further effect on channel shifts, with consistently more than 30 percent consumers saying they plan to make purchases mostly in discount stores (reaching as high as 41 percent respondents in household products).

Key actions for retailers and CPG manufacturers

— Significant changes in consumer behavior require retailers' attention and action. To address these shifts, grocers may need to rethink and refresh their offerings and adjust pricing strategies. Offering products at multiple price points with a focus on attractive private label goods in (but not limited to) categories that see the most trading down may be a key to success. Retail media networks should strengthen private label offerings, especially in categories like commodities, household products, and cosmetics, the ones most sought by consumers.

— Private-label products are well-placed to benefit from an increasing consumer focus on price, but in order to build powerhouse brands on the disposable-income recovery, retail media networks should keep crafting a distinctive value proposition for brands. Retailers who seize this momentum and build strong private-label capabilities can guide customers who are currently switching brands into long-term loyalty, particularly in categories that were historically more resilient to private label offering. On the manufacturers' side, the shift towards private labels requires continuous and data-driven brand investment, to justify price premium in front of increasingly price sensitive consumers. At the same time, CPGs need to invest in operational excellence to expand unit margins in a context of growing private label category.

— Along with enhancing value propositions by fine-tuning their product assortments, retailers need to remember consumers are more open to switching their go-to stores for recognized benefits. Successful customer acquisition requires a mix of attractive offerings, pricing, and promotion. But cementing true consumer interest is achieved by crafting loyalty offerings that include personalization and multichannel experiences, which allows retailers to stay in touch with customers even when they are not shopping.

Interview

Luís Araújo

Chief Executive Officer, Biedronka

Biedronka is the largest retail chain in Poland owned by Jeronimo Martins with more than 3,200 stores located across the country and €25 billion revenue in 2022.

Reprint from The State of Grocery Retail 2023: Europe

> The core of our value set is our discount mindset. All our decisions are driven by our goal to transfer as much value as possible to our customers.

Q: What are your expectations for the grocery retail industry trends shaping 2023 and beyond?

A: In 2022, we were dealing with soaring inflation, an overall disruption of the supply chain in Poland, and the impact of the war in Ukraine, our biggest neighbor country. Throughout the first half of 2023, the situation will remain challenging. We still face high levels of inflation and supply chain issues. Consumer confidence will remain negative, and private consumption will stagnate at best.

The second half of 2023 will be different. We expect decreasing levels of inflation and a consistent recovery of the supply chain, which will allow for the progressive growth of volumes. In addition, we expect a progressive decline of fuel, electricity, and gas prices. At the same time, growing salaries will offset at least part of the negative impact of inflation on consumption. Currently, there are no signs of a recession. That said, we expect increasing levels of competitiveness in our market. All players will fight for volume and sales growth to neutralize the cost increases driven by inflation in 2022.

Q: What do you think will be the most important trends in the next three years?

A: Digitalization is the most important megatrend. One aspect of that is e-commerce, especially quick commerce. During the pandemic, a growing customer segment discovered the convenience of shopping online. Biedronka is relatively new to e-commerce, but we are determined to turn our late arrival on the scene into a source of differentiation, especially with respect to sustainability, which is in itself an important trend. For example, we try to put as many of our couriers on bikes, rather than in trucks, and have them deliver orders in the proximity of our stores. We are also exploring delivering to delivery boxes, rather than to the homes of customers, to keep routes short and curb fuel consumption. Generally, we aspire to design all e-grocery systems with sustainability in mind.

Q: Do you think digitalization will change the game beyond e-commerce?

A: Absolutely. Advances in analytics, artificial intelligence, and automation will help make our business more efficient. And as digital natives grow up, we will also see a progressive shift of communication from traditional to digital media, including social platforms such as TikTok and Instagram. We live in a society in which different groups of people align their behavior and follow those that are perceived as trendsetters in their respective peer groups. Going forward, we believe that influencers will play an important role in marketing, and we see this development as an opportunity to promote our brand promise and our value proposition in a new way that will resonate with younger customers.

Q: You mentioned sustainability as an important trend in its own right. How does this trend affect the way Biedronka does business?

A: There is a growing preference among consumers for healthier and fresher food as well as for local production and distribution. In the future, consumers will pay more attention to the origin of products and the transparency of the supply chain. Fruit and vegetables constitute an important sales category for us, and we aspire to increase local sourcing in this area, leveraging the fact that Poland is an agricultural country. Generally, sustainability is one of the top criteria we use when it comes to selecting and giving incentives to suppliers. For example, we reward suppliers that reduce their carbon footprints with higher sourcing volumes.

Additionally, our logistics system is designed to minimize the distance from distribution centers to stores and to maximize the number of stores served by each distribution center. We also have a program to reduce energy consumption and promote green energy all along our supply chain. Finally, we invest in eco-packaging, and we lead the market regarding the incorporation of environmentally friendly solutions in our brands and products. In the future, we will also take the lead on increasing the share of electric vehicles in the fleets we use.

Q: What does it take for a grocer to leverage opportunities around technology and sustainability?

A: The most important prerequisite is to have the right people. This includes both experienced workers and young talent with the skills that are needed to incorporate software and other analytical tools into the way grocers do business. As the European population ages, labor shortages will increase, and we will have to make sure we are well equipped to compete for the talent, knowledge, and skills we need to succeed, both at the level of individual companies and as a sector.

More broadly, every grocer needs a vision that is aligned not only with technological evolution but also with the continuous evolution of the value proposition. Because change is expected to accelerate on several fronts, retailers will need agility to anticipate new opportunities and adapt their practices accordingly.

> Sustainability is one of the top criteria we use when it comes to selecting and giving incentives to suppliers. For example, we reward suppliers that reduce their carbon footprints with higher sourcing volumes.

Q: What do you see as the driving forces of Biedronka's continuing success?

A: First and foremost, it's the quality of our labor force. Many of our leaders and managers have been with us for more than 20 years. They are fully aligned with the company vision, and they are connected by a set of strong, shared values. The core of our value set is our discount mindset. All our decisions are driven by our goal to transfer as much value as possible to our customers. Efficiency, productivity, and cost minimization jointly form the backbone of a system that delivers the lowest cost possible and enables us to offer the lowest prices in the market.

Q: In the first three quarters of 2022, your sales grew substantially compared with 2021. What were the predominant drivers of this growth?

A: Before the war in Ukraine, basket size was the most important growth driver. When the war began, traffic became the dominant growth driver. When inflation peaked in the third quarter of 2022, consumption and basket size started to deteriorate. Since then, traffic has been the principal driver of growth.

Q: How much of the volume uptake was driven by customers trading down?

A: Downtrading is only a minor factor. We are gaining market share because consumers appreciate our promise to offer the lowest prices in the market, no matter how difficult the circumstances may be. We have the best price perception in Poland by far. The positive effect of this positioning predates the recent crisis. Even if the competition gets stronger, we are confident that customers will stick with Biedronka. Our commitment to efficiency and productivity enables us to protect consumers from price increases more effectively than the market on average. In the early days of the inflation surge, we even implemented an "anti-inflation shield" with a strong commitment to refrain from increasing the prices of the most frequently bought products in the first half of 2022.

Q: That sounds like quite an investment. What was Biedronka's strategy to address cost pressure in 2022?

A: We accelerated our technological transformation to increase productivity and decrease costs. One example is our investment in renewable energy. We aim to equip more than 2,000 of our stores with solar panels. This is expected to bring energy costs down by about 15 percent, and it will also help to reduce the emission of greenhouse gases.

At the same time, we keep investing in supply chain optimization. Most recently, we opened a new distribution center that helps reduce transportation costs. But the best strategy to deal with cost pressure is to fight for market share gains and volume growth to help dilute costs. This is the core of our strategy, and we will keep doing it.

> "The best strategy to deal with cost pressure is to fight for market share gains and volume growth to help to dilute costs. This is the core of our strategy, and we will keep doing it.

An active search for promotions and discounts

Introduction

Switching from branded products to cheaper alternatives, or reducing purchasing volume by cutting down on certain categories, are undoubtedly effective ways of saving on groceries. However, some consumers are unwilling to abandon favorite brands, despite inflationary pressure driving many to hunt for bargains.

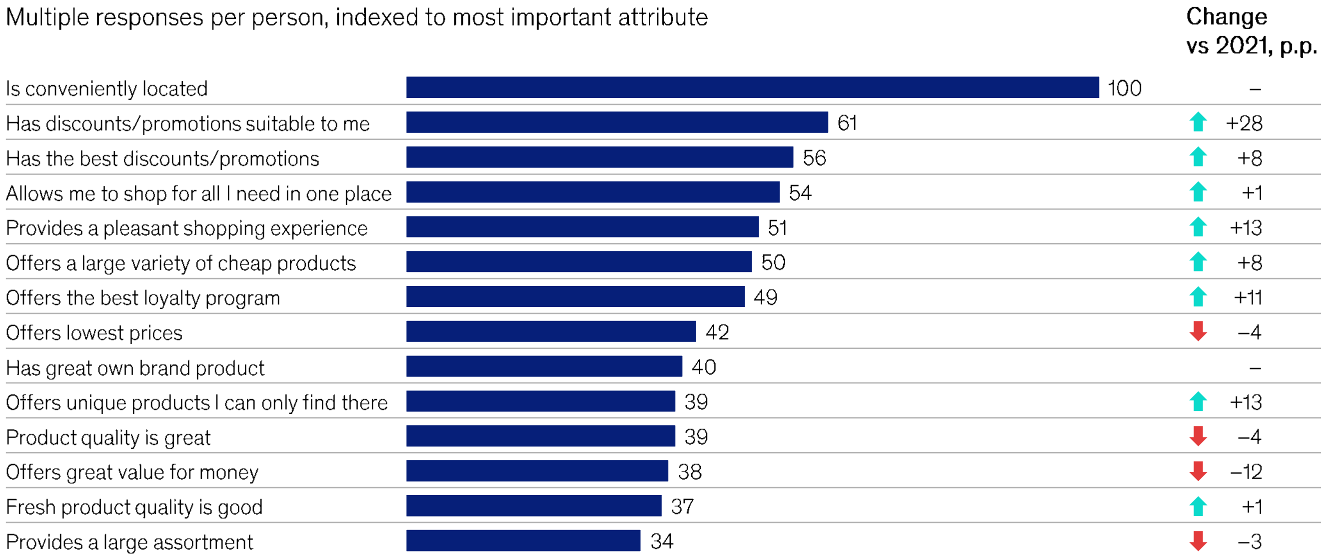
Research shows that consumers look for discounts and promotions to keep their budgets in line. The importance of promotions tailored to individual needs was mentioned by 61 percent of respondents as an important factor when selecting a store, coming second only to location, and outweighing assortment, great value for money, or lower prices (Exhibit 12). Overall, the availability of attractive discounts and promotions ranked third, highlighting the preference for purchasing products at a reduced price rather than replacing them with lower-cost alternatives.

To maximize value for money while continuing to buy specific brands or items, grocery shoppers typically turn to three main activities: closely monitoring promotions and discounts to build awareness of available deals; turning to different stores and grocery chains to benefit from new promotions; and stocking up on favorite items once a promotion occurs to maximize long-term benefit.

Exhibit 12

Store attributes important to consumers

Multiple responses per person, indexed to most important attribute



Source: State of Grocery Poland 2021 and 2023 (each with n = 1,000)

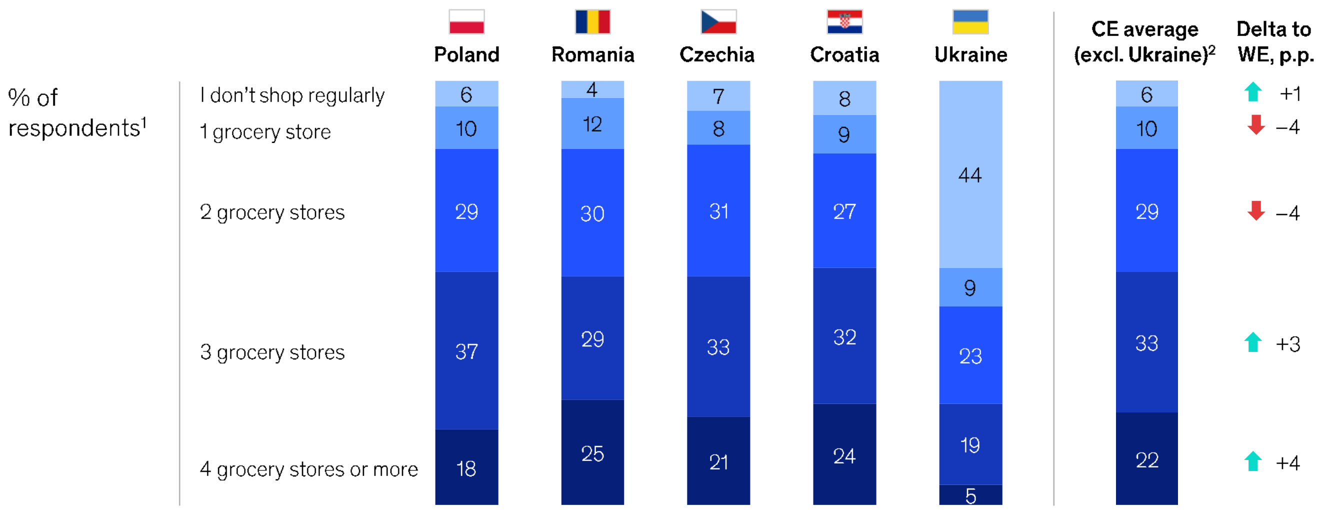
Consumers visit stores more frequently

The increased inclination to monitor prices and hunt for promotions is reflected in the higher frequency of grocery store visits across CE countries compared to WE ones. Some 55 percent of all CE consumers say they visit stores at least 3 times per week, 7 p.p. higher than the WE average (Exhibit 13). Romania and Croatia report the highest frequency of store visits, with 25 percent of Romanians and 24 percent of Croatians making 4 or more visits per week, compared to the CE average of 22 percent (Exhibit 13). An increased frequency of store visits does not necessarily mean more purchases; it may indicate that consumers are stopping by to check prices or available promotions.

This behavior is in line with another money-saving tactic employed by the 36 percent of all CE consumers: driving further to find a good price. More than half of Romanian consumers will hunt for promotions even if it means sacrificing store proximity (Exhibit 14), followed to a lesser degree by Poles (36 percent), Czechs (34 percent), Ukrainians (31 percent), and Croatians (28 percent). This is both a challenge and an opportunity for retailers, as the customer acquisition game is now in full swing.

Exhibit 13

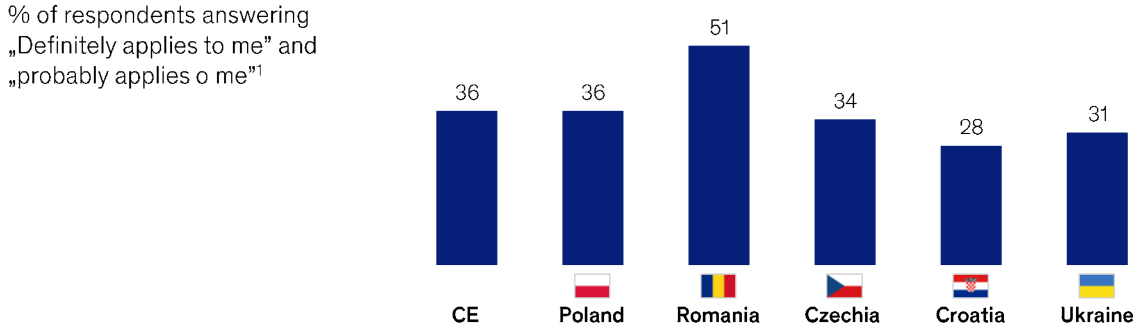
Number of grocers visited per week



[1] Q: From how many different retailers do you shop groceries weekly in 2022?
[2] Ukraine removed from CE average on regular shopping due to likely effect of war
Source: Consumer Survey 2023, n = 4,500, sample to match general population 18+ years

Exhibit 14

Change in shopping behavior in 2023 vs 2022



[1] Q: "Think about the way you shop for groceries changed in Q1 2023 compared to Q1 2022. How much do the following statements apply or do not apply to you? Compared to Q1 2022…„
Source: Consumer Survey 2023, n = 4,500, sample to match general population 18+ years

Consumers are more inclined to hunt for discounts, switch between preferred stores and stock up

With more frequent store visits and a desire to hunt for discounts and promotions, our research also confirmed that Central European consumers tend to stock up more often when items are cheaper, especially on commodities and categories with a longer shelf life. In order to minimize the 10-15 percent inflation penalty on groceries, 43 percent of CE consumers hunt for discounts in different stores, and 33 percent of them stock up on discounted products.

Hunting for promotions and finding the best deals makes consumers feel like smart and confident shoppers. These feelings underscore the psychology behind discounts, which reduce the guilt consumers may feel for shopping during a downturn, and validate purchases on the grounds such deals may not happen again soon.

However, some categories are better suited to attract shoppers via promotions than others. Household and healthcare products like beauty and baby items possess greater brand sentiment, with consumers unwilling to switch brands, preferring to stick to their favorite items at a lower

Exhibit 15

Impact of 10–15% inflation on grocery shopping

% of respondents[1]

0–20% | 21–30% | 31–40% | 41–50% | 51–60% | 60%+

	CE	Poland	Romania	Czechia	Croatia	Ukraine
I will hunt discounts across different stores	43	46	35	43	49	42
I will cut down or stop buying certain categories	35	33	31	32	32	46
I will stock up on discounted products	33	31	28	31	41	32
I will switch to buying cheaper brands	26	31	20	28	28	22
I will buy fewer products/cut down on the number of products	25	25	27	26	24	22
I will change to a cheaper grocery store	24	25	22	23	30	20
I will keep my grocery shopping budget and will cut spend on other categories	18	20	18	16	14	21
I will switch to buying store's own brand	18	17	20	17	23	14
I will cut down on number of meals at home	5	8	4	5	5	5

[1] Q: Now we would like to ask you a few questions about store's own brand foods, e.g., food products sold under the label of the grocery retailer. In each line, please, select which statement you agree with the most?
Source: Consumer Survey 2023, n = 4,500, sample to match general population 18+ years

price, leaving room for retailers to review their promotional approach and build up strategies that are data driven (Exhibit 15).

Mass promotions are increasingly questioned for their incremental impact on grocers, as personalized promotions become both more relevant and a higher priority. Also, modern analytics enable complex views of mass promotions, consumers stocking up and decreasing frequency of purchases, and product cannibalization, giving insights into the most successful promotional mechanisms worth employing.

