State of Retail 2024—Europe: Transition and transformation in nongrocery retail

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Contents

Foreword

In the past four years, the nongrocery retail sector has had to navigate a volatile macroeconomic environment, face supply chain disruptions, and adapt to changing consumer spending. Currently, growth rates seem to have stabilized just below those of the pre-COVID-19 era, but we still observe many differences in the pace of recovery across categories and European countries. While some categories have not recovered, others have benefited from pockets of growth. For example, growth in pet care is above 2019 levels in all markets, a pace that should continue, and beauty and personal care are projected to grow up to 2 percent annually in the coming years.

Several elements indicate the next five years will be equally challenging for nongrocery retailers. Economic uncertainty has led European households to remain cautious with their discretionary spending, while structural trends, such as an emphasis on omnichannel journeys, are reshaping the sector's competitive landscape. In addition, the rise of discounters has spurred a race to the bottom on prices and quality, compelling retailers to offer a distinctive value proposition beyond these factors and overcome the "good enough" syndrome.

Other developments and trends will complicate the path forward. Continued shocks to the supply chain and labor markets could compel retailers to be much more agile and explore strategies such as more vertical integration and the incorporation of design-to-value principles. Sustainability presents a difficult equation: retailers would need to balance selling more products with reducing their carbon footprint and making products more sustainable.

Building on the success of previous reports dedicated to grocery, fashion, and beauty,[1] the inaugural *State of Retail—Europe* delves into the key trends that will shape the nongrocery sector in 2025 and beyond. Deep dives into specific categories—furniture and furnishings, DIY and hardware, consumer electronics, sporting goods, beauty and personal care, and pet care—explore ways retailers can keep pace with these trends. How can they create a compelling, customer-centric value proposition and build lasting loyalty? What does the future hold for physical stores? What steps should players take to develop omnichannel commerce? How can retailers expand beyond merely selling products to offering an ecosystem of services in pursuit of growth and profitability? And what role will AI and analytics play in their future success?

State of Retail 2024—Europe: Transition and transformation in nongrocery retail, a continuation of a partnership between McKinsey and EuroCommerce, was developed to provide executives with a comprehensive view of the nongrocery retail sector and its future trends.

In preparing the report, we surveyed more than 15,000 consumers across six European countries and about 30 nongrocery retail executives in Western Europe. We augmented these findings with interviews with ten retail CEOs and executives in Western Europe. Our research combined EuroCommerce's policy and sector knowledge with McKinsey's global expertise and analytical rigor.

This report offers new insights and perspectives that we hope will help retailers navigate ongoing uncertainties and seize future growth opportunities.

1 *State of Grocery Europe 2024: Signs of Hope*, McKinsey, April 10, 2024; *The State of Fashion 2025: Challenges at every turn*, McKinsey, November 11, 2024; *The beauty market in 2023: A special State of Fashion report*, McKinsey, May 22, 2023.

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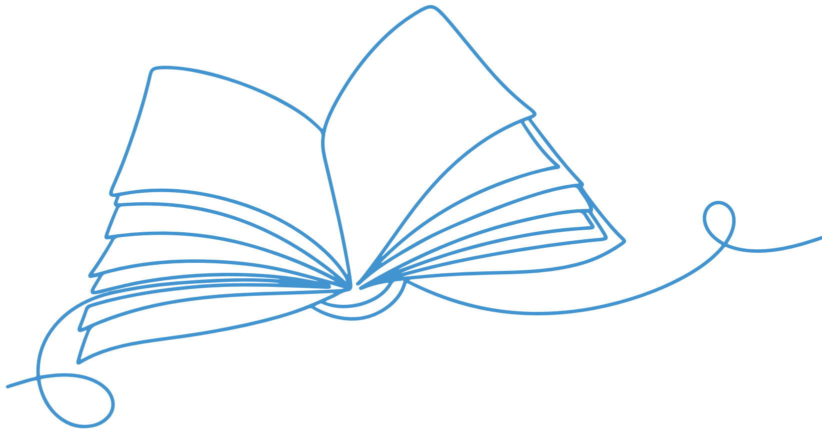
Scope of this report

This report's scope focuses on six retail categories: furniture and furnishings, DIY and hardware, consumer electronics, sporting goods, beauty and personal care, and pet care. It excludes other categories, such as fashion and leisure as well as grocery and food retail, whose key trends are covered in our annual *State of Grocery* report.

The first edition of the report focuses on six selected European markets: France, Germany, Italy, Poland, Spain, and the United Kingdom.



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Chapter 1

The state of nongrocery retail

Nongrocery retail has faced a unique set of challenges in recent years, with several factors shaping the sector: macroeconomic shocks, a strong link between the evolution of turnover and local purchasing power, prudent consumer behavior, and the rise of omnichannel journeys. Our analysis suggests these same trends will continue to be influential in the years ahead.

Facing macroeconomic headwinds

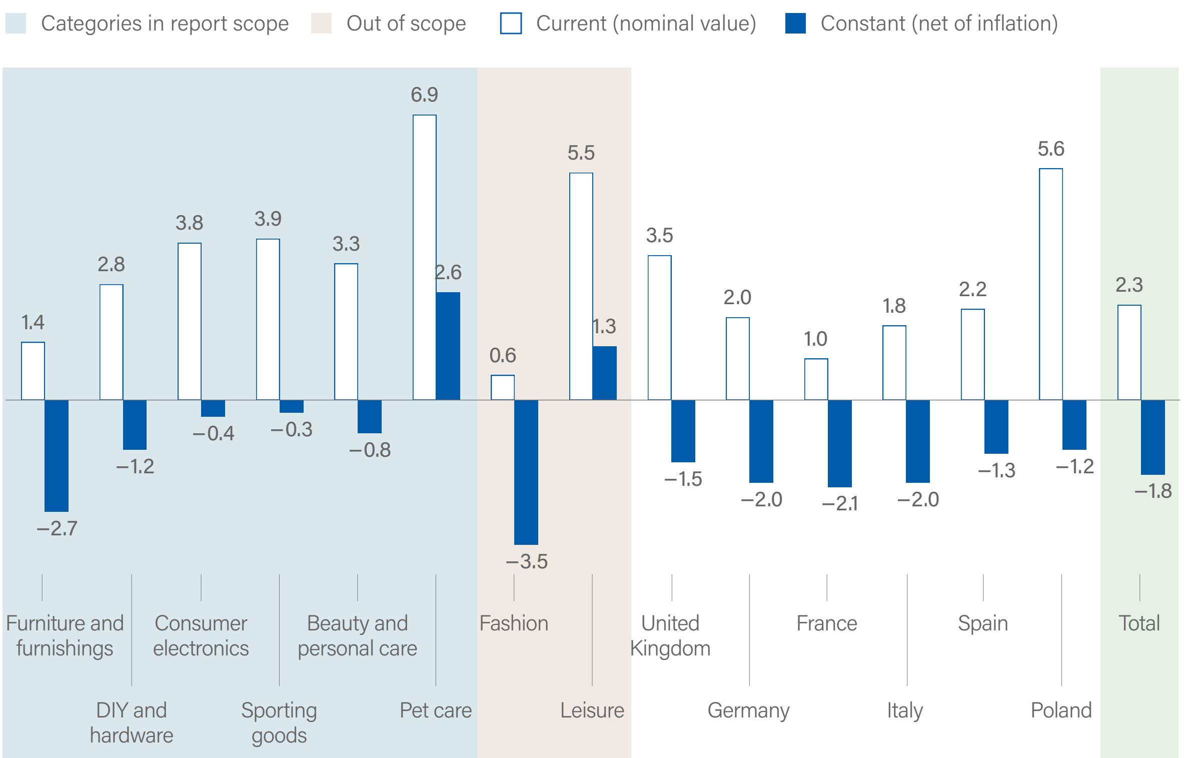
Over the past five years, surging input price inflation, the COVID-19 pandemic, and geopolitical tensions have profoundly affected retailers' costs and global supply chains. Although the sector's nominal turnover grew by 2.3 percent a year from 2019 to 2023, it declined by 1.8 percent when adjusted for inflation. Categories including furniture and DIY were hardest hit (Exhibit 1).

Adjusted for inflation, nongrocery sales remain below 2019 levels in all geographies. The persistence of macroeconomic headwinds, such as elevated prices, has led consumers to prioritize grocery purchases, trade down, and delay spending on household goods. According to our latest consumer survey, more than half of low-income households have saved as much as possible in the past 12 months instead of spending.

Exhibit 1

Retail sales in the European nongrocery sector declined by 1.8 percent in real terms over the past five years.

Retail sales CAGR, 2019–23, %



Source: Euromonitor

Looking ahead, the economic environment is expected to improve slightly but will remain volatile. An examination of the eurozone economy reveals encouraging signs of recovery in early 2024, with a 0.2 percent quarter-on-quarter increase in GDP,[1] declining interest rates, and easing inflation. And available data for the second half of 2024 confirms that trend is continuing.[2]

Amid this environment, most top European markets are expected to grow 0.6 percent through 2028, adjusted for inflation (Exhibit 2)—though the dynamics vary by country and category. For example, the markets in Poland, the United Kingdom, and Spain are all expected to grow 1.5 to 2.0 percent a year. On the other hand, the markets in Germany, France, and Italy are projected to stagnate or decline slightly. We expect future pockets of growth (adjusted for inflation) in pet care (2.7 percent), beauty and personal care (1.7 percent), consumer electronics (1.5 percent), and sporting goods (1.2 percent). On the other hand, growth in furniture and furnishings (–1.3 percent) and DIY and hardware (–0.7 percent) is expected to decline.