Key actions for retailers and CPG manufacturers

— Considering the increasing importance of promotions and consumer desire to buy at attractive prices, retailers should refine their approach to strategic planning and execution of promotional offers. Up until now, the majority of large players failed to explore the value of attractive promotions, and only some managed to build the positive perceptions necessary to create greater customer loyalty.

— In order to create effective and attractive promotions, retailers should first build detailed pictures of customer profiles and draw insights to help prepare tailor-made actions. Advanced analytics have helped many WE retailers to become leaders in the promotion game, but CE players have not yet mastered it, as they now need to. Implementation of a rigorous approach to planning, executing, measurement and optimization of promotion brings a triple benefit: increased traffic and basket sizes for retailers, higher satisfaction for customers, and profitable investments for suppliers.

— The ability to engage customers and bring them closer by using well-defined promotional strategies like loyalty programs is growing in importance. This translates into a source of data, allowing both retailers and manufacturers to attract more customers through personalization. Almost all market leaders have started building loyalty programs, but have yet to start monetizing the opportunities that come with a solid customer base. Going forward, loyalty solutions will become an integral part of customer communication in the grocery business, and as such should be a key element of strategic planning going forward.

Interview

Marek Sypek
General Manager, Stock Poland

Stock is a leading spirits producer in Europe with well established market position mainly in Poland, Czechia, Italy, Germany, and France offering a diverse portfolio of high-quality products sold under 70 brands.

Based on an interview conducted in May 2023

Q: What was 2022 like for Poland, and how did the macroeconomic and social environment affect the commercial aspects and supply chain in your company?

A: In 2022, we observed and experienced the accumulation of multiple events unfavorable to both business and everyday life: the continuation of the COVID-19 pandemic, the outbreak of war in Ukraine, as well as soaring levels of inflation. In the alcohol industry, the increase in production costs reached up to 60–75 percent. During this changing economic environment, taxes, which constitute a significant proportion of our cost base, remained the most stable cost component. The increase in prices of raw materials was extremely high, compelling producers to change the price lists multiple times during the year. In general, the situation was extremely difficult and unpredictable for business. In essence, 2022 was clearly one of the most complicated years for the FMCG industry in Poland since the political transformation in the 90s.

Q: Can you identify the difference in impact of excise duties and inflation on consumption? Are the usual objectives of introducing excise duties, such as reducing consumption and generating additional revenue for the budget, really driving the reduction in consumption, or is it more a result of inflation?

A: Of course, indefinite continuation of excise duty increases would clearly lead to a drop in consumption. However, it is the education of the society that has resulted in Poland currently being only in the 17th place in the WHO ranking of alcohol consumption in Europe. Nevertheless, looking at 2022, production costs have increased much more than the excise duty itself. These increases, combined with additional excise duty raise of 5 percent or 10 percent, resulted in surpassing certain "psychological" price points for selected categories. The current situation is a consequence of the strong influence of these factors, and high inflation measured by the Producers Price Index (PPI). As a result, we observed a tendency of consumers to limit their consumption and to look for cheaper product alternatives, which contributed to a decline in the entire alcohol category. According to the latest research, in Q1 2023 there was a YoY decrease in sales volumes of more than 8 percent. The supply and demand rules persist—

the higher the price of the product, the lower the demand.

Q: Considering the increase in production and material costs, do you expect the supply chain challenges to continue? Or do you already see a gradual normalization of these costs?

A: The cost increase is an integral part of the current market situation—costs have increased and remain high. Despite some improvement, e.g., in the cost of grain that can be attributed to exports from Ukraine, overall production costs remain high. In the case of the glass and aluminum markets, manufacturers maintain elevated prices, which have increased by up to several dozen percent compared to 2021. This results from continuously high costs of gas and electricity, which account for more than 50 percent of the cost of bottle production. For the time being, there is no indication that they may be significantly reduced anytime soon.

Q: How do the price increases and expected improvement in manufacturers' profitability affect the shortages of some products on the market?

A: In the first half of 2022, especially right after the outbreak of the war in Ukraine, significant shortages in glass availability were observed. Many producers, looking for savings, began sourcing cheaper glass from Ukraine, which resulted in significant dependence on this market. With the closure or destruction of Ukrainian glass factories, the demand shifted to the Polish market. However, it did not lead to immediate construction of new factories, but rather led to the manufacturers taking an opportunistic approach by raising prices to take advantage of shortages in the market. Currently, the supply of gas is no longer a problem and the prices have stabilized, so that extreme situations like those in Q3 and Q4 of last year are not observed anymore.

Q: Is the consumer trade-down a short-term phenomenon that will be soon be replaced by the resurgence of premium products, or is it a long-term trend?

A: Price increases due to inflation are now currently being replaced by a lowering trend due to pricing policy implemented by some producers, especially at discounters who are likely selling at zero margin. Consumers of mainstream products are also more often choosing to buy smaller formats or products from the economy segment.

On the other hand, in the premium segment, doubling the excise over the last two years, together with a large increase in the cost of production and spending pressure on the consumer side, reduced the demand for these products and slowed the consumption growth in this segment.

We believe that in the medium and long term, Polish consumer will be inclined to seek and buy better quality products. Manufacturers such as Stock are constantly working on innovations that will enable consumers to access a good value for money—which we are doing, for example, by introducing Millhill's gin or Republic rum.

Q: Do you expect the consumers to continue looking for savings in the next 2–3 years, remaining sensitive to price thresholds above 50 or 100 PLN?

A: There are multiple factors, both economic and social, influencing changes in consumer behavior and the condition of business. In line with usual business cycles of about 7 years, we are now dealing with an economic slowdown that follows a longer-than-expected period of prosperity. Although this situation will not last forever, it should be remembered that inflation is a constant factor in life, even though its current high levels were unexpected. However, as the consumer purchasing power recovers, it can be expected that they will adapt to the new price levels.

> As a manufacturer, we try to adapt the offers so that the customers are encouraged to buy. To this end, we invest in new solutions in the field of artificial intelligence and advanced analytics of sales and consumer behavior data. This allows us to make more accurate and consumer-oriented decisions regarding the availability of the assortment as well as the forms of promotion.

Q: How is your company responding to the lower customer spending and their behavior oriented towards seeking promotions in 2022–23?

A: We are observing a significant growth in promotional activity, up to 50 percent in terms of volume, in this category. Many chains have introduced promotions for buying two products, but we are now noticing a retreat from this strategy. Consumers do not have enough money to buy two products and instead expect a reasonable price for a single product. As a manufacturer, we try to adapt the offers so that the customers are encouraged to buy. To this end, we invest in new solutions in the field of artificial intelligence and advanced analytics of sales and consumer behavior data. This allows us to make more accurate and consumer-oriented decisions regarding the availability of the assortment as well as the forms of promotion.

Q: What long-term actions are you taking to adress the sensitive expectations of consumers and to support their purchasing decisions?

A: It becomes more noticeable that alcohol is an important element of food pairing in restaurants, for example. It is paired with meals and consumed during social gatherings, but in limited quantities. In response to consumer trends and needs, we introduce product innovations with different flavors or with lower than traditional alcohol content.

Q: What is your company's attitude towards sustainability trends in the consumer industry?

A: We have an ambitious goal—by 2027 we want to make our entire business carbon neutral. All investments made during the construction of the distillery in Lublin are closely aligned with the principles of sustainable development. When designing the new infrastructure, we have used state-of-the-art solutions to ensure maximum environmental friendliness. Within two years of commissioning, the distillery will become 100 percent CO_2 neutral thanks to a biogas plant that will use the waste from distillate production to produce gas, and this gas will be reused in the distillation process. This way, we are creating a closed loop in accordance with the principles of carbon neutrality.

Q: With such an ambitious goal, you are pioneering in Europe.

> People are not just key to the company; they are the company. Human capital is our main resource, including competences, know-how, relationships, and values.

A: Carbon neutrality is extremely important for Stock, and as the board we take actions to respond responsibly to climate challenges.

Q: What priorities and opportunities do you see for your company in Poland in the coming years?

A: Building our market position remains a priority for this year, especially in the category of flavored alcohols, where we are the undisputed leader with a 50 percent share. We focus on strengthening the position of our iconic brands, such as Żołądkowa Gorzka and Lubelska, while also maintaining our position in the clear vodka market. In addition, we are focused on expanding and developing our portfolio of distributed brands and building the position of our premium brands, such as Millhill's and Republica, which we introduced to the Polish market a year ago. These are the top priorities in the near future.

Q: How do you approach the human factor in running the business? Are you investing in building new skills, or is there an area where you are looking for savings?

A: People are not just key to the company; they are the company. Human capital is our main resource, including competences, know-how, relationships, and values. Since the entry of the new owner, CVC, we have noticed significant changes, especially in the area of investment in our employees. We have also made strategic external recruitments, which enabled us to acquire the necessary additional competences. Previously, as a public company, we exerted a strong pressure on generating profit, which limited our ability to invest in people. Currently, we do not have such limitations in areas important for the development of the company, which is indeed a positive factor for our business. CVC is determined to build an effective management organization in which highly qualified and motivated employees play a key role.

2

More for less—lookout for proposition that addresses customer needs at no price premium

Commoditization of health and locality in grocery

Introduction

Record inflation is driving consumers away from healthier and more sustainable alternatives. Over the past 12 months, organic food sourced from local farmers leapt to the top of the agenda for retailers amidst rising expectations from regulators, investors, and consumers. Based on CEO interviews conducted by McKinsey, four out of eight grocery retail and CPG CEOs mentioned sustainability as a key trend over the next three years. Most of them went even further, citing sustainability as one of their strategic pillars, or even part of the corporate DNA. The results of this shift are evident in grocery aisles stocked with products labeled "eco-friendly" and "environmentally responsible."

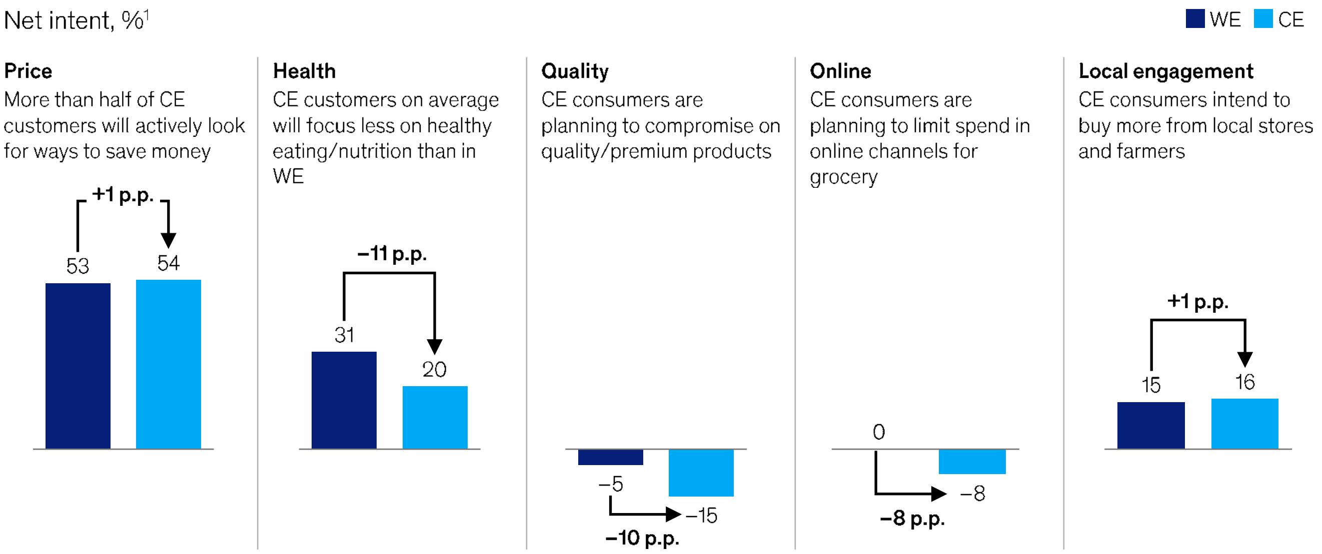
Consumers want progress on healthy food offerings and sustainability, but are also becoming more reluctant to pay a premium for them. Raising prices on items boasting sustainability and good nutrition during a time of already-inflated prices puts consumer demand for such products into question. The CPG industry is currently deciding whether to invest in affordable options that provide broader price ranges, or pursue healthier food options and sustainability.

Despite a declining interest in health and sustainability, they remain on consumers' agenda

Inflation is compelling consumers to revisit their purchasing decisions and consumption habits. Higher food prices can push healthy and sustainable products out of reach for shoppers, who are more willing to purchase affordable, processed options rather than fruits, vegetables, protein, and whole grains sourced from sustainable producers such as local farmers. Some 20 percent of surveyed CE consumers said they would focus on healthy eating and nutrition in the future, which is 11 p.p. less than their WE peers, while 16 percent will focus on sustainability, which is on par with WE sentiment (Exhibit 16).

Exhibit 16

Attitude towards grocery shopping in 2023 compared to 2022



[1] Q: Think about 2023. Are you planning to do more, less or about the same of the following? I plan to...
Source: Consumer Survey 2023, n = 14,200, UK, DE, FR, IT, ES, NL, CH, PL, CZ, HR, RO, UA, SE, sample to match general population 18+ years

Exhibit 17

Respondents shopping in store type

%

0–20% 21–40% 41–60% 61–80%

	CE	Poland	Romania	Czechia	Croatia	Ukraine
Discounters	73	77	62	77	63	76
Supermarkets	57	48	59	63	72	64
Hypermarkets	48	45	50	15	53	16
Convenience stores	40	47	29	62	34	59
Specialty stores (e.g. bakeries, butcheries)	35	37	30	23	35	28
Small chain stores	30	39	23	18	17	21
Farmers markets of fresh food	29	26	39	35	33	44
Natural organic food stores	9	12	4	4	9	7

Source: Consumer Survey 2023, n = 4,500, sample to match general population 18+ years

These findings are bolstered by statistics on shopping by store type (Exhibit 17). 73 percent of CE consumers say that they regularly shop in stores defined as discounters, followed by supermarkets and hypermarkets. Poland and Czechia are the CE markets with the highest discounter format penetration. The supermarket format is particularly frequented by Croatian consumers (72 percent).

Among shopping options, only discounters and farmers markets experienced a rise in consumer intent to buy more (Exhibit 18), while convenience, specialty and natural organic stores saw a decline of 15% in net intent. However, with price cited as a top concern by 54 percent of consumers, they are more liable to spend less on sustainable and healthy options, since those costs exceed their budgets, slowing overall the shift towards green choices (Exhibit 16).

This also implies that investing behind price and promotion attractiveness perception can be expected to play a major role in shopper

Exhibit 18

Future net intention of consumers to buy in given channels[1]

%

<-20% | -20-(-11)% | -10-(-3)% | -2-2% | 3-10% | 11-20% | 20%+

	CE	Poland	Romania	Czechia	Croatia	Ukraine
Discounters	5	–4	5	6	4	13
Supermarkets	–9	–6	–16	–13	–5	–5
Hypermarkets	–11	–7	–18	–6	–8	–15
Convenience stores	–15	–16	–19	–28	–17	3
Specialty stores (e.g., bakeries, butcheries)	–12	–13	–20	–8	–14	–4
Small chain stores	–15	–18	–18	–14	–22	–6
Farmers markets of fresh food	3	–4	1	13	0	7
Natural organic food stores	–15	–14	–24	–24	–6	–6

[1] Percentage is calculated as net intent (deducting percent of people who intend to visit the store type less or stop shopping there in the future)
Question: In the next 12 months, do you expect to buy more, or less in the following types of stores/locations?
Source: Consumer Survey 2023, n = 4,500, sample to match general population 18+ years

Exhibit 19

Attitude towards grocery shopping in 2023 by age

Source: Consumer Survey 2023, n = 4,500, sample to match general population 18+ years

acquisition and retention between formats. Findings suggest consumers might deprioritize health and sustainability if forced to pay a premium, even though they maintain a positive attitude toward these trends. They care about environmentally friendly and sustainable products, and are willing to buy them if it does not impact their wallets. We also observed variations among age groups regarding their propensity to pay higher prices for healthier products. Only 15 percent of older respondents are willing to pay more for healthier products, compared with almost 25 percent of younger consumers, in this case, Gen Z (Exhibit 19).

During a period of inflationary momentum, CPG producers and retailers might consider providing healthy and eco-friendly choices at lower price points to increase the ability of older consumers to purchase them. Despite the short-term challenges faced by the retail and CPG sectors, sustainability and healthy nutrition efforts cannot be ignored. To prepare for a demanding new generation of consumers like Gen Z, and a return to more affordable prices, retailers must keep their health and sustainability commitments.

Revisiting health and sustainability-oriented actions during an inflationary margin squeeze
Rough economic times usually disrupt the status quo, as consumers, producers, and retailers all revisit their behaviors to close the cost gap. To keep the balance sheet in order without exacerbating the spending gap, retailers and CPG manufacturers should be more mindful in selecting sustainability and health priorities that deliver positive long-term effects. This means accurately targeting groups that perceive these trends as important to pursue. Increased uncertainty and a high-risk environment may act as blockers for further investments, but there are still actions that can be taken to relieve margin pressure and lead to sustainability.

With inflation likely to persist for some time, retailers and CPG manufacturers should prepare to offset a coming margin squeeze. In order to balance tight control over costs with their sustainability commitments, some players implement design-to-value (DtV) strategies[6]. This approach helps companies find sweet spots in product design that balance the value proposition with minimum costs, maximizing margins and tapping the full sales potential.

A pure focus on decreasing costs is better known as design-to-cost (DtC)[7]. These DtC techniques gather deep insights on consumer preferences and use them to drive efficient and effective product design and packaging. Insights into product design can leverage competitive advantages, unlock savings opportunities, and attract more consumers willing and able to make a purchase. This strategy also facilitates a more rigorous approach towards determining the right type and volume of product when pursuing sustainability.

Farm-to-fork is a concept that dictates a comprehensive rethinking of the whole food value chain in order to improve sustainability along each step from production, and is part of the EU Green Deal. This sweeping set of initiatives includes controls on food production, transportation, distribution, marketing, and consumption to help make the EU climate-neutral by 2050. This approach is used by Green Holding CEO Artur Rytel, who calls it a key factor in maintaining price and quantity competitiveness, allowing his company to monitor the entire value chain and eliminate unnecessary processes. Green Holding's vertical integration keeps products fresh while maintaining a low cost base.

These examples include only a narrow perspective on actions that can lead to end-to-end sustainability while balancing costs with company ambitions. Players should prioritize healthy and sustainable products by arming themselves with insights about sweet spots, long-lasting impact, and affordability.

Key actions for retailers and CPG manufacturers

— Health and sustainability products have always posed a challenge for retailers, especially those with a limited assortment or locations that discourage spending on pricier items with little noticeable improvement over cheaper substitutes. CE countries could learn much about the successful design of healthy and sustainable offers by studying more mature markets. The top priority for retailers and CPG players should be developing strategies to reach target groups most receptive to a green approach and good nutrition. Historically, communication around healthy food and local farmers targeted all consumers, but a more personalized approach would bring more meaningful results. The fact that older consumers are less willing to pay a premium for organic or locally-sourced products than their Gen Z counterparts is crucial input for assortment planning, allowing for more optimized space allocation per location, and increased margins where possible.

— Another trend seen in more mature markets involves control of a product's full value chain, either directly or indirectly, via closer cooperation with suppliers or the introduction of private brands, which results in better cost and quality management.

6 https://www.mckinsey.com/capabilities/operations/how-we-help-clients/product-development-procurement/design-to-value
7 ibid.

Interview

Artur Rytel

Green Holding Owner

Green Holding is a leading producer of fresh, washed and cut vegetables in Central Europe with five plants located in four CE countries.

Based on an interview conducted in May 2023

Q: Green Holding enjoys a strong position both in Poland and in the entire region. From your perspective, what are the key changes in the food market in Central Europe in 2023 and what actions are undertaken in response to these challenges?

A: When analyzing our presence in the markets, with the exception of Ukraine for obvious reasons, i.e. Poland, the Baltic States, Hungary, Czechia and Slovakia, there are two important observations regarding each of these markets. First of all, we notice a slowdown in sales growth compared to previous years. In other words, while we are still growing, we need to learn to operate in a single-digit growth environment. Secondly, price pressure is increasing, which results not only from consumer expectations, but also from our margin requirements, which are influenced by increasing wage expectations.

It is also worth noting that in Hungary we are currently observing particularly strong price pressure, which results from the very high level of inflation in the food sector. The inflation in that market is exceptionally high, even for the present times, which further increases the sensitivity of consumers to price changes.

In light of these significant challenges affecting the entire industry, Green Holding is taking decisive action. Our initiatives are focused on sales growth, among others by improving the pricing strategy. In addition, we are constantly striving to improve operational efficiency and optimize costs to meet these challenges.

Q: How do you assess the prospects for business development in Ukraine?

A: We are convinced that Ukraine has the potential to become a strategic direction for the development of our business. We maintain a continuous presence in the Ukrainian market, especially in the HoReCa sector—catering services and QSR (Quick Service Restaurant). We have a team there that is ready to operate with more capacity, as well as a factory ready to restart. After the outbreak of the war, we refrained from opening it due to safety concerns, but we are currently developing plans to restore production activities in the second half of 2023. This opens up significant opportunities for us, especially given Ukraine's population of around 40 million people—making it the largest in the Central European region. In addition, we see benefits for Poland, which could become an important transport hub towards Ukraine.

There is no doubt that we are facing the challenges of high inflation and rising logistics costs, but we see concrete benefits from doing business in the region. In terms of value, our sales in Ukraine are nearing the pre-war levels. It is remarkable that in such difficult conditions business continues to function unchanged. Orders are executed on time, payments are made in accordance with agreed-upon timelines, and in addition, we receive information about the emergence of new sales markets. This may be outdated in a moment—due to the counteroffensive that has begun... Let me emphasize that this is now a very difficult market with a lot of challenges—especially in the realm of logistics.

Q: Looking ahead, in your opinion, what do you believe will be the most important trends in the next three years in Central Europe?

A: In the food industry, we see three key trends: convenience, health and sustainability.

The first trend is the increasing demand for food products that are convenient to prepare and do not require much effort. For this reason, we attach great importance to the development of the offer of ready-to-eat, heat or cook products.

The second and key trend is partly connected with the first. We put an emphasis on health, but at the same time we can't or don't always want to spend a lot of time carefully choosing healthy ingredients and meals. Our healthy vegetables supplemented with high-quality protein can serve as a more accessible and less time-consuming alternative to visiting eco-markets and buying the freshest produce.

The third trend is sustainability, which must be built into the company's DNA. Sustainability certificates cannot be purchased; they require a systematic effort to minimize waste and the negative effects of production activities.

Q: From your perspective, how does the health trend affect growth in the industry?

A: Nowadays, we observe a growing interest of the public in choosing vegetables as an alternative to meat products. This is not always related to the transition to a vegan diet, but to the tendency to reduce meat consumption. Additionally, people tend to eat smaller portions several times a day, rather than a single large meal.

These changes are also reflected in sales results. While the industry continues to grow, the pace of growth has slowed. Currently, annual increases

"The first trend is the increasing demand for food products that are convenient to prepare and do not require much effort. For this reason, we attach great importance to the development of the offer of ready-to-eat, heat or cook products.

are at the level of several percent. Sales volume remains stable and may even decrease slightly. This is due to two factors—on the one hand, people eat smaller portions, which leads to a smaller market, on the other hand, consumers are willing to pay the same price for a product with a smaller quantity, but with higher quality and more health benefits.

Q: Let's talk about supply chains. What trends does Green Holding see in this area?

A: At Green Holding, the priority is the "farm to fork" principle, which means full integration into our logistics. Thanks to this, we are able to better control processes and anticipate potential problems. As a result, we do not see significant disruptions in our supply chains.

In the area of market trends, we see two important aspects. First, the importance of diversification is growing. Although Spain is and will continue to be the main supplier of food in Europe, there is a need to increase the share of supplies from other regions. This is particularly important given the risk of catastrophic events such as droughts or floods.

Secondly, technology is playing an increasingly important role. Investments in more efficient production methods and optimization of logistics are crucial. We strongly believe in the potential of hydroponic farming, enabling sustainable development through more efficient use of resources. We are already focusing investments in this area. Currently, these crops account for less than five percent of our total sales volume, but our goal is to significantly increase their share by the end of this decade.

In addition, as part of Green Holding, we are investing intensively in the development of our own organic production, which resulted in the creation of a separate farm. We believe that this market segment will continue to develop in Poland, driven by current trends, as there is a significant distance to Western European countries in this respect. However, we should remember that Polish consumers are extremely sensitive to prices, which are influenced by high logistics costs, which we must face at the same time. For example, if we want to provide customers with "ready-to-eat" products that are based on raw materials from Spain, transport costs can account for up to 30 percent of the final price. Currently, there are few alternatives, because road transport is cheaper and greener, but at the same time slower. The development of alternative locations/technologies for growing raw materials in winter—closer to our production facilities—can be a source of a significant competitive advantage.

Q: Is it the "farm to fork" approach that allows Green Holding to remain competitive in price and quality?

A: Yes, exactly. Our farm-to-fork approach is a key factor that allows us to remain price and quality competitive.

Thanks to integrated logistics, we can eliminate unnecessary processes and improve existing ones. For example, we have cooling systems directly at the crops, eliminating the need for indirect logistics. This way we can maintain longer freshness of products and extend their shelf life, which is especially important for fresh products, while reducing costs at the same time.

Another advantage of this solution is the full control over aspects related to the quality and sustainability of raw material, as well as the ability to track every element in the supply chain. This enables us to precisely monitor where, when and how our products have grown, and what protective measures have been applied. As a result, we are able to prove the high quality and safety of food, which is important for both our customers and consumers.

This approach has not only contributed to our success, but has also led to the establishment of cooperation with such large partners, such as McDonald's. Our integrated logistics and sustainability at every stage of the supply chain, from farm to fork, have been key factors in this process.

Local one-stop shopping reinvented

Introduction

While inflationary pressure has shifted consumer behavior towards a relentless search for attractive pricing, promotions, and discounts, one thing has remained constant: the importance of a convenient location, which still tops the consumer list of a store's most desirable attributes.

Research demonstrates that while consumers can deprioritize the availability of a wide assortment, they expect stores to be located nearby, to offer suitable discounts and offers, and to provide a pleasant and streamlined shopping experience.

Similar changes in consumer behavior are visible in Central European markets. "Consumers are shifting more toward 'food for today' and 'food for tomorrow' shopping missions," says Michał Seńczuk, CEO of Croatian retail chain Studenac. "People are optimizing the time spent on shopping, so proximity, an assortment that meets their everyday needs, and the possibility to visit stores on foot are essential."

To succeed in this evolving space, retailers will need to focus on two key dimensions: developing the right store format in convenient locations, and offering an assortment that fits ever-changing consumer needs.

Proximity is king

In Poland, Czechia, Croatia, and Ukraine, only around 30 percent of respondents in our survey were willing to drive further or go out of their way to save on groceries. Romania was an exception, where about half of consumers said they would do so, which is still a relatively low rate given the rate of inflation (Exhibit 20). Consumers may hunt for discounts, but they also value proximity.

While Central European shoppers continue to seek savings, cut back on selected categories and quantities, replace some branded products with private label alternatives, visit more stores per week, and hunt for promotions across different stores, they remain unlikely to give up on the convenience of local shopping.

Retailers drive the format shift

This shift in market dynamics is visible in consumer preferences as well as the evolution of markets themselves. Across the region, there has been a shift towards a concentration of grocery store market value in a smaller number of outlets. As a result, the average retail selling space, as well as revenue per store, is growing. In fact, all markets except Croatia observed an absolute drop in the number of outlets. The highest annual growth in the grocery retail market value per store was seen in Poland (8 percent CAGR), Czechia (7 percent CAGR), and Romania (7 percent CAGR) (Exhibit 21).

Exhibit 20

Change in shopping behavior in 2023 vs 2022

% of respondents answering "Definitely applies to me" and "Probably applies to me"[1]

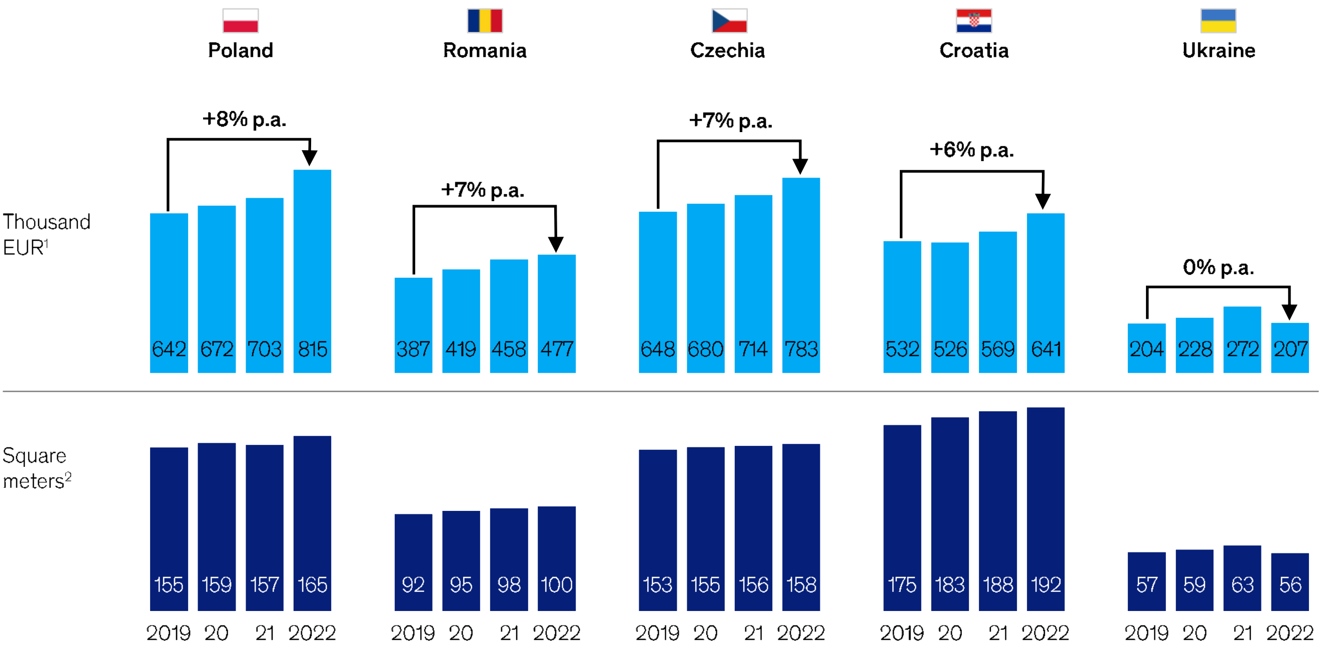
0–20% | 21–30% | 31–40% | 41–50% | 51–60% | 60%+

		CE	Poland	Romania	Czechia	Croatia	Ukraine
How much do I spend	I spend significantly more on groceries	59	62	62	50	57	66
	I spend significantly higher share of my income on groceries	60	53	66	57	61	63
Where do I shop	I have switched to cheaper retailers to buy groceries to save money	54	52	61	48	58	50
What do I buy	I have switched to cheaper food brands to save money	51	47	54	51	55	49
	I have switched to store's own brands to save money	53	50	54	51	55	49
	I have cut down/reduced certain foods from my grocery list because I can't afford them anymore	48	48	58	50	60	45
How do I save money	I drive further/go more out of my way to get a good price	36	36	51	34	28	31
	I do more stock ups when things are on promotion	63	53	57	66	60	60

[1] Q: "Think about the way you shop for groceries changed in Q1 2023 compared to Q1 2022. How much do the following statements apply or do not apply to you? Compared to Q1 2022…„
Source: Consumer Survey 2023, n = 4,500, sample to match general population 18+ years

Exhibit 21

Average grocery retail sales per outlet



[1] Total market retail sales value divided by # of outlets in the market
[2] Total grocery selling space divided by # of outlets in the market
Source: Euromonitor—McKinsey adjusted data

The transformation of Poland's grocery retail landscape has been the region's most dramatic. While selling space has remained flat at around 29.5 million square meters since 2016, the total number of stores plunged from roughly 263,000 to 178,000, a 32 percent decrease. During that time, however, both discount chains and convenience stores observed dynamic growth at the expense of small, non-chain grocers.

Convenience chain Żabka expanded its footprint from 4,500 locations at the end of 2016 to nearly 10,000 in mid-2023. Leading discount grocer Biedronka observed modest growth from 2,700 to 3,300 stores between 2016 and 2022. Meanwhile, Dino Polska almost quadrupled its footprint from about 600 to almost 2,200 stores in the same period. Croatia's Studenac tripled the amount of its chain stores to 1,200 between 2018 and 2023, relying on a mix of acquisitions and organic growth, while doubling down on proximity formats and everyday convenience shopping.

All these chains represent successful players among CE retailers, and all of them gained a competitive advantage through various applications of convenience and proximity. For the purpose of this report, we define convenience as corner stores with typically longer operating hours than retail stores that offer a limited assortment of goods, mostly focused on beverages, alcohol, and ready-to-eat products. A proximity supermarket is defined as an approximately 300–600 square meter store usually equipped with a meat/cheese counter and located close to urban areas.

Żabka is the largest convenience chain in the region, and built its proximity reputation by careful selection of locations and matching the right merchandising tactics (incl. assortment) to the right location. Unmanned and fully automated Żabka Nano stores are located in the city centers of major metropolitan areas, and seasonal Żabka stores have opened in tourist areas. Studenac gained traction through acquisitions and new store openings, enabling the Croatian grocer to build proximity and preserve attributes of acquired stores consumers were already accustomed to visiting. Proximity retailer Dino captured the largest market share in its category by focusing on small Polish towns underserved by other chains which are more focused on cities.

Central Europe's total discount and convenience store market size grew by 12 percent and 9 percent CAGR respectively over the past six years, significantly outperforming the Western European average in both formats by 7 percent and 6 percent respectively (Exhibit 22). While Poland enjoys CE's largest consumer market, Romania experienced the region's highest growth rates among both discounters and convenience stores, at 18 percent and 13 percent, respectively, driven by rapid footprint expansion of Lidl, Penny and Profi (Exhibit 22). These numbers confirm the evolution of CE markets, which are becoming more aligned with their mature WE counterparts, with leading players optimizing for margin and focusing on convenience formats.

In most CE countries, the ongoing transition is happening at the expense of small, independent, non-chain grocers. During the past six years, the traditional grocery retail market declined by 6 percent annually, whereas in WE it remained constant, further reflecting the process of CE catching up with more mature markets. While traditional grocery retail stores in Poland and Ukraine shrank even more (–22 percent and –8 percent CAGR respectively) in Romania and Croatia, traditional grocers grew by 2 percent annually (Exhibit 22). During the post-pandemic period, the CE-wide decline of the traditional grocery market accelerated to –12 percent CAGR, with Poland and Ukraine the two biggest contributors (–35 percent and –22 percent CAGR respectively).

The evolution of assortment

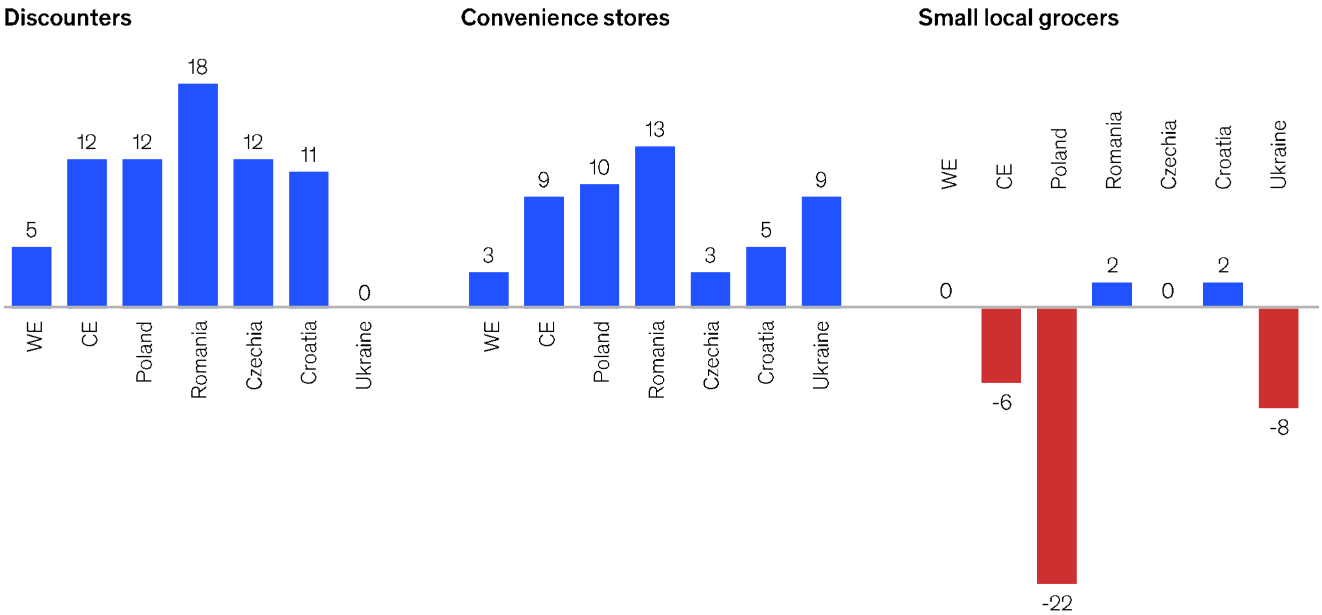
These changes are visible on the market level as well as inside individual stores. Consumers say a tailored assortment of goods allowing them to buy everything they need in one place is twice as important as being able to shop for a greater variety of products. So the key challenge for retailers will be to develop curated offerings in close proximity to relevant consumer groups, rather than trying to cater to a more generic population.