Exhibit 2

Nongrocery categories, with the exception of pet care, have not recovered to 2019 levels in most geographies.

2019–23 real growth, %

■ Market has recovered to 2019 levels ■ Market has not recovered to 2019 levels

	Furniture and furnishings	DIY and hardware	Consumer electronics	Sporting goods[1]	Beauty and personal care	Pet care	Total[2]	Projected growth,[3] 2023–28, %
United Kingdom	–3.8	–1.2	2.1	–0.5	–2.1	1.3	–1.5	1.6
Germany	–2.0	–2.1	–0.7	–1.9	–0.2	1.6	–2.0	0.2
France	–2.5	0.0	–3.0	2.8	–1.2	4.4	–2.1	–0.4
Italy	–3.8	–1.8	–0.4	–0.8	0.1	1.6	–2.0	–0.5
Spain	–1.3	0.5	–1.9	–0.5	0.7	4.6	–1.3	1.5
Poland	–2.7	–1.3	0.4	–1.2	–2.3	5.5	–1.2	1.9
Total[2]	–2.7	–1.2	–0.4	–0.3	–0.8	2.6	–1.8	0.6
Projected growth[3]	–1.3	–0.7	1.5	1.2	1.7	2.7	0.6	

[1]Accounting for sportswear.
[2]Including fashion and leisure.
[3]In real terms.
Source: Euromonitor

1 "GDP up by 0.2% and employment up by 0.2% in the euro area," Eurostat, September 6, 2024.
2 "GDP up by 0.4% in the euro area and by 0.3% in the EU," Eurostat, October 30, 2024.

Demand on nongrocery categories tied to local purchasing power

Consumer demand for discretionary items remains closely tied to purchasing power, which varies significantly across European markets. In nations with higher incomes, such as Germany and the United Kingdom, nongrocery items account for more than half of retail sales. French consumers, however, have lower spending per capita on nongrocery goods and tend to allocate close to 60 percent of their budget to grocery shopping (Exhibit 3). A deeper analysis of consumer purchases reveals differences in category appeal across countries. German household spending on furniture exceeds that of other European households by approximately five to ten percentage points, Polish consumers have the largest share dedicated to electronics, and fashion[3] accounts for the lion's share of Italians' nongrocery budget.

Another significant challenge for retailers is that the expected slowing of real income growth could undercut purchasing power gains. This trend suggests retailers might increasingly cater to polarized market segments. Adapting to the needs of both high- and low-income groups will be critical as more consumers with modest spending continue to favor discounter options and private labels.

[3] Includes apparel and footwear.


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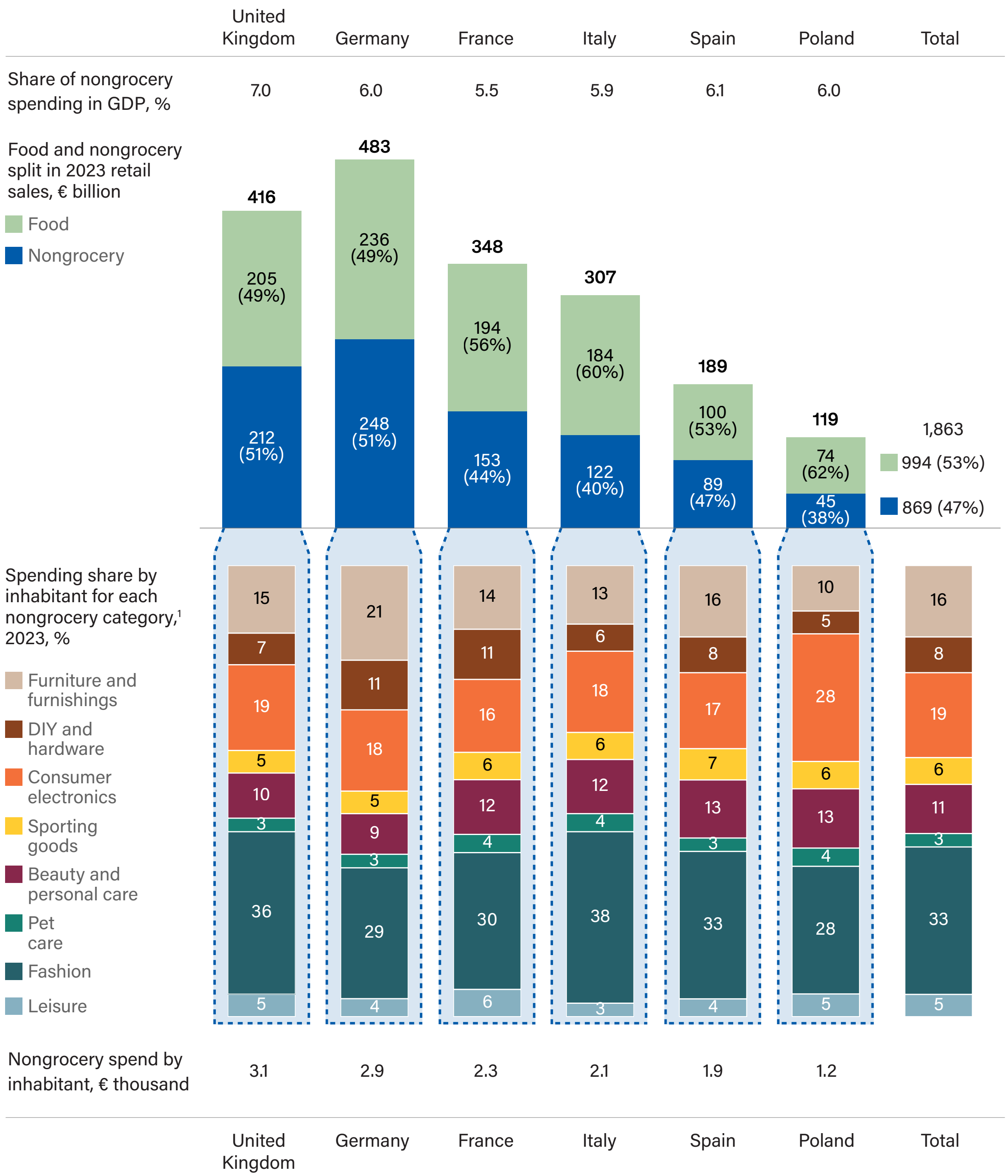
Exhibit 3

The appeal of nongrocery categories varies depending on local markets and contexts.



Note: Figures may not sum to totals, because of rounding. As of January 1, 2024, $1 = €0.9059.
[1]Each value is calculated as follows: (category A product sales in country X divided by the population of country X).
Source: Euromonitor; Toute l'Europe; World Bank

Rise of omnichannel journeys

E-commerce penetration increased rapidly during the pandemic. Some of these gains in market share were recaptured by brick-and-mortar retail postpandemic. More recently, e-commerce started increasing again, but growth remains below 2019 levels. Still, online was the fastest-growing channel in 2023, at 3.3 percent overall, and online penetration is expected to progress steadily across nongrocery retail categories.

Its growth stems from the growing presence of omnichannel journeys in consumers' shopping habits: more than 50 percent of consumers reported using both online and in-store options to research and purchase nongrocery items. This figure rises to more than 60 percent in retail categories such as sporting goods, leisure, consumer electronics, and furniture.

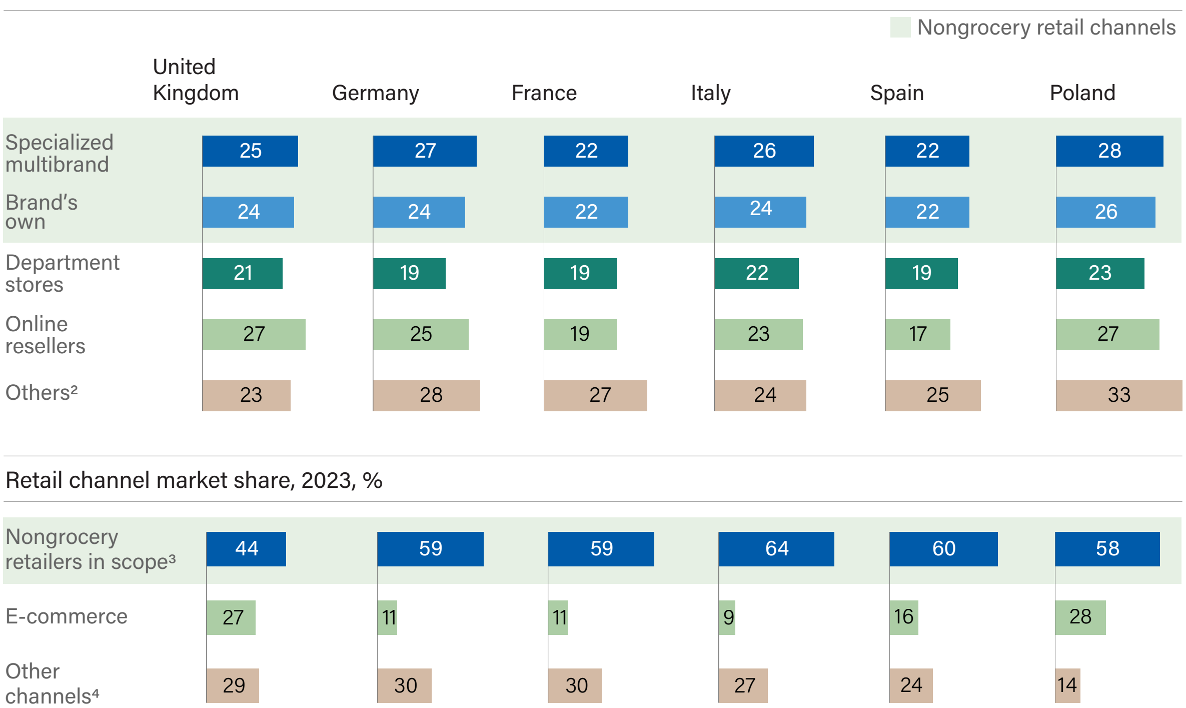
There is a silver lining for brick-and-mortar retail. As customer journeys become more and more omnichannel, a network of stores could play an integral role in attracting customers. Our analyses indicate nongrocery retail channels (multibrand and brand-owned) still capture the largest share of consumers' declared spending. In the past 12 months, 50 to 60 percent of furniture, DIY, electronics, and sporting goods items were bought from nongrocery channels, both online and in-store. Consumers are motivated to purchase from those channels because of the broad range of products and services retailers offer, the availability of specific items at time of purchase, and their trust in the retailer and love for the in-store experience. This trend is expected to persist: nongrocery retail channels have the highest net future purchasing intent over the coming two years.

Although nongrocery retailers seem to be maintaining their position regarding consumers' future spending intentions, department stores will be increasingly challenged by online resellers, which are gaining ground across all geographies (Exhibit 4). In markets such as the United Kingdom and Poland, digital-only players are the top choice for future consumer spending, with 27 percent of consumers expecting to increase their spending through these channels.

Exhibit 4

Nongrocery retailers face growing interest from their customers in online channels.

Consumer intent to spend more or significantly more two years from now,[1] % respondents



[1]Q: Looking to ~2 years into the future, do you think you will spend more or less on the following channels?
[2]Includes grocery stores, second-hand charity stores.
[3]Specialized multibrand and brand's own.
[4]Department stores, discounters, grocery, direct selling, and automatic vending.
Source: Euromonitor; McKinsey State of Nongrocery Retail Consumer Survey (August 2024, n = 15,214)

Five characteristics of European nongrocery retail consumers

In addition to conducting country and sector analyses, our research explored the preferences and behaviors of consumers. Five characteristics stood out: optimistic yet cautious consumers, smart spending decisions, low levels of loyalty, awareness of sustainability, and search for convenience. (For the view from the C-suite, see sidebar, "CEO sentiment on the nongrocery retail sector.")

Optimistic yet cautious consumers

According to a McKinsey survey, consumer optimism is returning in Europe, reaching positive net intent for the first time since 2023.[4] It has especially seen an uptick in Germany, Italy, Spain, and the United Kingdom, where it is above the EU average. The ten-percentage-point drop in concerns about rising prices in the past year is a driving force behind this trend. More than one-third of respondents attribute their optimism to stabilizing inflation. This sentiment is reflected in spending: compared with two years ago, 74 percent of European consumers reported maintaining or increasing discretionary spending.

However, nongrocery retail categories could still be hit negatively in the short term, according to McKinsey's Consumer Sentiment Pulse Survey. Roughly 65 percent of consumers say they will maintain or increase their discretionary spending in the next three months. In addition, consumers now allocate less than half of their discretionary spending to nongrocery items and are more likely to cut back than to buy more, preferring to allocate spending to restaurants, bars, travel, and entertainment (Exhibit 5).

Although consumers remain cautious about future spending after the COVID-19 pandemic and increased cost of living, they are regaining their desire to splurge on select categories. Travel, dining out, and entertainment away from home remain the top splurge categories (more than 25 percent of respondents). On average, one in seven consumers still reported splurging on home items, fashion, and electronics over the past 12 months. This behavior was more prevalent in France, Poland, and the United Kingdom (around 15 to 20 percent of consumers across all nongrocery categories) than in Germany, Italy, and Spain. Higher shares of Gen Z and millennial consumers indicated an interest in treating themselves compared with any other age group. Unsurprisingly, affluent households were nearly twice as likely to splurge as lower-income ones—21 percent compared with 11 percent.

Despite this growing willingness to splurge, consumers still plan to spend cautiously across most nongrocery retail categories over the next two years. Pet care is the lone category with a positive net future purchasing intent.[5] Furniture and DIY are projected to see the most significant decrease in net intent. Nonetheless, one in five consumers still anticipate buying more nongrocery items in the future.

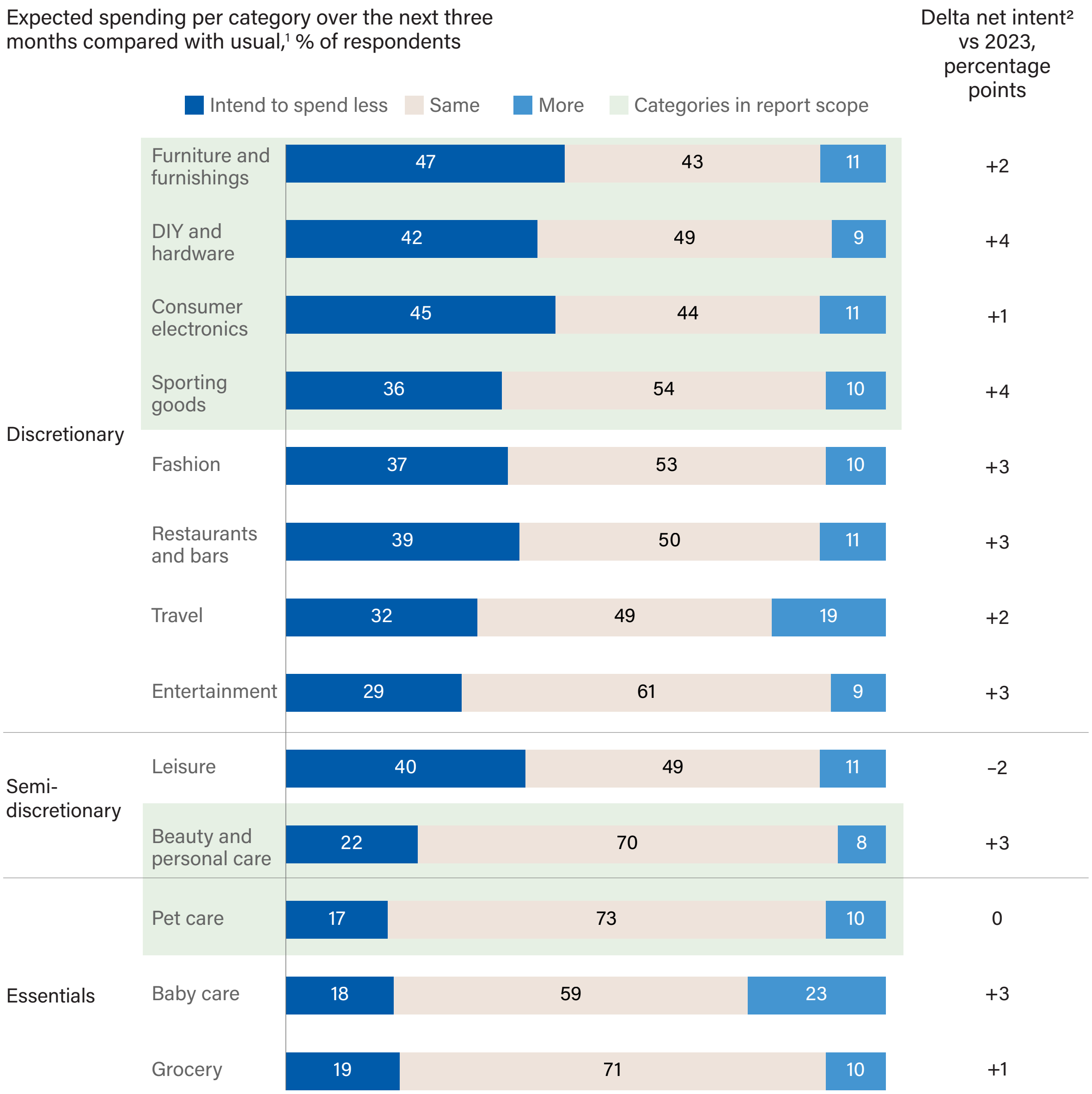
Despite growing willingness to splurge, consumers still plan to spend cautiously across most nongrocery retail categories over the next two years.

4 Net intent is the difference between optimistic consumers who expect their country's economy to rebound and those with a pessimistic view who think their economy will be affected long term, leading to a recession. McKinsey Consumer Sentiment Pulse Survey; third quarter 2024; includes France, Germany, Italy, Spain, and the United Kingdom; n = 1,000 per country.

5 Defined as the difference between consumers who intend to increase spending and those who intend to cut back.

Exhibit 5

Consumers are hesitant to spend on discretionary categories, though intent has stabilized compared with last year.