The elevated inflationary pressure on consumer budgets only adds to the complexity of this challenge. While proximity remains key, consumers want to save, even on impulse or day-to-day shopping trips, which is underscored by the importance they place on discounts and promotions at retail stores. In this context, the depth of assortment (various price points for a given product category, including branded and private label options) is becoming increasingly more important than the breadth of assortment

Exhibit 22

Retail format type market dynamics

2016–22 value CAGR, %



Source: Euromonitor—McKinsey adjusted data (multiple options within a similar price point for a given product category).

The difficulty of the right balance between breadth and depth, along with micro-market considerations, was highlighted in our recent discussions with consumers and store managers of leading grocery chains in Poland. While many consumers reacted positively to the diversification of assortment between stores, a repeated complaint involved the unavailability of favorite items at the preferred stores near their homes or offices. At the same time, store managers and franchisees complained that high levels of differentiation and dynamic changes in assortments create challenges when selling certain product categories.

These findings highlight the challenges faced by retailers, especially in small-format stores. They also emphasize the growing importance of continued investment in advanced analytics to understand customers at a granular level in this period of greater inflationary pressure on margins and operations. But reactions to these dynamics may not be limited to just assortment or location, but to the store operating model itself, as demonstrated by the rise of innovative technologies such as self-service stores operated by Żabka Nano, or grocery delivery and pickup options.

Key actions for retailers and CPG manufacturers

— The shift in market-channel structure has been underway for a couple years across Central Europe, with more changes on the way, driven largely by consumers. Moving forward, retailers should make the best possible use of their data and build their expansion strategies on data insights rather than obvious opportunities. Geospatial location analytics have been used for some time, but advances in data quality and access will provide a foundation to make the right network expansion decisions.

— Additionally, retailers whose networks were built through multiple acquisitions often struggle with the suboptimal performance of specific stores and regions, due to largely limited range of formats and the lack of an attractive value proposition. Moving from a “one size fits all” model may seem like a daunting task, but taking advantage of automated processes and analytics will produce positive results across malfunctioning parts of their networks. Crucial aspects of network diversification include the introduction of various assortment ranges, fine-tuning store pricing and services, maximizing location potential, and increasing attractiveness to customers.

Interview

Michał Seńczuk

CEO, Studenac

Studenac is a neighborhood retail store chain with 5,900 employees and over 1,100 stores. It serves as the main retail chain on the Adriatic coast and ranks among the top national chains, with the largest sales network in Croatia.

Based on an interview conducted in May 2023

Q: What do you think will be the most important trends for the food retail industry in Croatia over the next three years?

A: Croatia is experiencing the same inflation trends and shifting behaviors as other countries around the world, although there are some circumstances that make our domestic food market more resilient. Joining the euro area and the Schengen area will have a positive impact on the tourism industry, which accounts for around 20 percent of the economy, hence consumption spending will remain at the same level as before the period of high inflation.

It is worth noting, however, that the average local customer is sensitive to prices, looks for discounts and private label products and considers the value for money to be one of the most important purchase factors. While the increase in private label sales is currently dictated by financial necessity, I believe it can be sustained over the long-term because people will appreciate their value for money proposition.

Also, there is a competition among retailers to increase penetration of loyalty programs, so that current patrons are not excluded from exclusive promotional offers.

On top of price-related factors, Croatian customers are expecting greater sustainability, convenience, and innovation, which all may drive their purchasing decisions.

Q: What measures have been taken at Studenac to adapt to changing customer behavior?

A: To mitigate the impact of inflation on our customers, we have launched more than 300 private label products. By the end of 2023, we will launch an additional 150 private label products to make grocery shopping even more affordable for our customers.

For our private label offering, we work with manufacturers who promote sustainable production strategies and who have earned environmental credentials. We are looking for ways to increase the use of environmentally friendly packaging, including recycled and recyclable materials.

While tourism increases the industry's sales every year, especially on the coast and in Zagreb, no retailer can rely solely on tourism and ultimately year-round sales count. For this reason, we have worked hard over the past five years to bring our unique proximity format to a national level.

Another trend on our agenda is innovation. We understand this not only by improving the in-store shopping experience, for which we are modernizing our premises and introducing self-service checkouts, but also by giving the customer the opportunity to stay in touch and take advantage of dedicated loyalty offers. Nowadays, customers are happy to share their data with retailers in exchange for discounts. That's why we launched our app in March last year and our Studenac Digital Center of Excellence was established in the autumn. The application is one of the many areas where this new unit will help us. This year, we are modernizing it to offer additional benefits, because we believe that we still have great potential to build an even larger pool of loyal customers. Our plan is to achieve an additional 15 percent sales penetration using loyalty programs.

Q: Speaking of Studenac Digital, which was established less than a year ago, can you already tell whether analytics has helped to change Studenac's operational and commercial models?

A: Absolutely! We had a strong start and the team worked on 15 projects in three key areas. The first is to enable basic growth by optimizing business processes, such as promotions and loyalty, using advanced analytics. Next, we are enabling new growth, bringing in new value propositions and revenue streams, such as the expansion of our pop-up store program. Finally, we are enabling emerging growth with initiatives such as our quick-commerce partnership with Wolt.

Studenac Digital is a center of excellence, bringing together data scientists and engineers who form the backbone of our data management operations, as well as project managers who are in charge of designing and leading innovative projects. The systematic use of advanced analytics is transforming us into a strongly data-driven organization, which opens up new ways for us to be as innovative as possible in the market.
It must not be forgotten that the ultimate goal of any technology is to help you stay closer to the customer. The field of Predictive Analytics is a good example. We are using this method to help us forecast sales, optimize campaigns, create recommendations based on the purchase history of different customer profiles and optimize our organic expansion processes.

Q: What are the key factors that enabled and improve the digitalization journey?

A: I would say there were three factors, each of them equally important. Number one was that we had to develop an innovation strategy that takes into account the context of our business, competitive environment, business goals, and vision. This kind of strategy needs to have a good balance between fitting with our business and pushing us out of the comfort zone.
The second factor was development of a clear action plan to implement that strategy. We needed to know which projects to deliver, when and why.
And the third piece was the support from top management. My executive team and I must make sure that we foster innovation and fully see it as a contributor to business rather than a cost center. The teams involved, and indeed the entire company, should agree on the chosen strategy and action plan at every level. They should fit into the company's culture so that we develop a mindset that allows innovation to flourish.

> The systematic use of advanced analytics is transforming us into a strongly data-driven organization, which opens up new ways for us to be as innovative as possible in the market. It must not be forgotten that the ultimate goal of any technology is to help you stay closer to the customer.

Q: Last year, Studenac established a partnership with Wolt. How do you see the growth trajectory of e-grocery in Croatia?

A: Last year we partnered with Wolt to open Croatia's first dark stores, using a unique quick-commerce concept in which we provide the products and equipment, while Wolt handles deliveries. It has been very well received by our customers and is continuing to grow in the first months of 2023.

But e-commerce more broadly has been declining in Croatia, after a big jump during the pandemic. In the grocery sector, especially for food, Croatian consumers prefer on-site shopping rather than online, which makes brick-and-mortar businesses very resilient. Still, the younger generation is more open to the idea, which means retailers need to be present online. In addition to Wolt, we also partner with Glovo. The number of Studenac stores offering online ordering via these services is increasing—more than doubling on Wolt and more than tripling on Glovo in the last six months.

Q: Coming back to offline sales, how do you think Croatian consumers are changing in terms of shopping channels and missions?

A: We see two winners from Croatians' changing shopping missions: the discounters, and the proximity format. The reason discounters will benefit is obvious—it's about the price perception. For proximity, it's because consumers are shifting more toward "food for today" and "food for tomorrow" shopping missions. They are optimizing for how much time they spend shopping, thus proximity with assortment that meets their everyday needs and possibility to come to stores on foot are essential.

This is exactly what we are addressing. By following our mission, we offer unique proximity format, which is characterized by a small shopping cart, everyday shopping, and close distance to customers' homes. Studenac is visited twice as often on foot, and customers spend significantly less time shopping—that makes us a very distinctive format on the Croatian market.

Q: Discounters are putting pressure on other retail players in Central European markets. What is the situation in Croatia?

A: I see two unique aspects of our market that lower the pressure from discounters. Firstly, Croatian discounters have a very limited geographical footprint and are located only in the bigger cities. If we consider the country level, those chains' penetration is relatively low, which creates an opportunity for our proximity format.

Secondly, anti-inflationary measures were implemented in Croatia in the fourth quarter of 2022. This is one of the reasons why price pressure from discounters may only have a limited impact on other chains' pricing.

Q: You mentioned that Studenac would like to take its unique proximity format to a national level, which has indeed been observed in the last 3–4 years. Is there room for network expansion for your store format in Croatia?

A: We see the potential to open another 3,000 stores organically throughout the country. More specifically, we plan to open around 120 stores this year, and the pace will accelerate in the coming years. This is the beauty of our proximity model: we are able to fit our stores into very small, unique urban spaces that other formats would have difficulty serving. We also have practical experience. We have built a very efficient process for organic expansion, and we are continuously improving it—for example, by adding a digital tool to fully leverage the potential of each micro-location.

> This is the beauty of our proximity model: we are able to fit our stores into very small, unique urban spaces that other formats would have difficulty serving.

Searching for competitive edge in online

Introduction

Online grocery shopping continues to gain market share across Central Europe, having added approximately 0.2 p.p. of market share in 2022, versus 2021. Unlike several Western European markets, where the booming online market experienced a post-pandemic correction in 2022 (Sweden and the UK each lost more than 1 p.p. in market share), the boom shows no signs of subsiding in Central Europe. Online grocery growth was especially strong in Czechia (+0.4 p.p. in 2022 vs 2021), which also leads the region in online market penetration, at 5.1 percent.

Similar dynamics were observed at the retailer level. In the UK, Tesco, the market leader, reported a 10.5 percent decline in online orders and a 11.3 percent drop in like for like (LFL) sales between the first half of the year (H1) 2022/2023 and H1 2021/2022.[8] At the same time, Poland's Frisco reported sales growth of 32 percent, while its active Warsaw customer base grew by 34 percent between Q4 2021 and Q4 2022.[9]

Central Europe's growth stems from two factors. First, it comes on top of a relatively small base, and the online pandemic boom in Central Europe was also smaller than in many Western European markets. Second, most CE online grocers deliver only to the largest cities, with further investments to expand delivery coverage area providing most market growth. That lever was already pulled years ago in Western Europe.

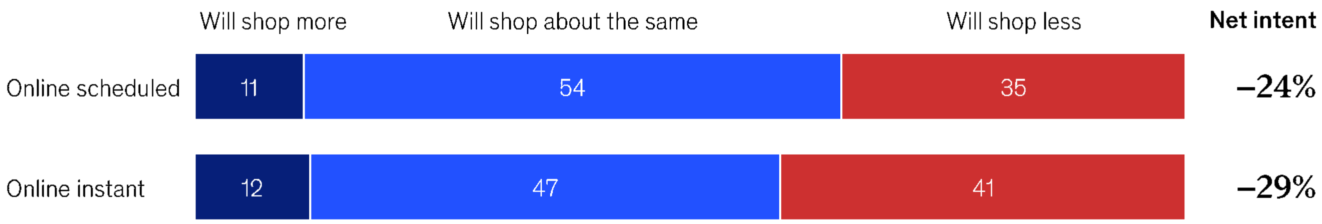
Despite the recent gains in market share, CE countries trail behind leading WE countries like the UK, France, or the Netherlands in online grocery penetration. Czechia is currently at levels broadly in line with Belgium or Germany, while Romania and Poland are not far behind the online grocery penetration rates of in Spain or Portugal. Online grocery shopping remains marginal in Croatia.

Sustaining this online grocery growth, however, remains uncertain as consumers across Central Europe expressed a negative net intent to increase their online spending. As many as 35 percent of respondents said they plan to shop less online over the next 12 months, compared to 11 percent of respondents intend to shop more (Exhibit 23).

Exhibit 23

Intent to buy groceries online

% of respondents[1]



[1] Q: In the next 12 months, do you expect to shop more, less or the same the following way?
Source: Consumer Survey 2023, n = 4,500, sample to match general population 18+ years

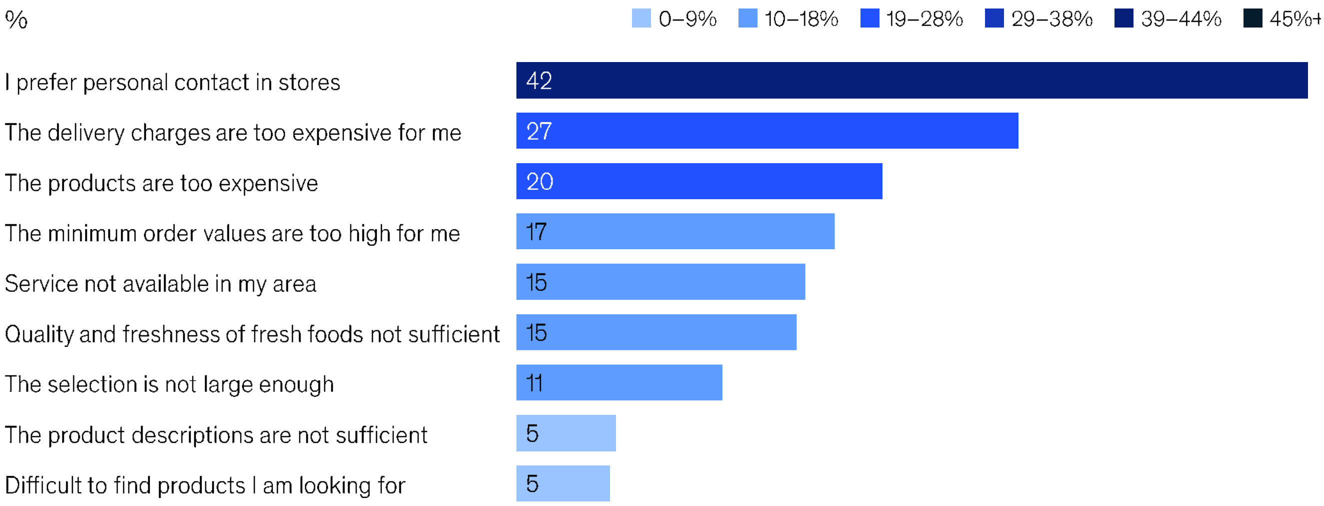
The growth of online shopping faces key price-related barriers

Consumers remain unwilling to pay the delivery fees and higher prices online players charge—or are perceived to charge. Online shopping also provides more transparency, allowing for easier comparison of prices and promotions. Some online retailers are already addressing this perception challenge by focusing their communications on value. For example, in April 2023, Frisco, a Polish online grocer, launched a discount price campaign called "Friscontowe ceny" (Friscont prices), promising to refund the price difference for a number of products if customers found them cheaper elsewhere[10]. And every week, Barbora (owned by the Lithuanian grocery retail group Maxima) offers promotions of up to 50 percent on 500 products, communicating them heavily across its channels.

8 "Tesco Interim Results 2022/23" investor presentation
9 "Eurocash Group: 2022 Financial Results" investor presentation
10 www.frisco.pl/stn,pomoc/page,topic/id,10799262255250

Exhibit 24

Online shopping barriers for non-online shoppers[1]



[1] Q: What prevents you from buying groceries online more frequently? Select up to 3 responses
Q: Why do you shop for groceries online? Select up to 3 responses
Source: Consumer Survey 2023, n = 4,500, sample to match general population 18+ years

Such investments in value perception, however, have yet to overcome three important challenges. First, CE consumer value personal contact and consider it a leading barrier to move into online grocery shopping. Secondly, while online and in-store prices might not vary much on a product-by-product basis, the mix of items sold online does skew towards more expensive ones. This is most apparent with the lack of cheaper private-label brands, where CE online grocers typically lag behind their physical competitors, especially discounters. Finally, while delivery charges are rarely paid by online customers (who tend to order enough to qualify for free delivery), they remain a barrier to consumers who do not place large orders (Exhibit 24).

Regional differences between Central European online shoppers persist

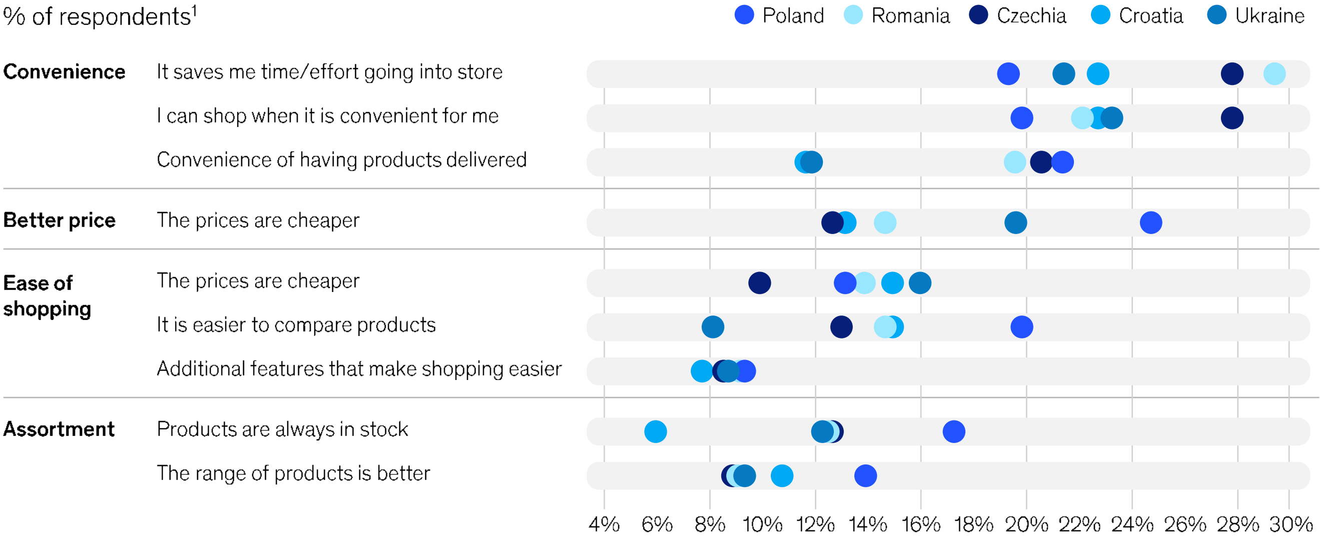
While convenience remains the most important trigger for the average CE online shopper, it is especially relevant for Czech and Romanian consumers. Poles, on the other hand, shop online because they frequently find the best prices there, and appreciate the fact that they can compare products more easily. The large share of respondents claiming online prices are lower than in-store ones (which in reality may not be the case), can be explained by deal hunting. Due to inflation and tightened household budgets more and more consumers compare prices and promotions between online retailers (including online marketplaces such as Poland's Allegro), cherry-picking the most attractive price points and stocking up on good deals (Exhibit 25).