Note: Figures may not sum to 100%, because of rounding.
[1]Q: Over the next 3 months, do you expect that you will spend more, about the same, or less money on these categories than usual?
[2]Net intent is the difference between the share of respondents who intend to spend more and the share of those who plan to spend less.
Source: McKinsey Consumer Sentiment Pulse Survey in France, Germany, Italy, Spain, and UK (Q3 2023 and Q3 2024; n = 1,000 per country)

Smart, savvy spending decisions

Consumers are more likely to trade down on discretionary categories than on grocery or pet care. Although more than 60 percent of consumers actively seek opportunities to trade down, they are not doing it mindlessly. They opt for lower-priced retailers and discounters, especially for sporting goods, leisure, and furniture (Exhibit 6). Sometimes they delay their purchases altogether or reduce their basket size.

Consumers are looking for more than just low prices. One in three shoppers prioritize good value for money when shopping, which also includes great promotions and discounts, a wide product range, trustworthiness, and a fun shopping experience. This quest for value is notable across all nongrocery segments, particularly in the DIY category, where 33 percent of shoppers reported this preference.

Exhibit 6

The majority of consumers report trading down, most often by changing to lower-price retailers.

Changes in shopping behavior,[1] % respondents

Categories in report scope   Trading down behaviors, % <15 <25 <35 ≥35

		% trading down[2]	Adjusted quantity or pack size	Changed brand to lower price or private label	Changed retailers for lower price or discount	Delayed purchase	Used "buy now, pay later"
Discretionary	Furniture and furnishings	67	21	6	30	25	18
	DIY and hardware	62	26	9	27	19	13
	Consumer electronics	64	17	10	29	20	14
	Sporting goods	70	24	14	36	21	10
	Fashion	58	15	8	25	21	9
Semi-discretionary	Leisure	67	25	8	34	19	17
	Beauty and personal care	56	29	15	20	11	5
Essentials	Pet care	57	28	10	20	12	5
	Grocery	57	31	12	22	13	3

[1]Q: Within the past 3 months, have you done any of the following when purchasing a product? (This question was asked across multiple categories.)
[2]Percent of respondents selecting one of the following options: shopped from a lower-priced retailer; shopped from a lower-priced brand; bought private label; bought a brand for which you had a coupon; used buy now, pay later; delayed a purchase; bought a larger-size pack for lower price; bought a smaller size or quantity; made more shopping trips in search of a discount.
Source: McKinsey Consumer Sentiment Pulse Survey in France, Germany, Italy, Spain, and UK (Q3 2024; n = 1,000 per country)

CEO sentiment on the nongrocery retail sector

A majority of the European nongrocery CEOs we surveyed predicted market stabilization in 2025, with more than 75 percent expecting conditions to either improve or remain the same. These results reflect cautious optimism as the sector adapts to ongoing economic challenges. Looking back, 40 percent of leaders described the sector as challenging and complex in 2024, and one-third indicated they had focused on prices.

Margin pressures and consumer downtrading, driven by rising costs and heightened price sensitivity, remain top concerns for CEOs in the coming year (exhibit). Executives are prioritizing investments in omnichannel experiences to meet evolving consumer demands, along with expanding private label offerings.

One-third of CEOs anticipate that capturing consumers' renewed purchasing power will be the top challenge for 2025. At the same time, retailers see opportunities to improve online and omnichannel experiences and innovate with higher-quality products.

More than 70 percent of CEOs believe that by 2030, delivering a seamless omnichannel shopping experience will be the cornerstone for success. Approximately one in three executives also cite factors such as developing robust private label strategies and reinventing store formats to amaze customers. On the other hand, only 20 percent of leaders believe improving the sustainability of products will be important to win in their segment by 2030.

Exhibit

CEOs expect margin pressures and downtrading to remain top of mind in the near future.

Top 10 focus areas for the next 1–3 years mentioned by nongrocery retail executives,[1] % respondents

Note: Figures may not sum to totals, because of rounding.
[1]Q: Looking to the near future, what do you think will be the "top of mind" focus areas that will shape the nongrocery retail sector in the next 1 to 3 years?
Source: McKinsey State of Nongrocery Retail Executive Survey (October 2024, n = 31)

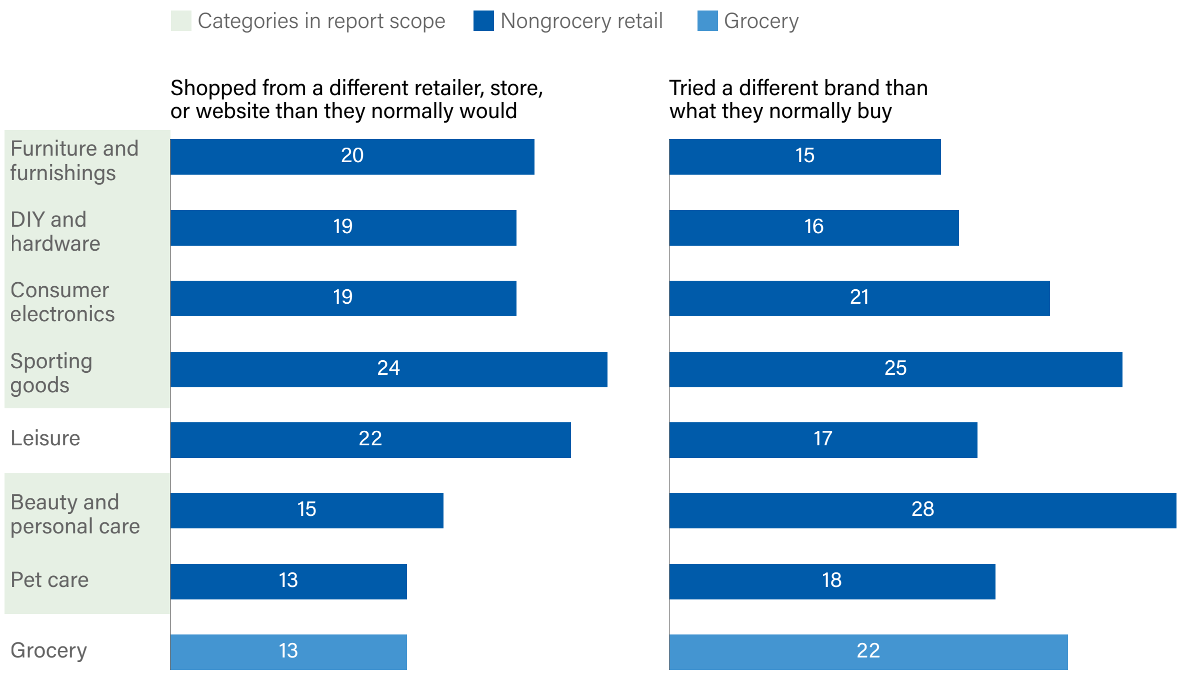
Low loyalty and a broad consideration set

Our survey found consumers don't profess strong loyalty to nongrocery retailers and are instead inclined to explore a wide range of retailers and channels. Each quarter, approximately 20 percent of consumers switch retailers or brands for their purchases (Exhibit 7). This share is even higher for sporting goods and beauty products, where consumers indicate they often sample new brands. Moreover, about 80 percent reported considering more than three retailers for their most recent purchase and buying from two to three companies in each category over the past year.

Exhibit 7

European consumers do not hesitate to switch retailers or brands.

Consumer engagement with shopping behaviors,[1] % respondents



[1]Q: Over the past 3 months, have you done any of the following?
Source: McKinsey Consumer Sentiment Pulse Survey in France, Germany, Italy, Spain, and UK (Q3 2024; n = 1,000 per country)

Consumers are looking for more than just low prices.

Awareness of sustainability

Climate change and sustainability are still on the minds of European consumers. Thirty percent of survey respondents cited sustainability as their second-greatest concern, right behind rising prices and inflation and well above their ability to make ends meet and the cost and accessibility of healthcare. Sustainability is also an expectation: across all segments, more than one-third of consumers reported paying close attention to environmental friendliness when shopping for nongrocery goods.

However, this awareness of sustainability has not yet influenced buying decisions. When asked whether retailers offering a broad range of sustainable products is important in purchasing decisions, consumers ranked this driver at just 32 out of 40, on average. Further, being eco-friendly is low among decisive purchasing factors for DIY and hardware, electronics, sporting goods, and furniture (about 38 out of 40). This sentiment was also reflected in several of our interviews with sector CEOs. BUT Conforama CEO Alexandre Falck noted,

"BUT was the first to implement environmental labeling on products, two years before it became compulsory. We intend to continue the conversation on eco-design and environmental impact, but the act of buying is almost entirely price-driven at the moment."

Momentum is building around circularity, however. For broken or unneeded items, customers actively seek repair (45 to 50 percent across categories) and resale options (approximately 40 percent). For example, more than 60 percent of consumers are willing to replace damaged sporting goods with secondhand ones. In consumer electronics, companies offering refurbished items have been able to capture a notable share of growth. In an interview for the *Guardian* in July 2024, Back Market CEO Thibaud Hug de Larauze announced that sales grew approximately 45 percent.[6]

A preference for convenience in channel selection

More than one-third of consumers cite convenience as the dominant factor in their in-store and online purchasing decisions. Still, more than one-quarter of European consumers prefer to buy goods at physical locations for the chance to touch and feel items, reinforcing the value of the in-store experience.

The winners of 2023

Retailers that were able to capitalize on the market forces outlined above—whether through strong online presence, higher convenience, broader range, lower prices, or sustainable or circular offerings—emerged as the winners of 2023 (Exhibit 8).

From a channel perspective, a strong online presence was a clear asset. Compared to 2022, online was the fastest-growing channel in 2023, at 3.3 percent overall across categories, except for pet care and beauty and personal care, where other channels grew more rapidly. Growth of online sales was particularly strong for sporting goods (around 7 percent) and pet care (around 12 percent). On this playing field, retailers continue to face competition from generalist online retailers. For example, online retailer Allegro grew 280.0 percent since 2019, while nongrocery retail overall grew only 12.9 percent (3.1 percent per annum).

Discounters such as Action and B&M have also gained market share, though not in all categories. In pet care, discounters were the fastest-growing channel, increasing 14 percent. Discounters and everyday-low-price players also saw double-digit or high-single-digit growth in beauty and personal care (10 percent) and sporting goods (6 percent). However, the appeal of discounters seems to vary by geography: compared with 2022, discounters and everyday-low-price retailers achieved the highest growth in Poland (15 percent) and Spain (10 percent).

Retailers with sustainable or circular offerings in certain categories also experienced strong growth. This is especially true in consumer electronics and appliances, where refurbished items allow consumers to get a better value for their money, and in sporting goods, where equipment rental and secondhand purchases are on the rise.

Finally, despite the competition from online players and discounters, we observe many pockets of growth in the nongrocery retail sector. To begin with, pet care is the only category to have recovered beyond 2019 levels in real terms. Beauty and personal care, though below 2019 levels in real terms, is also seeing growth more recently (8 percent).

[6] Sarah Butler, "'It should be a right to fix your phone': The boss of booming secondhand tech firm Back Market," *Guardian*, June 11, 2024.

Exhibit 8

Pockets of growth emerged across the nongrocery retail sector in 2023.

■ CAGR, 2022 vs 2023 □ CAGR, 2019 vs 2023

		United Kingdom	Germany	France	Italy	Spain	Poland	Furniture and furnishings	DIY and hardware	Consumer electronics	Sporting goods	Beauty and personal care	Pet care	Total[1]
Growth														
2023 retail value, € billion		124.6	165.1	98.0	71.5	55.8	30.0	140.6	75.3	158.9	49.0	92.3	28.9	545.1
Market nominal growth, year-over-year (YoY) % change	CAGR, 2022 vs 2023	2.2	–0.1	0.8	2.6	2.7	10.4	–2.4	–0.7	1.1	4.3	8.2	10.0	1.7
	CAGR, 2019 vs 2023	4.0	2.7	1.9	2.7	3.1	6.2	1.4	2.8	3.8	3.9	3.3	6.9	3.1
Market real growth, YoY % change	CAGR, 2022 vs 2023	–2.9	–5.8	–4.0	–2.9	–1.0	–3.7	–7.6	–5.9	–4.6	–1.5	2.2	4.0	–3.8
	CAGR, 2019 vs 2023	–0.9	–1.3	–1.1	–1.1	–0.5	–0.7	–2.7	–1.2	–0.4	–0.3	–0.8	2.6	–1.0
Retail channels														
Nongrocery retailer growth, YoY % change	CAGR, 2022 vs 2023	0.9	–0.5	1.3	2.2	2.1	7.9	–2.6	–1.0	0.5	3.2	10.9	9.5	1.2
	CAGR, 2019 vs 2023	–2.0	0.7	1.0	0.6	0.6	2.8	–0.4	1.7	–1.4	1.5	1.4	5.7	0.3
Department store growth, YoY % change	CAGR, 2022 vs 2023	–2.7	–4.1	0.5	2.7	0.7	0	–5.5	–13.3	–1.4	–0.2	10.3	N/A	–1.6
	CAGR, 2019 vs 2023	–7.4	–2.5	–3.9	–0.5	–0.4	–8.3	–1.9	–9.6	–8.5	–6.3	–3.2	N/A	–4.0
Grocery retailer growth, YoY % change	CAGR, 2022 vs 2023	0.9	–0.6	1.1	1.2	5.0	9.5	–3.4	–2.6	–2.1	3.9	5.6	8.8	1.3
	CAGR, 2019 vs 2023	–0.8	2.2	0.6	–0.7	2.0	2.7	1.2	–0.2	–0.6	2.6	1.0	2.6	0.7
Discounter growth, YoY % change	CAGR, 2022 vs 2023	–0.1	–2.1	–1.5	4.5	9.7	15.3	–4.7	–0.9	–4.2	5.8	9.9	14.0	0.7
	CAGR, 2019 vs 2023	3.2	2.3	–2.5	3.4	8.8	11.2	2.4	0.5	1.3	6.4	6.1	8.4	3.2
E-commerce growth, YoY % change	CAGR, 2022 vs 2023	4.4	1.6	–1.4	4.3	3.0	14.1	0	3.2	2.8	7.4	3.8	11.6	3.3
	CAGR, 2019 vs 2023	18.6	10.8	8.7	16.0	17.4	16.3	10.5	14.5	16.1	13.1	14.9	18.9	14.4
Online share of sales, % in total sales		40.1%	21.8%	17.3%	19.1%	18.1%	27.3%	17.9%	14.6%	37.7%	29.8%	19.6%	21.2%	24.7%
Store space														
Square meter growth across offline channels, YoY % change	CAGR, 2022 vs 2023	0	–0.8	0	–0.3	0	2.8	0.1	–0.3	–0.9	0	1.0	0.5	0
	CAGR, 2019 vs 2023	–1.9	–1.1	–0.5	–0.7	–2.4	0.7	–1.4	–1.0	–2.1	–1.0	0.5	2.2	–1.0
Sales per square meter growth across offline channels, YoY % change	CAGR, 2022 vs 2023	0.4	1.8	3.7	2.2	4.5	7.9	–1.0	0.6	0.6	3.3	6.8	3.3	2.6
	CAGR, 2019 vs 2023	2.6	2.7	4.1	3.4	5.1	3.8	0.6	3.6	2.5	6.8	4.5	3.4	3.4

[1]Excluding fashion and leisure.
Source: Euromonitor

Value themes

Retailers could consider six strategies for growth, improving productivity, and modernizing their operating model.

1 Winning value proposition

<50%
of consumers agree that retailers perform well on their top drivers of purchase

2 Next-generation engagement

4–7%
sales uplift by focusing on incremental growth across high-value target customer segments

3 Omnichannel commerce

12%
sales growth for third-party marketplaces

vs 9%
sales growth for rest of online from 2019 to 2023

4 Beyond retail: From products to service platforms

~15%
of revenues

~30%
of profits by 2028

5 End-to-end cost optimization

10–20%
additional cost savings and 10–30% inventory savings achievable with end-to-end operational excellence

6 Accelerating AI deployment

1.2–1.9 percentage points
margin potential across the retail value chain from generative AI

Source: Euromonitor; McKinsey State of Nongrocery Retail Consumer Survey (August 2024, n = 15,214); Statista; *Transforming the EU retail and wholesale sector*, McKinsey and EuroCommerce, October 25, 2022; McKinsey analysis; McKinsey Global Institute analysis

Chapter 2

Six value themes for nongrocery retailers

As noted previously, nongrocery retailers are facing numerous challenges to their business models. To thrive in this environment, they must excel on all fronts. Enhancing both revenue and profitability will be crucial to finance their transformation.

In the coming years, retailers could increase revenue growth by redesigning their value proposition, engaging with their customer base in innovative ways, developing the omnichannel experience of tomorrow, and better leveraging the traditional selling of goods to offer complementary services (such as consumer finance, travel, and retail media).

On profitability, nongrocery retailers could improve margins with a focus on end-to-end operational excellence and resilience and an accelerated yet thoughtful adoption of AI across the organization.

1 Winning value proposition

Capturing future growth in an increasingly complex environment is challenging for nongrocery retailers. As the market matures, growth is expected to stabilize at around 0.6 percent a year, net of inflation. Meanwhile, online players are gaining market share, and discounters have benefited from recent downtrading trends. Consumer spending is polarizing, with consumers splurging in certain categories while saving in others. To avoid an intensifying battle for market share in the shrinking middle, retailers must choose between making a value play, which could trigger a "race to the bottom," or focusing on differentiating their value proposition.

Retailers should focus first on strengthening their core value proposition. Except when purchasing beauty and personal care products, consumers prioritize intangible attributes (such as brand, trust, and word of mouth) over price and other attributes (such as product range, general experience, or environmental, social, and governance concerns). Nonetheless, price is always featured in the top two drivers of purchase, except for DIY and hardware and consumer electronics, where a product range that addresses the specific consumer needs and use cases is more important (Exhibit 9).