Given the paramount importance of price for Central Europeans, consumers often optimize purchases per channel. The market landscape bolsters this trend, as offline grocery market leaders do not offer full online delivery, ceding online market leadership to pure players (Rohlik, Frisco), or players with smaller overall market share that take a disproportionate share online (Carrefour). As a result, consumers have no choice but to treat online and offline grocery shopping journeys separately and optimize their decisions accordingly. For example, our 2023 consumer survey of Poland showed that around 90 percent of consumers who occasionally shop with online market leaders Frisco or Carrefour regularly shop at Biedronka or Lidl.

Interestingly, even in markets where most players are omnichannel, consumers view online and offline as independent channels with different value propositions. In the UK, for example, according to our consumer survey, around 75 percent of customers sometimes or always shop online at different retailers than they do offline. Since consumers choose the best offline and online deals during their respective journeys, retailers need to make enticing offers per channel. This means pure players, like online market leaders in several CE countries, can sustain their market share even if offline market leaders decide to launch online channels.

Exhibit 25

Online shopping triggers of regular online shoppers



[1] Q: Why do you shop for groceries online? Select up to 3 responses
Source: Consumer Survey 2023, n = 4,500, sample to match general population 18+ years

Quick commerce (q-commerce), the delivery of groceries within an hour or less which prioritizes convenience over price, is growing fast across many CE countries, but remains a niche market. For example, Poland's Lisek app reported revenues of 43 million Polish zloty (PLN) in 2022, 10 times more than the year before [11]. At the same time, Frisco, a classic online grocer, generated 384 million PLN in the same period.

Key actions for retailers and CPG manufacturers

— Continuous smart investment into online grocery category build-up and consequent basket share capture as Central Europe's online grocery sector continues to grow and still enjoys significant headroom compared to Western European levels of penetration, with relatively low rates of regional coverage limited mostly to the largest cities.

— The profitability of online grocery is exemplified by several CE players. Rohlik has reported profits in Czechia since 2018, and Frisco reported a net profit in 2021. This trend will only strengthen, as we see leading retailers significantly increase their profitability by building retail media networks. In the United States, RMN sales comprise up to 10 percent of online food sales and yielded earnings exceeding 50 percent before interest and taxes (EBIT) margins. In 2022, the European RMN market was worth about €10 billion, and is expected to reach roughly €21 billion in 2025. These few additional percentage points of RMN profit can mean moving from the red into the black for many CE online grocers—and potentially reaching profit parity with offline grocery. RMNs are equally attractive to CE CPG players, because they provide far more granular targeting than other forms of advertising. In addition, it allows advertisers to measure the return on ad spending (ROAS) at the product level much more accurately by using the retailer's sales and website data. According to a McKinsey survey, 90 percent of CPG advertisers in Europe plan to increase their spending on RMNs in the next 12 months.

— Growth in online grocery depends on affordability, since growing the customer base requires lowering the predominately price-related barriers to entry. Retailers should continue improving their value positioning (real and perceived) by investing in lower everyday prices on key items, providing targeted promotions (funded mostly by suppliers), lowering free-delivery requirements, and significantly expanding the selection of affordable private-label goods.

[11] www.dlahandlu.pl/e-commerce/wiadomosci/lisek-app-w-ciagu-1-5-roku-udalo-nam-sie-osiagnac-to-co-zajelo-frisco-10-lat,120378.html

Interview

Tomáš Čupr

Group CEO, Rohlik Group

Rohlik is European technology leader building e-grocery with over 17,000 products in assortment with competitive pricing to brick-and-mortar counterparts. Orders are delivered within 15-60 minutes to customers.

Reprint from The State of Grocery Retail 2023: Europe

> The reason for our continued success is that we offer something that people don't use out of necessity. They use it because they want to.

Q: Rohlik is a fairly young company. Can you tell us the story of why and how you launched it?

A: McKinsey made me do it. Ten years ago, in 2013, McKinsey published a report on the future of online grocery in Europe. It listed all the barriers that were stopping people from buying groceries online: limited assortments, concerns about reliability, freshness, and speed. When I founded Rohlik in Czechia one year later, in 2014, I made it my mission to clear away all these barriers.

The core of the Rohlik proposition is same-day delivery. When we launched, nobody was doing same-day delivery, at least not in Europe. And we went even further. We brought the delivery window down to 90 minutes, and we created an unprecedented proposition in terms of assortment differentiation, reliability, and service. If customers weren't happy, we just gave them their money back, no questions asked. It was all about being customer friendly, and it really took off.

Q: What about profitability?

A: We broke even in Czechia after four years, in 2018, and we have been profitable there ever since. Our profit margin is well over five percent. The success in Czechia helped us raise venture capital for geographical expansion. In subsequent years, we launched in Hungary, Austria, Germany, and, most recently, Romania. We have proven that the Rohlik proposition is loved all over Europe, and we're on the path to profitability across markets.

In fact, I believe online can be more profitable than offline, as long as you don't try to be all things to all people. We focus on affluent customers in urban areas. Going forward, we will invest in warehouse automation to achieve further productivity gains. We will also make more comprehensive use of AI and machine learning in areas like order planning. We know all our customers, and we know where all of our goods are at any time. For a lot of brick-and-mortar players, that is not the case, and we will leverage that structural difference to boost our profitability.

Q: Was COVID a major driver of growth for Rohlik in the past two years?

A: Not really. We started scaling the business well before COVID. When the pandemic hit, we were already a €200 million business, with venture funding in the magnitude of €5 million. I admit that the lockdowns did accelerate our growth, but fundamentally, I believe that you don't need external events to scale if you have a good proposition. We were growing at a rate of 100 percent before COVID.

Q: And did sales drop off when lockdowns were lifted?

A: No. We continue to grow at more than 40 percent, and it's mostly like for like, because we didn't really add cities. The reason for our continued success is that we offer something that people don't use out of necessity. They use it because they want to. As I said, COVID did bring some new customers, and a lot of them found that they liked this way of shopping, and they stayed with us.

Q: Now that the pandemic is over, a lot of consumers are struggling with the effects of inflation. Do you see indications of customers trading down more?

A: We don't see much of it. The affluent urban customers we target don't feel huge pressure on their wallets. They value our big assortment and the fast delivery we offer. And when people do trade down, we make sure they trade down with us. We make it very hard for them to leave us for another retailer.

Q: How do you do that?

A: Value for money is key. The price per SKU is constantly increasing, so some people are buying fewer SKUs. In effect, they feel that they get less for their money. So to make sure these shoppers stay with us, we are pushing value for money.

Last year, we froze the prizes of basic commodities like milk, rice, and potatoes, about 60 SKUs in total. In some cases, our customers got milk for half of what they would have had to pay elsewhere. So, essentially, we let people feed their families at last year's prices.

Looking ahead, it's obviously a challenge to give consumers a good price without compromising your margin and your profitability too much. It's not a big issue for us, but I see many smaller online players struggling with that, especially those that launched during the pandemic.

Q: The pandemic gave rise to a lot of instant delivery propositions. What are your thoughts on that segment?

A: There is very little room for differentiation in that space. Instant is driven by only a handful of SKUs, mostly snacks and drinks. The locations are tiny, and you have to have many of them. And if we offered the wide, differentiated assortment our customers have come to expect from us in those highly dispersed locations, we would end up throwing much of the stock away. Our share of fresh goods is around 45 percent. So instant is not particularly attractive for us.

Q: As you expand to new countries, do you find that your model is universal? Or does it require a lot of adjustment?

> When people do trade down, we make sure they trade down with us. We make it very hard for them to leave us for another retailer.

A: You need to have a local assortment, but the structure of the assortment is universal. The key is to focus on affluent urban customers. If you do that, the model will work everywhere. In Prague, we deliver to roughly 25 percent of all households. There are no exact numbers, but we can even reach revenues in the magnitude of 50 to 70 percent of Tesco's offline revenue in specific micro markets in which we compete with them. That is certainly something worth replicating in other markets.

Q: And how are the big brick-and-mortar grocers reacting to your success?

A: There have been many experiments and discussions, but when it comes to real execution at scale, we don't see many players trying, at least not in the markets in which we are present. One of the big offline players terminated its online trials three times while we kept growing. It's a question of mindset. We would rather disrupt ourselves than be disrupted by someone else.

Q: Germany is one of your big bets for future growth. How will you address the high price sensitivity in that particular market?

A: People say that Germans are so price sensitive, but we don't really see that. It might be true in aggregate, but our target segment is different. It's a question of how deep you go into the data. You don't want to get lost in the average. There is a big base of affluent, demanding customers in Germany, and we are well set up to serve them profitably. The offline players we are up against in this segment need a high number of locations to achieve scale, and a lot of the high-end SKUs they are offering don't move very fast. We don't have these problems. In Munich, for example, we serve 30 percent of all households out of a single fulfillment center in Garching.

Q: Is it generally easier to succeed in e-grocery as an online-only player?

A: I think it is. You can't just bring offline online. You have to start from scratch. That said, even pure play is far from trivial. It's very hard to execute it well on a daily basis. But for offline players venturing into online, it's even harder. For example, they will always struggle with consistency across channels in terms of assortment and prices. You might have to create a separate brand to solve that problem, and that is going to dilute your profit margin for several years.

"We look for a founder-like quality in the people we hire. The will to innovate drives our success".

Q: As you keep growing, what kind of people do you hire?

A: We look for a founder-like quality. The will to innovate drives our success in Czechia, and we need more of that as we expand to new markets.

We look for a founder-like quality in the people we hire. The will to innovate drives our success.

3

New generation to ruffle market status quo

Gen Z driving market shift going forward and to win—their needs must be met

Introduction

Gen Z, currently the second-youngest generation, falls between Millennials and Generation Alpha, and includes people born between the mid-1990s and early 2010s. The first generation born into a digital world with the internet an entrenched part of daily life, Gen Z has been shaped by growing environmental anxiety, financial insecurity, and increasing inflation, all of which influence their shopping patterns. Gen Z shoppers are completely comfortable with omnichannel, and expect brands to deliver seamless experiences as they navigate virtual and offline worlds.

Gen Z comprises only 17 percent of Central Europe' population (Exhibit 26), but will grow in importance every year, so their purchasing power cannot be underestimated. Those born shortly before the turn of the millennium are sometimes called "Zillennials" and include older Gen Zers who have been employed for few years, as well as young Millennials who identify more with Gen Z.

However, Gen Zers possess their own distinctive values that set them apart from their older counterparts, as discussed earlier in this report. As such, it is absolutely crucial for brands to understand the attributes of this generation, which include pragmatism, social awareness, environmental commitment, and digital adoption. Because they exhibit very different shopping behaviors than other generations, Gen Zers challenge existing assumptions, and are sometimes referred to as the "Consumers of Tomorrow."

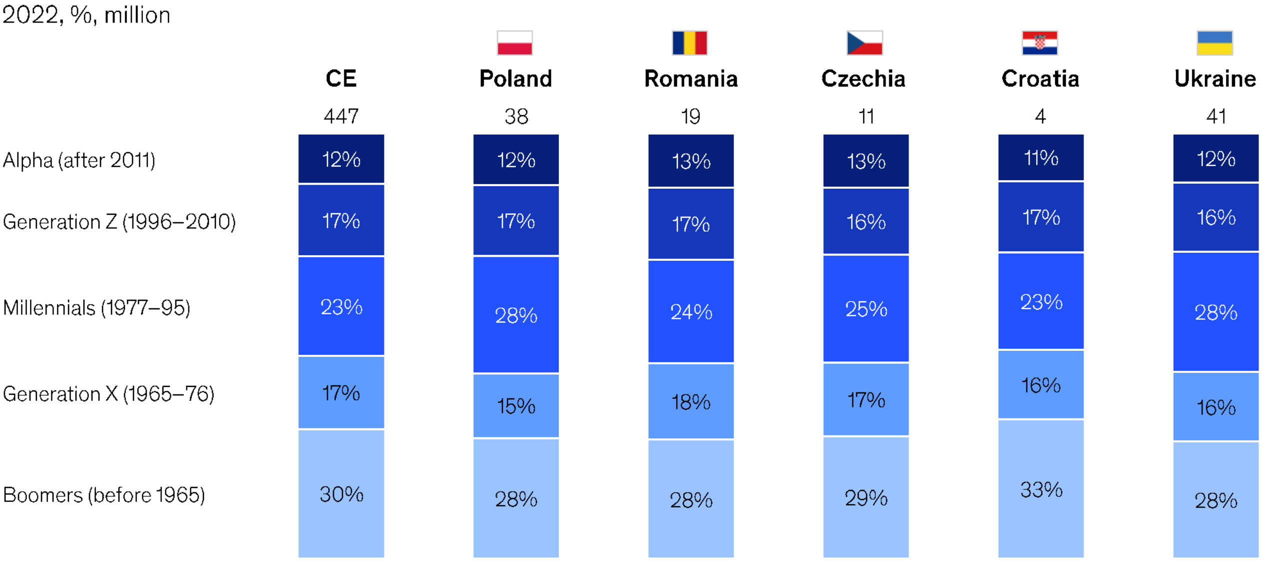
Gen Z shoppers curtailing grocery store visits

Gen Z consumers are limiting grocery store trips, and visiting stores only once a week is also gaining popularity among them, a departure from older generations (5 p.p. more than older shoppers). But most still visit grocery stores around 2–3 times a week, with a substantial drop in those making 4 weekly visits (8 p.p. less than older generations). This decline in shopping frequency is driven mainly by two factors: Gen Zers are consolidating their grocery needs due to lifestyle changes (eating out, q-commerce, smaller families), and shifting some shopping online (Exhibit 27).

Exhibit 26

EU and CE by generation structure

2022, %, million

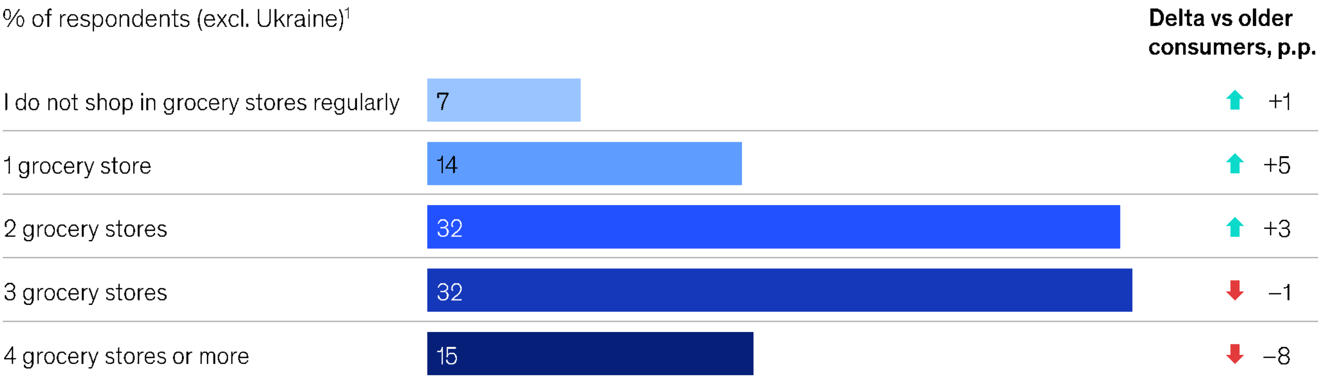


Source: Eurostat

Exhibit 27

Number of grocers visited per week by Gen Z

% of respondents (excl. Ukraine)[1]



[1] Q: From how many different retailers do you shop groceries weekly in 2022?
Source: Consumer Survey 2023, n = 4,500, sample to match general population 18+ years

After the turmoil of the COVID-19 lockdown, consumers regained their freedom to use all shopping channels. Despite being born digital natives, Gen Zers surprised many observers by demonstrating an attachment to brick-and-mortar grocers. Although they embrace new channels, physical stores will still account for part of Gen Z spending, because they value holistic customer journeys that can be elevated across multiple formats. Consumer brands and retailers can appeal to Gen Z consumers by bridging the gap between brick-and-mortar and online.

Given the observed shift in consumer behavior—larger orders, less frequent visits, less cross-purchasing across retailers—each shopping trip takes on greater importance than before. Retailers should be mindful of value propositions aimed at both loyal and new customers in terms of seamless and personalized experiences with lower in-store shopping friction. In short, retailers need to strengthen their hold on young consumers offline.

Convenience is the main online shopping trigger for Millennials, which Gen Zers take for granted
A larger proportion of Gen Z shoppers plan to buy groceries online next year, and consider a range of factors when making purchasing decisions. They find convenience less relevant (or treat it as a given), are as price sensitive as older generations, and prioritize features that make shopping easier.

Physical stores will remain relatively important to Gen Zers, especially where look and feel are vital (like fruits and vegetables), and these connected and conscious consumers expect more than a great online experience. For members of Gen Z, convenience associated with time savings, such as having products delivered, is not perceived as value added—they take it for granted.

Our research shows 26 percent of older generations cited the time and effort saved from a trip to the store as the most important reason for shopping online, compared to only 16 percent of Gen Z consumers (Exhibit 28). They were born intro a world with digital solutions in place to reach trusted brands and purchase products around the clock and across favorite channels. This shaped the Gen Z perspective, since unlike older generations, they were not bystanders as the online transformation took place.