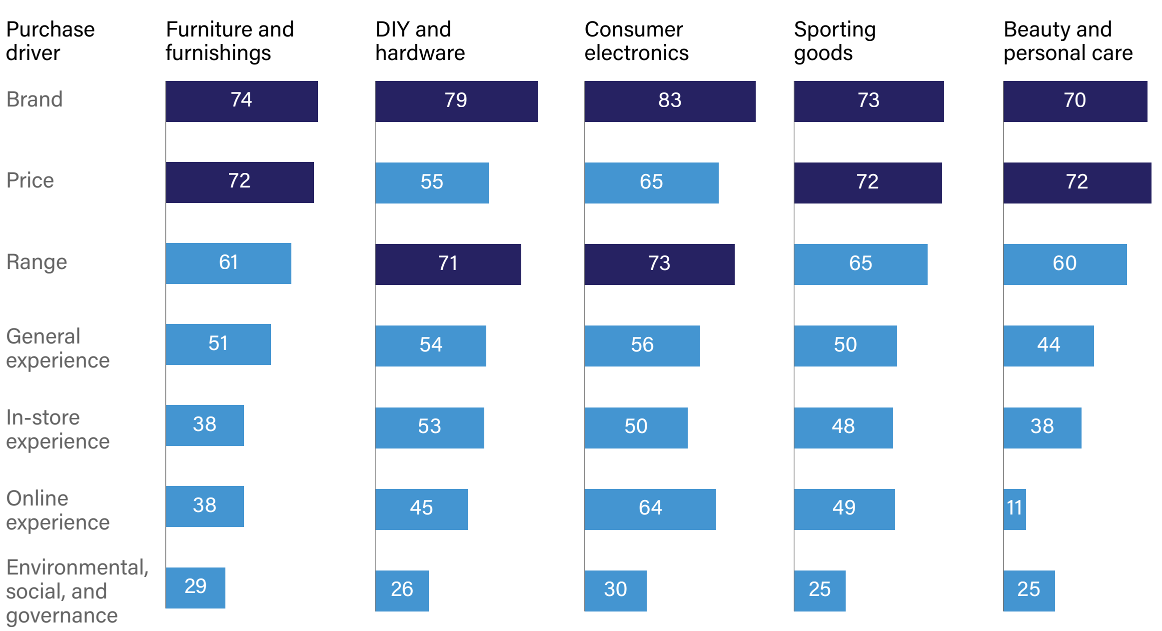
According to our consumer survey, many retailers would benefit from ensuring alignment with consumer expectations. Fewer than 50 percent of consumers feel that retailers perform well on price, assortment, and omnichannel experience.[7] Simultaneously, more than 60 percent of consumers who shop at companies such as B&Q, Decathlon, and IKEA feel these retailers perform strongly or very strongly on these drivers. Moreover, it is crucial for retailers to regularly reallocate their assortment from the core to newer products to capture emerging trends and adapt to high seasonality. For instance, jewelry and accessories retailer Claire's ensured that its assortment contained relevant collections during the European part of Taylor Swift's Eras tour, according to the company's president of Europe Richard Flint.

Exhibit 9

Consumers value purchase drivers differently depending on the retail category.

Relative importance of purchase drivers across categories[1]

High relative importance (>70)



[1]Driver importance was derived by correlating consumer purchases with how they rated retailers on a set of 40 purchase drivers in 7 categories.
Source: McKinsey State of Nongrocery Retail Consumer Survey (August 2024, n = 15,214)

[7] McKinsey State of Retail Consumer Survey (August 2024, n = 15,214).

Our analysis shows consumers recognized five value proposition archetypes: price leaders, premium retailer, integrated online–offline retailer, online-first retailer or marketplace, and trusted, high-quality retailer.[8] Each stems from retailers' strategies to differentiate on intangible buying factors (such as trust and brand equity), price (value for money and quality), or experience (online, offline, omnichannel, and other).

Our survey analysis found that two of the five archetypes outperform the others on consumer preference: online-first retailer or marketplaces, and trusted high-quality retailer. These archetypes have higher purchase intent, better consumer engagement, and greater likelihood of being their customers' favorite retailers (Exhibit 10). Both stand out with superior product range.

When comparing the leading two archetypes, consumers perceive that online-first players and marketplaces offer better value for money but consider them less trustworthy and lower quality. Conversely, consumers develop emotional attachments to high-quality retailers, viewing them as more trustworthy and commending their in-store experience.

Exhibit 10

Nongrocery retailers are differentiating their value propositions to avoid a 'race to the bottom.'

Archetypes[1]	Price leadership	Premium	Online-offline integration	Online-first retailer or marketplace	Trusted, high-quality retailer
Differentiating attributes	Lowest prices	Trust; quality	Range; online experience	Range; online experience; services	Range; trust and word of mouth; quality; in-store experience
Pros and cons	+ Performs well in all market conditions	+ Loyal customer base – Risky value proposition – Narrow assortment	+ Loyal customer base + Convenience and returning shoppers – No distinctive product features	+ Highly loyal customers + Broad customer base – Little to no offline presence	+ Highly loyal customers + Emotionally attached customers – Low online presence
Purchase intent vs average,[2] percentage points (p.p.)	–3	–8	0	0	4
Engagement vs average,[3] p.p.	–2	–1	6	11	15
"Is my favorite retailer" vs average,[4] p.p.	–6	–15	–3	0	6

[1]The value proposition archetypes were created by grouping ~220 European retailers based on consumer perceptions of their pricing, product range, and in-store and online experience. These groups were then overlaid with their average performance based on customers' future purchase intent data.
[2]Q: [Retailer name] is a retailer where I would shop more. % agree or strongly agree.
[3]Q: How likely are you to recommend [retailer name] in the future?
[4]Q: [Retailer name] is my favorite place to purchase [category name]; % agree or strongly agree.
Source: McKinsey State of Nongrocery Retail Consumer Survey (August 2024, n = 15,214)

[8] The value proposition archetypes were created by grouping about 220 European retailers based on consumer perceptions of their pricing, product range, and in-store and online experience. These groups were then overlaid with their average performance based on customers' future purchase intent data.

HEMA CEO Saskia Egas Reparaz noted, "We don't believe in the race to the bottom. Instead, it's a race to add value. Because if we add value, customers are willing to pay for added value. We believe there's always a market for good-quality items that are sold at a good price. We do, however, always need to be aware of the price point for each product at which consumers become annoyed. Consumers may be willing to pay a bit more than this reference price for a better-quality everyday product such as scissors, for example, but they won't pay twice as much. These sorts of category-based calculations should never stop. Every time you consider a new product or supplier, you should assess your customers and the relevant reference item and ask whether your product is adding enough value for the price. There was a time when the shopping experience itself was enough to persuade customers to pay more for good quality, but those days are over."

Second, nongrocery retailers could consider future-proofing their value proposition through two actions:

Redesign stores. A key advantage of brick-and-mortar retail is that it allows consumers to interact with products directly. According to our survey, 27 percent of nongrocery retail consumers prefer in-store purchases because they want to touch, feel, and experience products. Retailers can adjust their store operations and layouts to leverage physical retail's advantage in product discovery. For instance, Douglas staffed 16,000 beauty advisers across its stores and revamped its formats to offer "mini treatments" and makeup treatments for €20 to €100.[9]

Focus on circularity and sustainability. Retailers must solve the sustainability equation. Do they prioritize short- to medium-term growth or accelerate sustainability? While transition risks amount to 15 to 20 percent of EBITDA,[10] retailers could achieve 10 to 20 percent of incremental long-term revenue growth and reimagine their portfolios by integrating new sustainability and circularity practices into their operations. More and more retail groups now focus on circularity (such as FNAC-Darty's refurbished electronics and appliances offering) and sustainability (for example, Davines) as key value propositions.

"Circular business models are also an important source of growth," noted Barbara Martin Coppola, CEO of sporting goods retailer Decathlon. "Two models, in particular, have had incredible growth. One is renting, especially for bikes. Not only for kids but also for adults using electric bikes. It's a recurring subscription, paid monthly. One reason it works well is that Decathlon has repair shops within our big shops. So when people return bikes, they get refurbished and repaired and can be rented again. Our other business model is Second Life. We have launched several campaigns to buy back equipment that people don't use anymore and put it up for sale in stores and online. These items fly off the shelf. So Decathlon is working to make these models available everywhere in Europe, and beyond."

> **We believe there's always a market for good-quality items that are sold at a good price.**
>
> Saskia Egas Reparaz, CEO, HEMA

[9] State of nongrocery retail interview series (Interview with Douglas CEO, September 2024).
[10] Franck Laizet and Daniel Läubli, "The growth and productivity imperative for European retailers," McKinsey, July 2024.

2 Next-generation consumer engagement

Consumer engagement is becoming increasingly important for several reasons. First, acquiring new customers can be up to five times more costly than retaining existing ones.[11] Second, more stringent global privacy regulations are hindering the effectiveness of traditional digital-marketing approaches, which rely on third-party cookies and identifiers. Companies that lack alternative methods or infrastructure to ensure compliance (for example, first-party data and data clean rooms) are likely to incur 10 to 20 percent higher marketing costs to compensate for the loss of third-party data.[12] Third, customer churn remains high: every quarter, one in five consumers switch retailers when purchasing nongrocery items.

Given these trends, traditional loyalty programs are no longer enough. Generating value through loyalty now relies on creating authentic consumer "Wow!" moments. Indeed, approximately 60 percent of the most desired loyalty benefits relate to emotional, social, or community-based brand attributes.[13]

When done right, such engagement programs can unlock significant value, both directly and indirectly. First, median- to top-quartile loyalty programs can account for 4 to 7 percent of total incremental revenue growth and a 6 to 8 percent reduction in marketing costs (for example, from reduced reliance on promotions).[14]

Moreover, retailers can draw on data generated by loyalty programs for various applications across the organization, such as informing marketing spending decisions and increasing customer relationship management (CRM) effectiveness by about 8 percent.[15] Arcaplanet CEO Nicolò Galante noted that the company's loyalty program generates 90 percent of sales. Additionally, loyalty programs can serve as a catalyst for introducing and promoting complementary services (for example, leasing and product repair) to customers.

To bring loyalty practices to the next level, we expect retail leaders to focus on six core dimensions.

Incrementality. Retailers have traditionally targeted consumer segments and behaviors based on specific business targets. Going forward, we expect a stronger focus on building lasting brand connections with individual customers to maximize lifetime value and minimize churn. For example, US-based luxury-home-furnishings retailer Restoration Hardware launched a paid-membership program with transactional benefits and complementary services. It provides 25 percent savings on full-priced items, an additional 20 percent savings on sales items, access to the company's interior designers and concierge service, and early access to clearance events.[16]


© Getty Images

Engagement. We expect retailers to transform their transaction-based loyalty-card programs into gamified programs with signature experiences, surprise rewards, and hidden exclusive status levels. For instance, Decathlon offers rewards for not only making purchases but also exercising and participating in eco-friendly activities.

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[11] Sector expert interviews and external research.

[12] Marc Brodherson, Adam Broitman, Jason Cherok, and Kelsey Robinson, "A customer-centric approach to marketing in a privacy-first world," McKinsey, May 20, 2021.

[13] McKinsey Consumer Loyalty Survey 2022, n = 1,000–1,500 per country, including France, Germany, Spain, and the United Kingdom.

[14] McKinsey proprietary database of loyalty programs (May 2022 onwards, continuously updated).

[15] Ibid.

[16] Daphne Howland, "Restoration Hardware launches paid membership program, ends sales," Retail Dive, March 29, 2016; Restoration Hardware's website.

Personalization and inclusivity. As retailers become more data-driven, we expect them to move from broad segmentation to customized journeys, offers, and experiences for individual consumers. Arcaplanet's Galante reported, "In the future, we could use data to ensure our products are ultra tailored to our consumers' pets." We also expect retailers to develop more inclusive experiences and product designs. In another example, Sephora's program uses tools such as Shade Finder and Fragrance Finder to tailor recommendations and rewards using customer data.[17]

Customer experience. Leading retailers will likely transition from developing a seamless journey within the loyalty program itself to fostering a sense of belonging by creating specific "Wow! This brand knows me" moments and memories. For example, Harrods offers a "white glove service" to its top-tier VIP customers.[18] Richard Flint, president of Europe for Claire's, noted, **"We have quite a big loyalty program in the United States and United Kingdom, so we use data analytics to look at what our consumers want; we have very high consumer centricity. Being consumer focused and ensuring we learn continually based on consumer feedback are core to our operating model. We involve consumers in key areas to get their feedback in the moment before executing at retail."**

Economics. The economics of loyalty programs, such as maximizing the gap between perceived customer value and marginal cost, are expected to stay important. In our experience, this principle is not yet systematically applied in all programs, leaving significant untapped potential. Additionally, we expect retailers to broaden the economic value of their programs—for example, by building ecosystems, such as coalition loyalty programs, and offering adjacent services, such as retail media networks (RMNs),[19] to generate additional revenues.

Monetization. Traditionally, retailers harnessed their loyalty program's data to improve the program itself. In the future, leaders will deploy this data to accelerate business components such as pricing, promotion, and CRM and to develop new products and services.

17 Julia Waldow, "How Sephora is evolving its loyalty program," ModernRetail, September 10, 2024.
18 Harrod's website.
19 Marc Brodherson, Jon Flugstad, Quentin George, and Jack Trotter, "Six secrets of unleashing the power of retail media," McKinsey, May 18, 2023.

> **In the future, we could use data to ensure our products are ultra tailored to our consumers' pets.**
>
> Nicolò Galante, CEO, Arcaplanet

3 Omnichannel commerce

Retail has been in the midst of a digital transformation over the past 20 years. The move from a predominantly brick-and-mortar model to an increasingly digitally enabled omnichannel and e-commerce approach has further accelerated recently: e-commerce penetration in Europe doubled to 14 to 16 percent of total sales in 2023 from 7 to 8 percent in 2015.[20] On average, 40 percent of survey respondents reported making their most recent nongrocery purchase online, though this proportion varies across countries and categories. This pattern is likely to continue in the coming years, with e-commerce penetration expected to reach 15 to 20 percent in 2028.[21]

In response, some category-leading retailers are moving to an online-first business model, where the primary focus is on creating an online platform to achieve scale and elevate engagement. This strategy aims to broaden the assortment, customer base, and service levels to ultimately create new and profitable revenue streams.

However, offline retail will remain essential as part of an omnichannel strategy: 34 percent of consumers choose this channel for convenience, and 27 percent prefer physical retail for the opportunity to experience products.[22] These locations function as fulfillment centers, showrooms, and community hubs offering unique experiences that cannot be replicated online. Douglas CEO Sander van der Laan noted, **"You do not walk into a Douglas store and grab and fill a basket. There is a lot more interaction and advice between the adviser and the customer."**

The sector has increasingly moved toward digitally enabled omnichannel commerce and e-commerce models. Retailers have adopted various strategies to remain competitive and relevant.

Omnichannel harmonization

As e-commerce grows to represent a significant portion of the overall business, cross-channel coordination in pricing, promotions, assortment planning, and CRM activities has become increasingly important for retailers.

Consumers' decision journeys are now omnichannel. They often start by researching products online through brand, retailer, competitor, or third-party websites (for example, YouTube, TikTok, Instagram reviews, and marketplaces). Next, they visit stores to get advice and experience the products. Finally, they return online to purchase the item at the best price. Our survey shows that about one-third of consumers use both online and offline research channels before buying. They check competitor channels, review third-party channels, and explore online channels to get better prices. Michael Busch, former CEO of bookstore chain Thalia, said, **"We are constantly looking at where we lose people across the customer journey and finding ways to use our omnichannel capabilities to deal with the issue. At Christmas, for example, customers may walk out of traditional retailers if the queue is too long, but our customers can immediately order online. More generally, product availability tends to be much higher online. Many toy ranges, for example, have many tens or even hundreds of products. We can't fit all of those on the shelf, but we can have a prominently displayed QR code that lets the customer see—and order—the full range."**

Providing a seamless omnichannel experience keeps consumer journeys within retailer-owned channels. This can be done by harmonizing pricing and promotions, using physical stores for click-and-collect deliveries, facilitating online orders with in-store sales advisers, or integrating CRM activities and databases across channels. Thierry Garnier, CEO of multibrand DIY group Kingfisher, noted, "The customer of tomorrow will want a combination of speed and choice. We invested heavily in our marketplaces and our online sales. We have focused on store-based fulfillment and on click-and-collect. We use our stores, rather than warehouses, to make deliveries very quickly. For example, we deliver directly to 60 percent of UK homes in 40 minutes or less with Screwfix. Nobody else does that in Europe at the scale of a country. And in northern France, we work with delivery apps to do click-and-collect in 30 to 60 minutes."

[20] Based on Euromonitor, Forrester, and GlobalData estimates across 21 European countries: Austria, Belgium, Bulgaria, Czech Republic, Denmark, Finland, France, Germany, Greece, Hungary, Italy, Netherlands, Norway, Poland, Portugal, Romania, Spain, Sweden, Switzerland, Slovakia, and United Kingdom.
[21] Ibid.
[22] McKinsey State of Retail Consumer Survey, August 2024, n = 15,214.

Category marketplaces

Third-party marketplaces have been the primary engine for the rise of e-commerce in Europe. They grew at an estimated CAGR of 12 percent from 2019 to 2023—a period during which online retail overall expanded at 9 percent CAGR (Exhibit 11).[23]

For shoppers, third-party marketplaces increase depth and breadth of assortment while still providing a certain level of curation and category competence. For sellers, a category-specific marketplace provides access to specific audiences and allows for improved targeting compared with general merchandise marketplaces. For retailers, third-party marketplaces help them compete with generalist online platforms and provide a path to launch services and ecosystems (for example, with RMNs; see the section "From products to service platforms" for more detail). Retailers such as Worten, Decathlon, Douglas, and FNAC-Darty compete with e-commerce platforms such as Amazon by establishing category-specific marketplaces focused on their areas of expertise. For example, FNAC has built a marketplace for electronics and cultural products, while Decathlon features sporting goods and outdoor gear. Electronics retailer Worten CEO Miguel Mota Freitas noted, "We came from being an offline retailer with about 20,000 to 30,000 SKUs to offering ten million to 12 million products on our website—part of it sold by us, but a big part through marketplace operations and partners or sellers. It's a successful formula because we are the most visited e-commerce website in Portugal."

Although third-party marketplaces may provide an attractive growth opportunity, they could also pose many challenges for retailers. We have seen a significant gross merchandise value gap between best-performing marketplaces and those that trail them. Before launching their own third-party marketplaces, retailers must ask themselves: do we have the right organization, technology, and processes? How will we provide a seamless omnichannel experience, excel in seller acquisition, and optimize prices, fulfillment, and returns? How will we harness customer loyalty, personalization, and service platforms to scale our business further?

Social commerce

Social commerce[24] has gained significant share in Asia and other parts of the world and is now being pioneered by a handful of European retailers such as Douglas and OTTO.[25] Douglas, a leader in the beauty category, has embraced this trend by streaming several shows each day in different formats. These livestreams feature product demonstrations, beauty tutorials, and expert advice, creating a dynamic and interactive shopping experience that engages customers in real time.