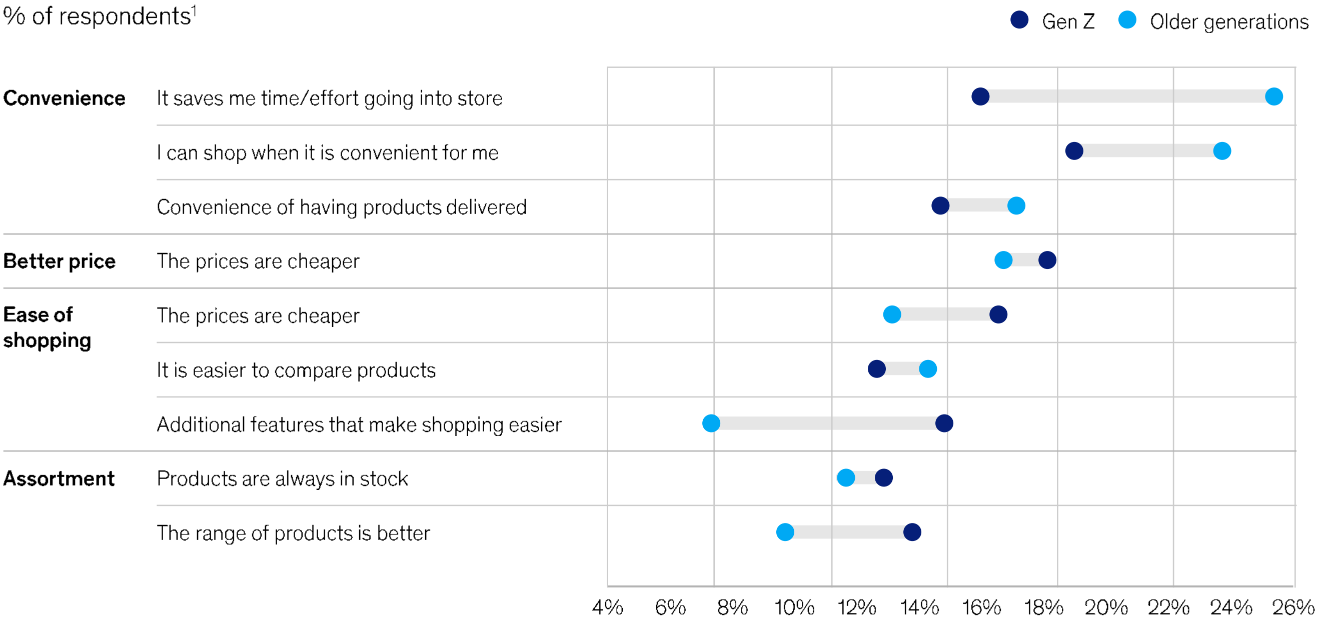
Gen Zers mainly choose online due to the ease of shopping, product range, and availability. Additional features that make online shopping easier are cited by 15 percent of Gen Z consumers as online triggers, compared to just 8 percent of the older population (Exhibit 28). Additional features important to Gen Zers include the ability to try clothes on virtually and social commerce, selling goods via social media platforms such as TikTok or Instagram. This trend gained particular traction in recent years, since it echoes the Gen Z desire to find product recommendations by someone they trust. They also view social media influencers as credible sources of knowledge and opinions during the decision-making process.

As digital natives of the always-on retail ecosystem, Gen Zers are always on the hunt for new trends to adopt. In order to keep pace with fluctuating Gen Z priorities, retailers should be aware of the emerging winds of change and continuously monitor the values driving this consumer segment. It is no longer enough to simply offer online shopping via a website or app. Gaining traction with Gen Z requires retailers to create engaging experiences across all customer touchpoints.

Exhibit 28

Online shopping triggers of regular online shoppers

% of respondents[1]



[1] Q: Why do you shop for groceries online? Select up to 3 responses
Source: Consumer Survey 2023, n = 4,500, sample to match general population 18+ years

Gen Z pivots towards private-label brands
Gen Z consumers demonstrated more positive attitudes to private-label foods in terms of superior quality, value and price than older consumers. Some 18 percent of surveyed Gen Z consumers choose store brands due to their quality, 6 p.p. more than older generations (Exhibit 29). Even more compelling, 38 percent of Gen Z shoppers believe private-label products offer superior value for money versus than branded goods, 8 p.p. higher than older consumers.

The economic climate that helped shape Gen Z shopping habits made them more price-conscious and cautious consumers—but they are not just settling for cheaper versions of the products they want. Gen Zers are less skeptical towards private-label products because they have no memory of the white-label, generic products they eventually replaced. They came of age when store brands improved their design, packaging, and product quality, allowing savvy shoppers to easily compare their (identical) ingredients with more expensive branded items.

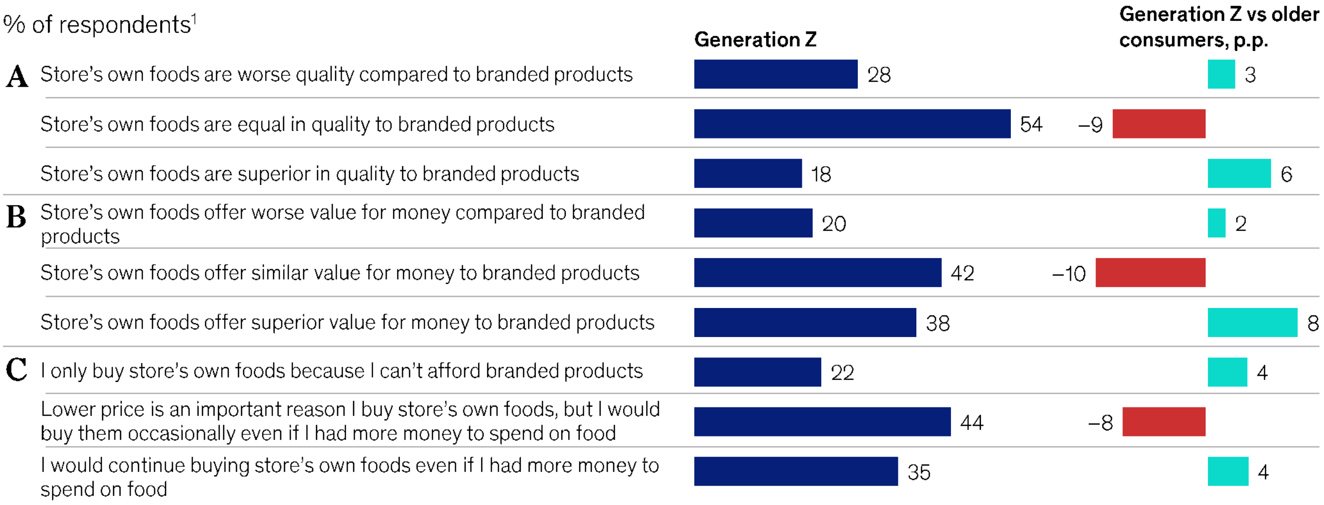
Today's young consumers are also better-informed and more inclined to care about corporate values and purpose than standalone branding. Their pronounced indifference towards branded products compared to members of Gen X or older Millennials represents a slide in loyalty. They grew up in more fragmented advertising environment and can select which media appeals to them, limiting their exposure to the biggest national brands advertised on traditional mass media channels. It remains a potential challenge for CPGs to adapt to these younger consumers and convey their perceived value for money, while discount retailers fill the gap by beefing up their own private-label products.

Private-label brands are the clearest expression of a retailer's value proposition. If they convince consumers to trust one product, shoppers then know they can trust the entire brand. But if retailers fail to come up with compelling products, consumers might question whether they have any strategy at all, or understand purchasing drivers. Pragmatism simplifies the paradox of choice, allowing Gen Zers to avoid being overwhelmed with a time-consuming selection of corporate brands. If they trust the retailer, loyalty to their private brands will grow as they try additional items. The proper balance between value, quality, innovation, and sustainability of private-label brands represents the key to further adoption.

Gen Z consumers ready to pay a premium for healthy foods and sustainability
Surveyed grocery retail CEOs claimed sustainability and healthy eating represent important trends highlighted from 2023, which holds especially true when it comes to Gen Zers, who are willing to pay a premium for healthier products from sustainable sources. Based on our research, almost 25 percent of Gen Z consumers said they would pay higher prices for healthier products, compared to only 15 percent of older shoppers (Exhibit 30). Gen Z consumers are also focused on nutrition, healthy eating, and

Exhibit 29

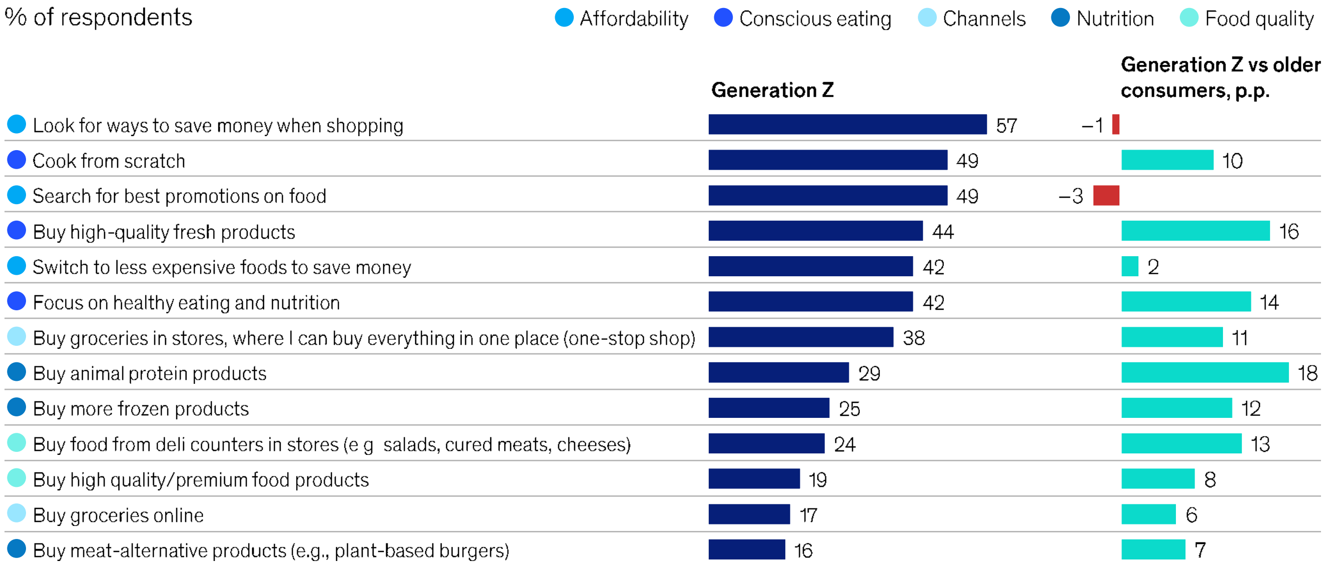
Attitude towards store's own brands



[1] Q: Now we would like to ask you a few questions about store's own brand foods, e.g., food products sold under the label of the grocery retailer. In each line, please, select which statement you agree with the most?
Source: Consumer Survey 2023, n = 4,500, sample to match general population 18+ years

Exhibit 30

What do you plan for the next 12 months?



Source: Consumer Survey 2023, n = 4,500, sample to match general population 18+ years

cooking from scratch (almost 50 percent), (Exhibit 30). They embrace free-from food (sugar free, dairy free, gluten free, etc.), along with fresh and organic food sold with greater transparency. As a result, traditional grocer advertising is starting to emphasize trust, quality, and local food.

Being digitally native makes Gen Z more open to try new things posted by their favorite influencers on Instagram, TikTok, and YouTube, who are shaping the preferences and tastes of an entire generation. They also exhibit far greater openness to trying alternatives to animal protein (incl. meat) and dairy products (29 percent and 21 percent respectively), versus just 9 percent and 11 percent, respectively, of older consumers (Exhibit 30).

Sustainability has been on the agenda of Grocery Retail CEOs for quite some time, but no generation has done more to boost this trend than green Gen Z consumers. While other generations claim to be keen on sustainable products, they tend not to put their money where their mouths are if it means paying a premium. Gen Z shoppers demand that brands embrace a meaningful purpose, practice sustainability, and simply do good. On average, some 10 p.p. more of Gen Z consumers want to buy from companies that promote diversity and fair pay for employees versus older consumers (Exhibit 30).

Key actions for retailers and CPG manufacturers

— Both retailers and CPG manufacturers need to act now to position themselves attractively to build a long-term relationship with the generation that will soon be dictating market direction. In order to do so, companies need to establish a solid and robust approach to researching consumer behaviors and translating them into specific actions. Fortunately, the range of tools that support insight gathering is expanding quickly, and should all be deployed to facilitate fast and impactful reactions.

— Market leaders need to remember how valuable a true omnichannel experience has become to Gen Z consumers, who now expect nothing less. The ability to offer a seamless online and offline experience will only grow in importance, so companies must devise innovate ways push the envelope and lead the change Gen Z demands.

— Companies must also bear in mind that Gen Z is less loyal to brands and logos than older generations, so building loyalty should top the agenda to promote constant engagement and interaction to lure these savvy shoppers to their stores.

— Last but not least, Gen Z is the most sophisticated and educated generation yet when it comes to making lifestyle choices. All offerings and communications need to reflect this fact, while remembering Gen Zers are also willing to pay a premium for products they perceive as healthy, nutritious, and sustainable.

Interview

Marta Wrochna-Łastowska CFO, Żabka Group

Żabka Group is a leading convenience chain in Poland with nearly 10,000 stores. Pioneering innovative solutions that build up Żabka Group such as autonomous stores like Żabka Nano, q-commerce with Jush!, ready-to-eat meals with home delivery via Maczfit, same-day delivery supermarket with Delio, and the box diet supplier marketplace known as Dietly.

Based on an interview conducted in June 2023

Q: In your opinion, how have long-term trends in the grocery market changed considering macroeconomic turbulence that have affected Poland since 2022?

A: Despite the pressing macroeconomic environment that has affected the Polish economy, the trends that we, as Żabka Group, have identified as important for consumer in the recent years will continue to be valid long-term. We are particularly observing this in areas such as convenience, digitalization and environmental responsibility as well as care for health.

The first trend focuses on customers who are struggling with a shortage of time and are looking for holistic solutions within brands they trust. This trend is driven by the long-term increase of hosehold disposable income, demographic structure of an ageing society, rising share of one-person households, and the fact that Poles are one of the busiest nations in Europe. We believe that the convenience ecosystem, which Żabka Group has been building for several years in Poland will continue to gain traction.

The second trend is digitization and the use of new technologies in the grocery industry, both from the customer's perspective (application, modern communication tools, personalized content) and tools that improve in-store efficiency (self-service checkouts, autonomous stores, electronic price lists).

The third trend revolves around taking responsibility for the choices we make on a daily basis, considering their impact on both health and sustainability.

Q: Long-term trends are expected to remain unchanged—what about short-term perspective? Do we expect that rising cost of living will be impacting consumer shopping decisions?

A: In 2023, consumers in Poland are exposed to a greater extent than in Western Europe to two factors that determine their shopping decisions—high interest rates and inflation. The credit burden of Polish consumers has much greater impact on the household budget due to lower share of cash purchases vs. mortgage and the scale of interest rate increases. The second element is inflation, which caused real income to fall by an average of 2.6 percent in 2022 compared to 2021.

Current customers are sensitive to price fluctuations and look for opportunities to buy cheaper products, e.g. through hunting for promotions and refraining from unnecessary purchases, such as impulse products like beverages on the good or sweet & snacks. Price sensitivity observed in stores is also confirmed by our NPS research that concluded that weight assigned to the price element increased y/y. Consumer behavior affects market dynamics leading to a shift in volume to cheaper formats, which we observe in the faster growth of discounters. At Żabka, we continue to record increasing numbers of customers visiting stores, but they are decreasing their basket size—especially in terms of indulgence products. In addition, we are noticing cost pressure related to inflation, in particular with the increase in energy prices and the rising minimum wage.

Q: How is Żabka Group responding to short-term trade-down and price sensitivity of consumers?

A: We actively create promotions and invest in prices to be considered as an attractive choice for consumers. Within our stores we offer multi-packs that allow consumers to save up on price per item, while building baskets up from the perspective of retailers. We are aware that consumer trade down affects the whole society, but to varying degrees depending on individual consumer profiles. This is why we personalize communication through dedicated promotional offers available in the Żappka app.

At Żabka we are trying to leverage our market position through assortment differentiation that will distinguish our products from competition—mainly through private labels. We are investing in the development of the quick meal solutions (QMS) category, which, despite inflation, continues to achieve a rapid growth rate in convenience stores. In our opinion, this might be due to a shift in consumption from the HoReCa segment. We want to respond to the growing demand in the fast gastronomy category, which is why we systematically expand our offered assortment and adapt our store equipment. For example, we invested in convection ovens to prepare quality dishes in-store. We observe, especially in smaller towns, that our stores not only fulfill typical shopping missions, but also become a meeting place mainly due to fast gastronomy options.

Q: As part of the identified profitability pressure, are you taking action to reduce store operating costs?

A: Yes, of course. From the cost side, we introduce activities that bring us savings in everyday store operations. Recently, we have focused on energy-saving solutions such as closing of refrigerators in stores on selected product categories in order to reduce energy consumption. We have signed long-term Corporate PPA contracts, which allow us to optimize costs of purchasing electricity through a fixed tariff price while changing the source of energy to renewable: in this case it is wind and solar energy, which are important to us not only from a cost perspective, but also from our ESG strategy.

In addition, we focus on improving process efficiency. The digitization efforts that Żabka Group has developed for several years, is now translating into measurable savings in store operations. We promote use of self-service checkouts, test electronic price lists and cameras to monitor product shortages, the so-called out of

> Inflationary pressure significantly affected the willingness to pay for sustainable products—customers want to continue their consumption, but not necessarily pay premium for them.

stock or the quality of products display. We aim to support franchisees in the process of optimizing store operations impacting in-store headcount and focus on HQ operational excellence.

As a result, two years ago we established a Business Services Center to improve and automate internal processes in our organization. We also test possibilities offered by GTP chat in terms of creating communication and labels, we review our algorithms and machine learning solutions constantly developing them, e.g. in the area of price and assortment positioning as well as automated replenishment.

Q: Żabka Group ecosystem consists of brands such as Jush! (a q-commerce solution) and Maczfit (a subscription-based meal provider). How are you embracing change in trends for the brands that are outside Żabka's core retailing activity?

A: Jush! is constantly evolving. Its customers are mainly residents of larger cities, who are usually less price sensitive, so the effect of declining consumption affects us to a lesser extent compared to our core business, which are stores under the Żabka brand.

At Maczfit, we have adopted a volume-driven strategy, making sure that our catering prices are attractive choice on the market. We believe this is the main reason behind significant growth achieved by this brand within Żabka Group. We associate this positive trend for Maczfit with two reasons—replacing restaurant consumption with cheaper, ready-made substitutes and narrowed cost difference between catering and homemade prepared meals due increased retail prices of food. Even though consumers are price-sensitive in current economic state they are not willing to resign from a healthy, balanced diet. Health aspects gained momentum during COVID-19 pandemic and remain important—our clients are conscious consumers who analyze products in terms of their impact on physical well-being and want to consume products in line with nutrition and health claims. However, inflationary pressure significantly affected the willingness to pay for such products—customers wish to continue consuming sustainable products, but not necessarily at a premium price.

Q: How would you describe the differences in shopping decisions observed by Żabka Group between younger and older generation consumers?

A: Younger consumers, particularly those from Generation Z, are more proactive in searching for good solutions, consciously looking for promotions even in the realm of impulse products. However, they are also less prone to trade them down compared to the older generation. In terms of communication, Gen Z is significantly more responsive to personalized promotions or messages that we provide through Żappka app. Taking these two factors into account, we noticed that the decline in purchase volume for consumers under 30 was comparatively smaller than the one observed by older generations.

In terms of demographic differences, the concept of the "15-minute city", which assumes that all

> **Our research confirms that share of products purchases "for now" in total expenditure on grocery shopping increased by 12pp; we believe that price is an essential element for current consumer, but proximity trend will not weaken.**

most important points are within a fifteen-minute walk from home, will be gaining in importance. This trend is driven by demographic changes associated with an ageing society, but also greater awareness of the impact on the environment, where especially younger generations strive to reduce their carbon footprint or food waste levels. Our research on consumer habits evolution confirms that over the years of 2016-2021, the share of products purchases intended for consumption on the day of purchase (purchases "for now") as a portion of total expenditure on grocery shopping increased by 12 p.p. , i.e. from 32 percent in 2016 to 44 percent in 2021. We believe that while price remains an essential element for current consumers, the proximity trend will not weaken.

Q: Considering profiles of consumers below 30 that differ from older generation, is Żabka personalizing offer for different consumer groups?

A: We constantly adapt solutions offered in our Żappka app for consumers under the age of 30 that constitute of 63 percent out of 6 million active users. Younger consumer groups are more willing to use solutions such as the coffee subscription we introduced called Kawonament or mobile game like tamagotchi Frog. We have introduced various possibilities of exchanging loyalty points, the so-called "żappsy" for rewards, e.g. electric scooter rides, which is used by Generation Z or shopping in other online stores for older recipients.

In Żabka Nano autonomous stores in which we offer in store shopping without any presence of employees using only Żappka app, 54 percent of customers are under age of 25.However, we notice technological barriers that differentiate age groups, and we try to address them—at the beginning it was possible to enter the Żabka Nano only through Żappka app, but we launched store opening with payment card to serve customers without need of installing application.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4

Double trouble: price sensitivity and cost pressures

Margins being squeezed by a challenging macroeconomic environment

Introduction

Over the last year or so, the CPG and retail industry experienced double-digit cost-push inflation resulting in overall price increases. This led to market growth that was powered mostly by price changes rather than positive volume uplifts, masking some demand challenges. Declining consumer index and intention to ration grocery spending threaten top lines of retailers and CPG manufacturers, while increased costs pressures are impacting bottom lines. Within the State of Grocery report we refer to this as “double trouble” to express the fact that slim margins in consumer industry could experience a serious dent in profitability. Leading grocers are focusing on reducing business costs and bolstering profits while keeping pace with consumers’ changing needs and high demands.

Comparing performance of both retailers and food processors (consumer–packaged–goods companies) between 2019 and 2022 EBITDA margin decreased for 53 percent companies out of ca. 140 in CE region. 14 percent of companies experienced no change to EBITDA (neutral performance with change between -0.5 to 0.5 EBITDA margin) and 33 percent had uplifts (Exhibit 31). The extent to which retailers and CPG manufactures are impacted by declining profitability is largely dependent on their willingness to pass all or part of the costs onto the customer. Nonetheless, margin and costs pressure are expected to remain and based on our CEO survey, a response to the heightened recession is at the top of companies’ agenda.

Exhibit 31

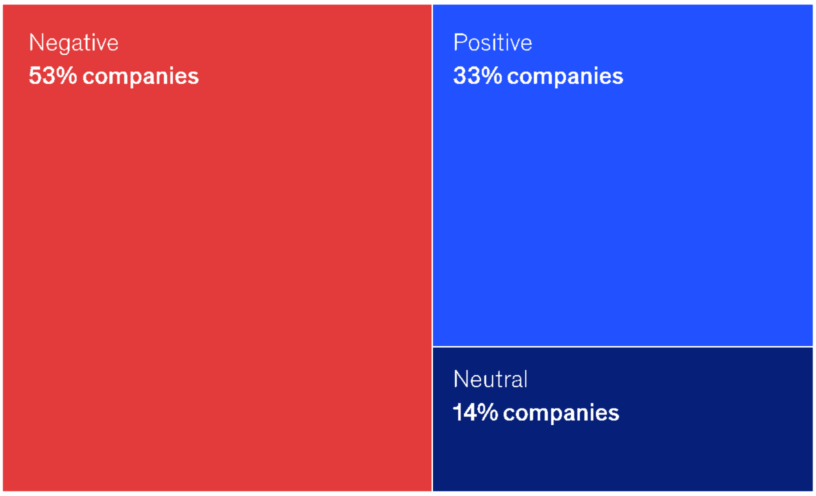
EBITDA margin performance[1] of 138 leading grocery retail and CPG companies[2] in CE

2022 vs 2019

[1] EBITDA performance: Neutral – change in EBITDA margin between -0,5 to 0,5; Negative – change in EBITDA margin above -0,5; Positive – change in EBITDA margin above 0,5

[2] Companies in the sample: CE: 26 retailers including among others Żabka, Dino, Polomarket, Lidl Polska, Rewe, Profi, Mega Image, Billa SRL, Tommy, Studenac, Spar Hrvatska d.o.o., Ribola, Plodine, Ktc, Konzum, Carrefiur Romania SA (€67 billion total revenue in 2022), 108 consumer packaged goods companies including among others Żywiec SA, Pamapol SA, Naleczow Zdroj Sp. z o.o., Mars Polska Sp. z o.o., Tarczynski S.A., Zvijezda Plus d.o.o., Podravka d.d., Maraska d.d., Ledo Plus d.o.o., Kofola Ceskoslovensko A.S., Tereos Ttd A.S., Bunge Romania SRL, Coca-Cola Hbc Romania SRL

Source: EMIS, companies' financial reports

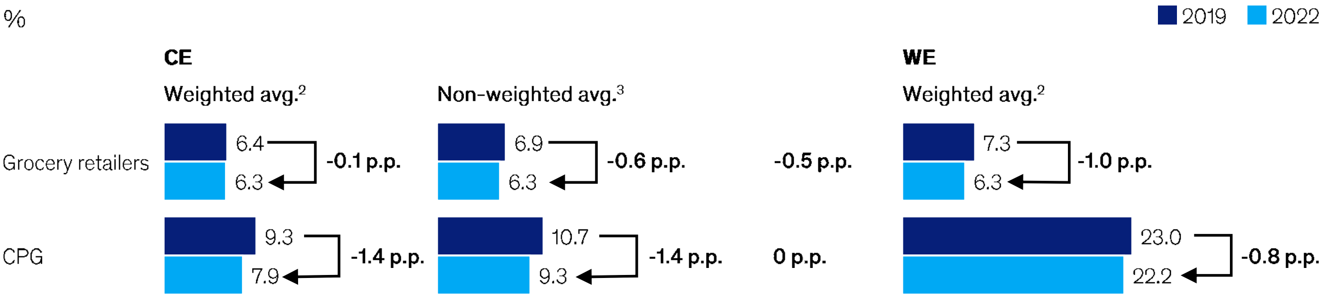


To understand the specific nature of the current headwind for CE companies, we conducted an analysis on margins performance of top grocery retailers and CPGs in the region. EBITDA margin of grocery retailers in the sample decreased from 6.4 percent to 6.3 percent and for CPGs from 9.3 percent to 7.9 percent during 2019 to 2022. In relation to WE companies grocery retailers' profitability was less impacted (EBITDA margin decrease in WE by 1.0 p.p.). On the other hand, CPG manufacturers in CE experienced a higher drop while having already thinner margins compared to WE peers. The average EBITDA margin in WE equaled 22.2 percent with a drop of -0.8 p.p. in profitability compared to a 9.3 percent EBITDA level and a 1.4 percent drop.

For a clearer picture to showcase the evolution of EBITDA margin for grocery retailers, we compared

Exhibit 32

EBITDA margin performance[1]



[1] Companies in the analysis subset: CE: 26 Grocery retailers (€67 billion total revenue in 2022) – Jeronimo Martins Polska S.A.,Lidl Sp. z o.o. sp. k.,Dino Polska S.A.,Eurocash S.A.,Lidl Discount SRL,Żabka Polska sp. z o.o.,Kaufland Romania SCS,Auchan Polska Sp. z o.o.,Profi Rom Food SRL,Carrefour Romania SA,Carrefour Polska Sp. z o.o.,Metro Cash & Carry Romania SRL,Mega Image SRL,Tesco Stores Cr A.S.,Konzum Plus d.o.o.,Makro Cash And Carry Polska S.A.,Rewe (Romania) SRL,Auchan Romania SA,Spar Hrvatska d.o.o.,Plodine d.d.,Tommy d.o.o.,Polomarket Sp. z o.o.,Studenac d.o.o. (Omis),Ktc d.d.,Ribola. d.o.o.,Billa SRL (€67 billion total revenue in 2022), 108 consumer packaged goods companies (€ 38 billion total revenue in 2022); WE: 12 grocery retailers (€278 billion total revenue in 2022) – Ahold Delhaize, Axfood, Carrefour, DIA, ELO SA, Eurocash, Groupe Casino, ICA, Jerónimo Martins, Kesko, Migros, and Sonae MC; top-7 consumer packaged goods companies (€ 385 billion total revenue in 2022)

[2] Weighted EBITDA margin calculated as total EBITDA over revenues in each period

[3] Non-weighted EBITDA margin calculate as average of EBITDA margin from each company in the analysis subset in each period

Source: EMIS, companies' financial reports

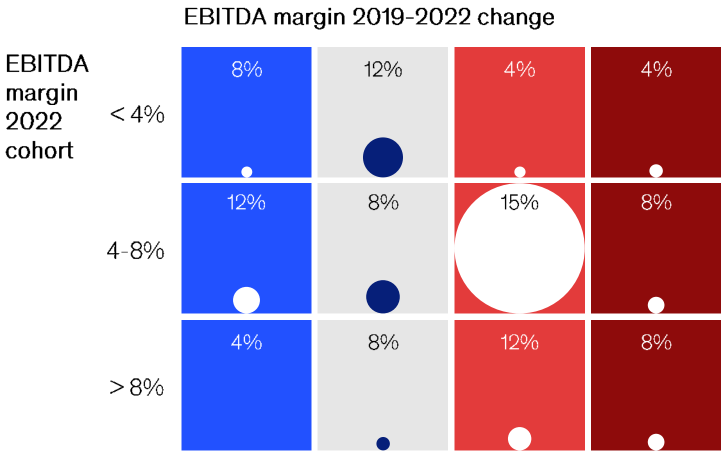
how the EBITDA margin has changed depending on the level of profitability achieved and the size of the company measured by revenues. The level of EBITDA margin change was quite evenly distributed between the EBITDA margin cohort, with a slightly higher share of companies between 4-8 percent losing profitability. The most common trend of the EBITDA margin was moderately negative, indicating a decrease in profitability between 0.5 to 2 p.p. This trend is represented by 15 percent of companies in the CE subset responsible for ca. 40 percent of revenues, including grocers such as Jeronimo Martins Polska S.A., Lidl Discount SRL, Żabka Polska sp. z o.o., Dino Polska S.A. (Exhibit 33).

Nonetheless, grocers experienced less loss of profitability in CE compared to Western Europe. This can be explained by the ongoing consolidation in the grocery retail sector, leading to decreased operating costs and resulting in healthier profitability. Examples include Studenac's acquisition of Lonia chain in Croatia, Carrefour's acquisition of the Cora chain in Romania, and the replacement of the Tesco brand by Netto in Poland. On the other hand, CPG leaders are impacted mainly by the changing channel mix in the CE region, namely by a growing market share of discounters, which are least profitable and a decreasing number of hypermarket and supermarkets. The balance of power equation in CE is simply different compared to WE, leading to a more significant drop in CPG profitability.

Exhibit 33

EBITDA margin matrix of retail companies–EBITDA margin cohort vs. 2019-2022 margin trend

%



EBITDA margin change, 2019-2022

- > 0,5 – positive
- 0,5 to -0,5 – stable
- -0,5 to -2 – negative moderate
- < -2 – negative high

XX % of companies

Revenue size

Companies in the analysis subset: 26 Grocery retailers (€67 billion total revenue in 2022) – Jeronimo Martins Polska S.A.,Lidl Sp. z o.o. sp. k.,Dino Polska S.A.,Eurocash S.A.,Lidl Discount SRL,Żabka Polska sp. z o.o.,Kaufland Romania SCS,Auchan Polska Sp. z o.o.,Profi Rom Food SRL,Carrefour Romania SA,Carrefour Polska Sp. z o.o.,Metro Cash & Carry Romania SRL,Mega Image SRL,Tesco Stores Cr A.S.,Konzum Plus d.o.o.,Makro Cash And Carry Polska S.A.,Rewe (Romania) SRL,Auchan Romania SA,Spar Hrvatska d.o.o.,Plodine d.d.,Tommy d.o.o.,Polomarket Sp. z o.o.,Studenac d.o.o. (Omis),Ktc d.d.,Ribola, d.o.o.,Billa SRL (€67 billion total revenue in 2022)

Interview

Robert Wawro
COO, Maspex

Maspex is one of the biggest consumer packaged goods producers in Central and Eastern Europe with over 70 brands in portfolio mainly from beverages, food and spirits categories produced in 17 plants located across Central Europe.

Based on an interview conducted in May 2023

Q: What challenges do you foresee in the market for the coming year, given the changes taking place over the last several months?

A: After last year's wave of price increases, which resulted from a significant cost pressure, we recorded an effective increase in sales prices in the last quarter of 2022 and the first quarter of 2023. Initially, we did not observe a decrease in sales volume, but this year we notice a decrease in the disposable income of our consumers. We forecast that this trend will continue to deepen and purchasing power will decline until the end of the year. This is due not only to the general price inflation, but also due to higher interest rates, which affect the increase in loan installments. All of this will have an impact on consumer behavior, possibly leading to more cautious purchasing decisions.

In the context of retail, we have all been forced to raise wages to some extent. Energy prices and fixed costs of stores have also increased, resulting in lower profitability. We expect that in retail, especially among smaller stores, there will be challenges related to limited liquidity. Small stores have few opportunities to optimize costs to increase efficiency. This may contribute to the greater importance of retail chains and franchises in the market. Discounters will also strengthen their position by offering the most competitive prices.

We suspect that some cost factors have already stabilized or even decreased. Nevertheless, we have not yet reached the pre-pandemic margin level. The increase in wage costs will certainly continue to be an important factor, because we have low unemployment and disposable income has decreased in recent months, which translates into expectations of wage increases.

Q: What actions is Maspex taking to restore the margin from before the pandemic?

A: Currently, we are mainly undertaking optimization activities and attempts to reduce costs in various operational areas of our company. In order to gain perspective and find improvements in the area of the supply chain and production, we conducted an analysis of the effectiveness of our processes. What previously might have seemed irrational, such as having our own warehouses, including logistical ones, now turns out to be our competitive advantage. Today, Maspex has 18 high-bay warehouses in

Poland, Czechia, Bulgaria, Romania and Hungary. This translates into more than half a million pallet spots.

In addition, more effective competition not only in the immediate market, but also in Europe, enables us to invest capital in machinery and develop our factories. There is already 17 specialized and modern locations.

An extremely important change was the focus on the efficient flow of information and increasing the speed and flexibility in decision-making. In the face of a rapidly changing world, where the prices of raw materials or packaging can change dramatically, we had to adapt our decision-making processes to become more resilient.

In the context of labor costs, we hope that the emerging digital and automatic solutions will allow to increase work efficiency and better use of employees' potential.

Q: What is the potential of digitalization and automation in the industry?

A: In the retail market, there is great potential for automation, especially for self-checkouts as well as the potential for unmanned stores. However, it is difficult to predict whether and when such unmanned stores will gain popularity and cease to be something foreign to customers. From the perspective of wholesalers, automation of the ordering process can play an important role, allowing retailers to place orders for essential products themselves. It is likely that many repetitive or standardized activities will be partially or completely replaced or aided by machines or computer programs.

I recently had a meeting with one of the leading producers of AI solutions, which is just an example that they are interested in commercializing their products and gaining customers in the retail sector.

In addition, with the emergence and increasing popularity of tools such as ChatGPT and increasing competition from companies such as Google or Microsoft, we can expect more and more specific proposals for solutions in our industry.

Q: Do you notice any differences among the countries in the Central European region where you operate, particularly in terms of your product categories?

A: In the past, I came across studies indicating that Poland and Czechia are the most sensitive markets to price changes. Although the situation may have changed somewhat, the consumer in the Central European region is still very price sensitive, especially in times of crisis or income constraints. Purchasing decisions are made based on the optimal offer between channels and products, and therefore we expect relatively strong reactions to promotions.

It should be noted that CE markets differ, among others in terms of the popularity of channels. While in Czechia and Hungary modern channels such as super- and hypermarkets dominate, in Slovakia and Bulgaria traditional trade still plays a significant role. Just like in Poland, where the Maspex Group has a very strong position on this market. It is very important to us and—as a company—we care about it. The sense of responsibility for maintaining traditional trade and building value in it is an important business element for us.

However, we see a trend of moving from traditional channels towards modern ones. This is particularly noticeable in Romania, but also in Poland.

> The consumer in the Central European region is still very price sensitive, especially in times of crisis or income constraints. Purchasing decisions are made based on the optimal offer between channels and products.

Taking into account the complexity of the Central and Eastern European markets and the accompanying number of variables, we find ourselves performing quite well. There are only a few categories in which we operate where we have not yet exceeded a 30 percent market share.

Q: How do you achieve such results, considering the formulation and subsequent adaptation of your strategy to match specifics of the markets in which you operate?

A: First of all, building a bond with the consumer is crucial. In areas where we have invested heavily in marketing and developed a strong brand, behavior based solely on competitive price is less visible. I suspect that in countries such as Poland, Romania or Slovakia, where the price criterion is still important, consumers will be able to pay a little more for a proven brand they trust. We observe that customers are increasingly choosing larger, more cost-effective packaging under the same brand. This allows them to save money, and at the same time does not lead to the "trade down", i.e. buying cheaper substitutes. From our perspective, in times of crisis, a strong and recognizable brand allows us to partially compensate for the higher price.

An interesting market is Hungary, where in some categories we have not been able to build a leading position due to the specificity of the strategy pursued by the current leader—building shares primarily based on offering a low price. Therefore, the issue of the brand, of course, is still important, but it is in the background. In such a market situation, we react mainly by adjusting prices and promotional offers. In the long run, this situation does not pay off for either manufacturers or retailers, because it leads to the commoditization of categories.

We also build relationships with the consumer by achieving the goals included in the ESG strategy that we have implemented in Poland. Despite the higher costs associated with its implementation, we do not intend to take a step back. We do not treat ESG activities as a marketing element, but we see them as a new business reality. In a sense, it is also a response to the expectations of our consumers.

Q: You mentioned that customers are price sensitive, but in some countries the brand plays an important role. How do you adapt your behaviors and practices towards consumers with a more frugal approach?

A: We continue to monitor the situation very closely. If we notice a reduction in costs and we have the opportunity to lower prices, we introduce promotions. I predict that from 2023 up to Q1 2024, we will experience irregular, high price reductions, depending on changes in costs and the need to increase sales volumes. After the first quarter, we have not yet seen the strengthening of private brands, and our promotional responses allow us to maintain and sometimes even increase market share. We intend to continue this kind of activity in all the countries where we are present.

We also notice a growing trend of "smart shopping", i.e. a phenomenon in which consumers do not want to give up their favorite brands, but look for more attractive prices between channels, and also plan purchases for the future when there are larger promotions and the product is usable for a longer period of time. In addition, as I have already mentioned, consumers choose larger packages that are cheaper per unit.

"We also notice a growing trend of so-called "smart shopping", i.e. a phenomenon in which consumers do not want to give up their favorite brands, but look for more attractive prices between channels, and also plan purchases for the future when there are larger promotions and the product is usable for a longer period of time.

Focus on improving efficiency

While the threat of decreasing profitability is real and proved already by EBITDA margin dip by half of CE grocers and CPG, the challenge could be turned around into a growth opportunity. The current mix of factors, including macroeconomic headwinds, post COVID-19 consumer sentiment, and the acceleration of e-grocery, could amplify the potential for retail industry leaders who are proactive in planning their approach.

While the most optimal response to the margin squeeze will vary by each individual company, there are two main actions that should be undertaken: the optimization of the cost structure and the introduction of more sophisticated solutions regarding 4P maturity curve. In our view, during turbulent years of rising cost of goods, most retailers and CPGs responded by increasing consumer prices, renegotiating terms with suppliers, or proceeding with cost cutting quick-wins rather than taking enterprise-wide view of cost reduction. With ever-shrinking consumer wallets, there might be limited room for further price increases. To maintain healthy profitability, companies should adopt a holistic approach to improve efficiency to drive savings. Most retailers and CPG companies focused only on a narrow part of the cost bar to keep status quo during turbulent times rather than consistently engaging in cost-cutting activities. With consumers now expecting "more for less" convenience, where attractive prices and an optimized shopping experience are both nonnegotiable, grocery leaders need to implement a concentrated and thorough strategy to create a pool of funds to invest in high-importance areas.

When most retailers think about cutting cost of goods sold, they aim at improving their trade terms with suppliers by accepting 1-2 percent off each product. More advanced retailers rely on an analytics-driven approach to achieve better results for category strategy by understanding which products consumers value the most. Category managers equipped with this knowledge and data, can conduct negotiations with the aim of securing deeper discounts for hero products, not focusing on items that will not be missed from the shelves. Another solution to pursue COGs reduction is improving shrink management by better sales forecasting with advanced algorithms. Ordering the right quantity of products is always a good starting point for waste optimization, although past data can be less accurate in reflecting today's more dynamic grocery environment. To make the best use of waste management strategies it is important to establish inventory controlling cockpit. It will provide simulations of forward-looking inventory demand to suggest necessary stock adjustments and create an "early-warning system" for potential imbalances between sales and inventory levels. At the same time, retailers are introducing camera vision and AI solutions to monitor the persistent issue of shrinkage—such solutions are already used in Żabka Nano and tested in regular Żabka stores.

Based on our CEO survey, one of the most pressing cost buckets are wages and for achieving savings on headcount. Some of the actions undertaken include redesign and processes automation to make sure that human work is invested in high-priority areas, while low-value and repetitive tasks are eliminated. Achieving savings in store labor can require most patience of all the saving levers. Solutions like self-checkout, automated price tags, and tools for planogram verification take some time to become more commonplace.

Self-checkout systems are now table stakes for grocers, with the anticipated expansion of this solution into additional technologies such as mobile scan and go (e.g. tested by grocers such as Carrefour). Scanning by customers via an app offers a wide range of new targeting possibilities, such as communicating personalized promotions and suggestions to build up the basket. At the same time, price tags validation or planogram monitoring are strong business cases for automation, namely the use of robotics to perform these activities to alleviate the need for human-labor.

Data-driven retailers and CPG manufacturers have a more prominent opportunity in finding cost-savings "hot-spots" rather than solely relying on competition benchmarking to introduce change. Concepts such as marketing return on investment (MROI) and zero-based budgeting (ZBB) as suggested by McKinsey, are more effective in achieving cost savings compared to arbitrary budget cuts. As a starting point, it is essential to run comprehensive marketing return-on-investment diagnostics, understanding overall media-mix and the company's purchase-funnel performance. The benefits of MROI approach include managing marketing as a genuine investment rather than a sunk cost, the possibility to compare spend across different media channels to analyze campaign impacts across the entire consumer decision journey and to tailor the content. Such a unified view of marketing spend provides a vital bridge between CMO and the CFO, a crucial aspect in the pursuit of cost reduction. In order to get MROI right, companies need to rethink their use of data and shift towards greater agility and precision in the single source of truth, to rely on, such as customer-data platform (CDP). It should incorporate various data from multiple sources such as internal sources, external partners as well as third parties and being managed by dedicated team to oversee integrity of this data. Efficiencies in general are driven by all 4P components depending on company maturity – more sophisticated solutions will bring higher savings in terms of pricing, promotions management, assortment and already mentioned marketing (Exhibit 34). We can argue that only limited companies in CE are Level 3 maturity, so in this pressing times strive for change cannot be neglected.

Second concept mentioned called ZBB involve "building a budget from zero" but in much broader sense such as establishing a repeatable process that organizations can use to scrutinize annual budgets, manage financial performance and thoroughly rethinking processes. Although, it all starts with creating a sense of transparency to build up data base and digital tools to analyze spending per business unit, according to cost center, category or even vendor. ZBB means going through company's spending and looking at individual cost across all business units to put a burden of proof on business owners to rationalize if resources are in fact still required to achieve business objective.

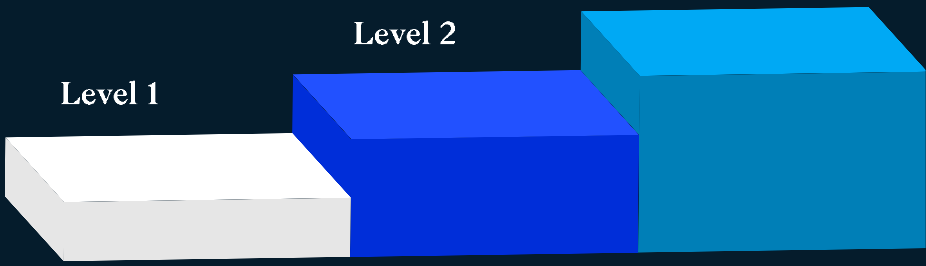
Ongoing cost pressures and margin squeeze will lead to difficult decisions about prioritizing capital allocation. That is why there will most likely be a renewed focus on performance improvement starting from 2023 in order to drive up savings to restore margins. So far, we believe, that few retailers have run comprehensive and integrated cost-savings push to unlock full potential. Except retail champions in the region, most efforts have been focused on disconnected one-offs not a constant drive for cost savings tied closely with company strategy. This pick and mix approach resulted in losing of EBITDA margin during macroeconomics headwinds that have strated in 2022 and will go on in 2023 and beyond. Today, more than ever, retailers need to identify, improve, and create efficiencies across all areas of the business focusing on maximizing the value of available assets.

Key actions for retailers and CPG manufacturers

- Rethink and plan for optimization of critical cost items, like personnel and energy. Today's investments should result in tomorrow's payback
- Automate processes and use data analytics for more efficient shrink management, demand forecasting, stock allocation to stores and logistics and keeping high energy consumption cold chain efficient (including more tailored and granular consumer data driven decisions on cooler investment and placement in stores)
- Adopt new operating models based on zero-based budgeting and zero-based organization principles to unlock funds for investment in profitability drivers like customer acquisition
- Achieve cost excellence for more efficient store operations and push for cost of goods sold (COGS) optimization through insight based negotiations and data-driven marketing spend decisions

Exhibit 34

Marketing mix maturity levels



		Level 1	Level 2	Level 3
Pricing	**Fixed rule** All items in stores are managed to a flat index (e.g., 20 percent markup, or competitor price match)	**Grid-based pricing** Differentiating pricing across zones by segmenting stores on customer price sensitivity, catchment demographics and distance to and type of local competition; KVCs KVIs are identified	**Rule Engines** Optimization on macro level architecture by using a "rules engine" that determines prices on SKU level based on, e.g., item properties, competition or demographics; this can also include personalized prices by applying rules to customer characteristics	**Dynamic pricing** Managing demand, supply, competitive, and cross-price factors in "real time", looking across all of the components of "price-value" to the customer including base price, promotion, and targeted offers, and therefore can personalize value to the individual. Has the ability to auto-detect and continuously optimize lifecycle patterns
Promotions management	**Spend and direct uplift based** Having transparency and accountability for the total number and discount of promotions across the store and their net return	**Promotion rules** Descriptive understanding of promotions lift net of cannibalization, forward buy, basket building Promotions management based on rules and business logic	**Detailed impact calculation** Econometric modeling used to forecast #volume, $value, %margin and profit for item and category per combination of offers in the plan Calculation of net promotions impacts cleaned from effects of cannibalization and stock-up	**Personalized promotions based on prescriptive tools** AA-enabled demand forecasting of promotions lift based on internal and external features; personalized promotions (or promotions recommendations) tailored to individual customers
Assortment	**Experience** Assortment selection and design of shelf space based on category manager subjective experience and trade terms with suppliers	**SKU selection common for all stores and template design** Data driven SKU selection based on limited use of data on chain level (sales); Store design templated for store format based on target shopping mission	**Macro level optimization** Regular assortment review (min. 2x/year) and ongoing analysis of SKU performance and attractiveness (sales, rotation, competition benchmarking, SKU gap analysis); Use of sales and movement data to optimize placement of category based on expected sales	**Micro level optimization** Using store-level data to drive up product regionalization – designing assortment based on store cohort/region; Use of granular sales data to optimize placement on micro level up to specific SKU within category
Marketing	**No MROI measurement** Decision making based solely on the business judgement Strong reliance on agency partners	**Global standards** Employ „one currency" to measure and compare marketing ROI across investments Systematically track Reach, Cost, and contact Quality of all instruments (RCQ methodology)	**Measured impact** Apply econometric modeling (MMM) to relate investment and impact and substantiate RCQ decision rules with Marginal ROI Quantify overall impact of Advertising vs. Other commercial levers (e.g., trade, promo, competition)	**Person level ROI optimization** Track individual customer journeys end-to-end Measure impact consistently across online and offline Go beyond channel ROI to individual message ROI

Interview

Paweł Surówka

CEO, Eurocash Group

Eurocash Group is a company operating in both FMCG wholesale and retail sectors. As a wholesale distributor, Eurocash reaches almost 90,000 points in Poland, while nearly 16,000 stores operate under Eurocash retail brands, including Delikatesy Centrum, Lewiatan, and ABC.

Based on an interview conducted in May 2023

Q: In your view, how will the grocery retail industry in Poland evolve in the next three years?

A: In my view, the grocery retail industry is poised for significant evolution over the next three years. Despite the challenges faced in 2022 and 2023, such as the war in Ukraine, the energy crisis, and rising inflation, there are noteworthy opportunities for growth. The influx of refugees and increased immigration have resulted in heightened market demand. However, it is important to acknowledge that consumers have become more financially cautious, as evidenced by their heightened price sensitivity, basket rationalization, volume limitation, de-premiumization, and a preference for cheaper alternatives.

While these conditions present challenges for the entire market, they also offer opportunities. Companies that can effectively scale while maintaining or even improving cost efficiency are likely to gain additional market share, which is in line with our “We grow together” strategy plan for 2023–2025.

At Eurocash Group, we possess the necessary foundations to solidify our position as the largest wholesaler ion the polish market. Our objective is to double our EBITDA to 1 billion PLN by 2025. To achieve this, we are focused on enhancing our operations in omnichannel wholesale, leveraging technological platforms, and fostering stronger relationships with our franchises and partner brands.

Q: What strategic measures do you consider in order to maintain competitiveness while preserving profit margins?

A: To maintain competitiveness while preserving profit margins, we focus on strategic measures centered around three key pillars of cost excellence.

Firstly, recognizing the increasing price sensitivity of consumers, we prioritize offering them competitive prices. This necessitates engaging in discussions with our suppliers, as their cost bases have also undergone changes. While inflation remains high, it is important to note that certain product categories, such as fats, have experienced price reductions. It is crucial to differentiate between price increases driven by rising costs and those influenced by the law of supply and demand, where limited availability leads to price spikes.

Secondly, we actively pursue additional cost efficiencies through digitization and capitalizing on scale effects. The ongoing digital transformation within our industry is expected to progress rapidly, prompting businesses across various sectors to invest in technologies that enhance efficiency, improve customer experience, and bolster operational agility.

Lastly, we strategically invest in our own brands and explore first-price alternatives. The phenomenon of trading down is evident, particularly in categories like coffee, tea, fish, cold cuts, and select non-food categories such as home and personal care.

By adhering to these strategic pillars, we aim to maintain our competitive edge while safeguarding our profit margins, adapting to the evolving market dynamics, and meeting the needs of our price-sensitive consumers.

Q: How do you effectively manage and navigate price pressure from suppliers while ensuring mutually beneficial agreements that address their profitability concerns?

A: Navigating price pressure from suppliers can indeed be a complex challenge, particularly when dealing with suppliers affiliated with global food groups. Therefore, we prioritize the cultivation of strong relationships and foster a collaborative approach, rather than engaging in adversarial price negotiations.

Expanding the scope of negotiations to encompass factors such as payment terms and supply-chain financing is one approach we employ. Additionally, we recognize the importance of supporting fast-moving consumer goods (FMCG) producers in their endeavors to introduce new products and expand their portfolios to meet the evolving needs of our customers. This may involve offering assistance in launching new flavors or catering to different shopping missions. Embracing a "growing together" mindset is deeply ingrained in Eurocash's DNA and serves as a central theme within our overarching strategy.

Q: What changes do you foresee occurring within distribution channels?

A: We anticipate several changes within distribution channels in the near future. Firstly, we expect the share of local grocery stores (up to 500 m2) to remain stable at approximately 35 to 40 percent of the expanding Polish market.

> Regarding price pressure from suppliers, we prioritize the cultivation of strong relationships and foster a collaborative approach rather than engaging in adversarial price negotiations.

Traditional trade, on the other hand, is likely to witness a decline in the number of stores, while experiencing sales growth due to an enhanced focus on professionalization of store concepts.

Furthermore, we expect online grocery sales to continue their steady growth trajectory. COVID-19 pandemic accelerated the demand for e-grocery, and this trend is projected to persist. According to report prepared by PMR Market Experts, the Polish e-grocery market is forecasted to achieve an annual growth rate of 24 percent between 2021 and 2026.

Consumers are more comfortable with online e-grocery concept, prompting retailers to invest in digital platforms offering a convenient and personalized shopping experience. However, there are challenges to overcome for the further expansion of e-grocery in Poland. Building customer trust and ensuring satisfaction are crucial, since shoppers need to be confident in product quality and reliable delivery.

Drawing from the success of Frisco, an undisputed leader in Polish e-grocery, we have learned the importance of strategic marketing investment. Establishing closer connections with consumers is essential, enabling them to experience online grocery shopping as a convenient and cost-effective way to fulfil their recurring grocery needs rather than a premium service.

Q: Do you think that online shopping could surpass the significance of local stores for certain consumers?

A: We do not expect the online shopping to outgrow the relevance of local stores in the near future due to the importance of proximity in shopping decisions. However, we do anticipate a transformation in this channel, and aim to facilitate this shift by supporting local store owners to become more attractive to their customers while expanding their businesses.

Digitization and innovation play a vital role in our strategy, as exemplified by the success of our Eurocash.pl B2B platform and mobile app, which have revolutionized local store management. With 16,700 active buyers and over 54 percent of wholesale sales in 2022 conducted through the platform, we will strive to double B2B e-commerce sales to 16 billion PLN by 2025.

Our broader objectives include becoming the largest point-of-sale (POS) platform on the independent market with over 10,000 stores, establishing the largest consumer platform with more than 10 million consumers, and leveraging data warehousing to enhance the effectiveness of our experience for customers, consumers, and producers.

Additionally, we plan to introduce loyalty programs for consumers who visit our local stores, while developing an innovative platform to empower franchisees in managing promotions and monitoring their impact. Traditional trade will retain its significance as a primary grocery shopping channel, but it will evolve through digitization and innovation.

Implications for Grocers and CPGs

1. Build advantage with house of private brands

Provide full coverage of price ladders. Strengthen price attractiveness across price points (economy, mass, premium) with price-attractive multi-tier own products.

Shift from Private Label management (i.e., copying A-brands) to Private Brands powerhouse building (i.e., managing own products like CPGs manage their brands). It will drive differentiation of the store and allow answering customers needs that are now not addressed due to price premium (e.g., sustainability, health)

2. Drive consumers acquisition and loyalty

Put customer acquisition high on agenda to attract those that will be shifting between stores looking for better value proposition. Marketing mix modeling while enhancing price and promo communication are top priorities to follow.

Update loyalty strategy with a more personalized experience, e.g., tailoring promotions to local consumer groups based on their purchasing patterns. Such personalization needs to be done as part of Retail Media networks and should be treated as co-investment with CPGs

3. Twist customer experience online

Grow online through affordability: CE consumers want the convenience of online, but few are willing to pay price premiums. Retailers should continue improving their value positioning (real and perceived), by a combination of investing in lower everyday prices on key items, providing targeted promotions (mostly funded by suppliers), lowering order values necessary for free delivery and significantly expanding selection of well-priced Private Label products.

4. Prioritize cost excellence

Drive down cost base during all-time high-cost pressures, liberating funds to reinvest in customers acquisition

Limit central costs, including by deploying zero-based budgeting and zero-based organization approaches

Optimize operations:

- For CPGs, close monitoring on all production stages (e.g., through vertical integration)
- For retailers, focus on store excellence (e.g., labor scheduling, in-store process automation, shrink reduction)

Implement data-driven supplier negoiations to limit further COGS increases