Niche players and community building

Niche players provide immersive online experiences that deepen customer loyalty and drive further engagement. These players have embraced the online-first model to achieve significant scale in their niche. By focusing on unique value propositions, these retailers have built tight-knit communities and a loyal following online. Companies such as Glossier in beauty (3.1 million Instagram followers) and Allbirds in sustainable footwear (500,000 Instagram followers) have used social media, content marketing, and influencer partnerships to create compelling brand identities and engage consumer communities. In some cases, online success has paved the way for the founding of offline flagship stores, which showcase the brand and serve as experiential hubs.

We came from being an offline retailer with about 20,000 to 30,000 SKUs to offering ten million to 12 million products on our website—part of it sold by us, but a big part through marketplace operations and partners or sellers. It's a successful formula because we are the most visited e-commerce website in Portugal.

Miguel Mota Freitas, CEO, Worten

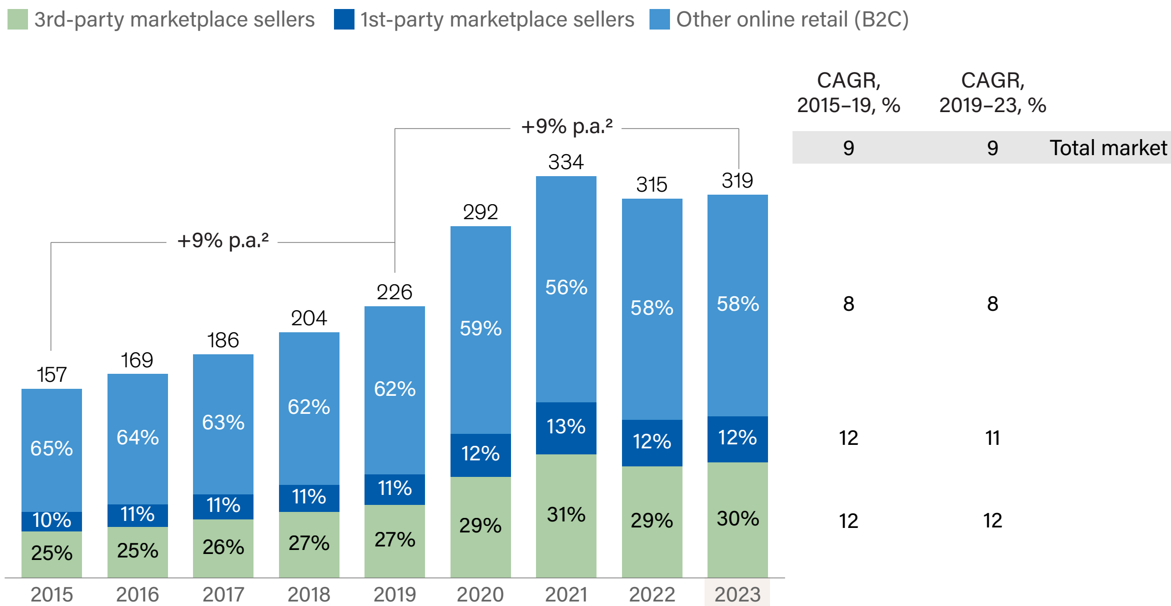
23 Forrester; GlobalData.
24 Using social media channels to sell products and services.
25 "Social commerce: The future of how consumers interact with brands," McKinsey, October 19, 2022.

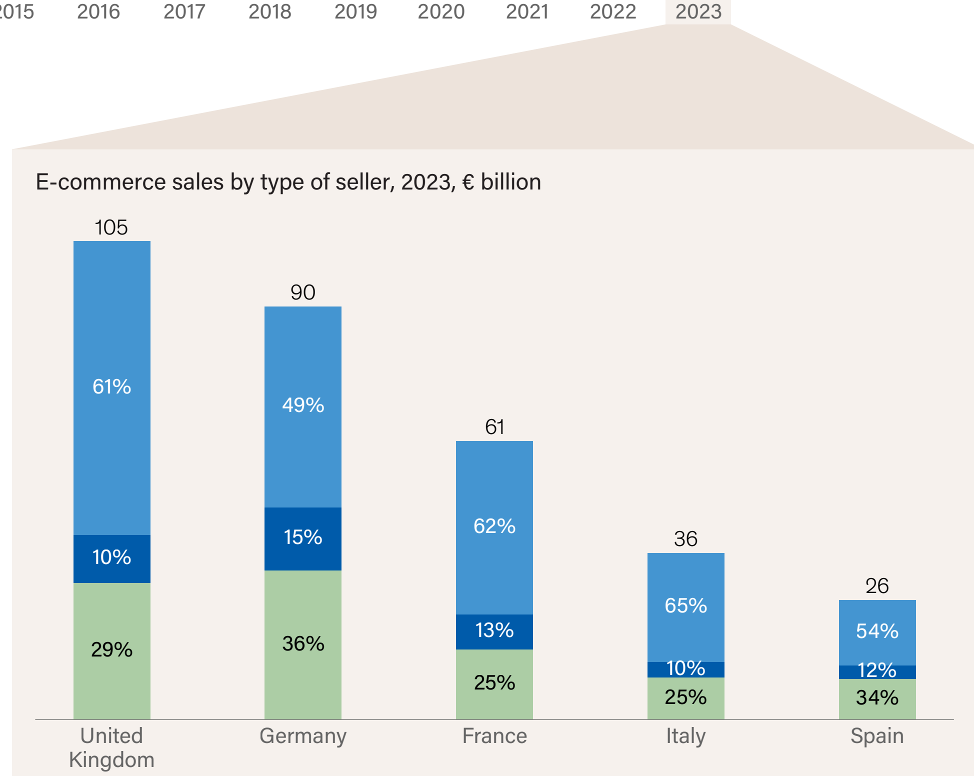
McKinsey & Company EuroCommerce

Exhibit 11

Marketplaces, especially third-party marketplaces, are growing faster than the total e-commerce market.

E-commerce sales by type of seller,[1] € billion





Note: Figures may not sum to 100%, because of rounding.
[1]Includes sellers in France, Germany, Italy, Spain, and UK.
[2]Per annum.
Source: Forrester; GlobalData; McKinsey analysis

4 Beyond retail: From products to service platforms

The increasing diversity and fragmentation of retail is giving customers more choice. The result is lower customer loyalty, an increased number of visits to different retailers, and a decrease in shopping baskets per visit. A previous McKinsey survey found 60 percent of consumers are willing to switch from their current service providers to offerings from established retailers.[26] Growing beyond traditional retail to services such as insurance, leasing, loans, travel, maintenance, repair and refurbishing, and RMNs allows retailers to fight shrinking customer loyalty. Successfully building an ecosystem to fulfill customer needs and wants can reward retailers with higher customer loyalty and a larger share of wallet.

Digitization and technology advancements have made it much easier for retailers to venture beyond core retail into new segments and thereby build an ecosystem for their customers. By putting customers' needs at the center of their value proposition, retailers can build a portfolio of traditional retail and services that boosts revenue and better serves customers. Sebastian Gundel, the CEO of Germany-based DIY retailer OBI, said,

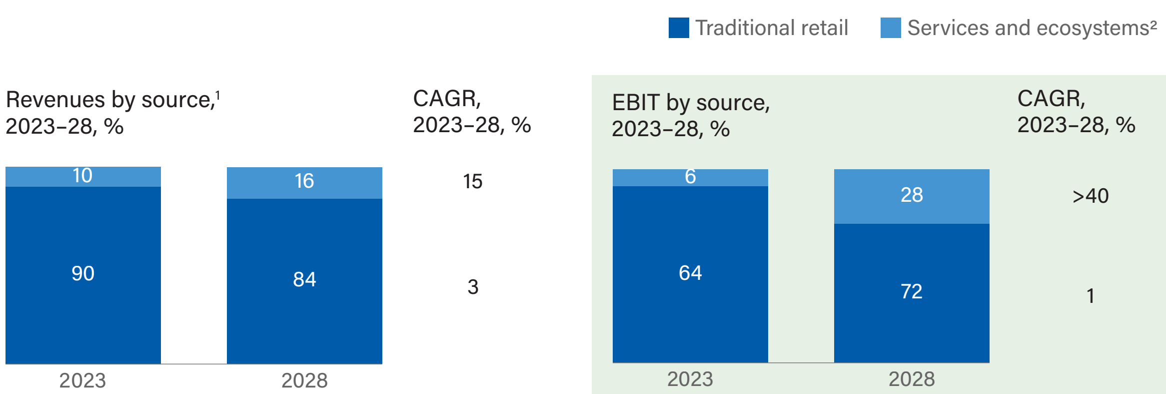
"A year ago, we launched end-to-end solutions where customers have a request—'I want a solar panel on my roof'—and we find a local partner to install the project and follow up to make sure everything is executed in a proper manner. Combining our brand and our customer relationship with the competence of our partners is our proposition, and it works well. It's completely uncharted territory, but we are so far meeting our business case assumptions with mid-double-digit gross merchandise value after 18 months."

With this approach, retailers could achieve a fivefold increase in growth rates in market segments beyond retail over the next five years at better ROIC than traditional core retail activities (Exhibit 12).[27]

To realistically assess ecosystem opportunities beyond retail, retailers that have built large bases of loyal customers could explore four questions.

Exhibit 12

Activities beyond retail could account for 15 percent of revenues and 30 percent of profitability for European retailers in four to five years.



Note: Markets include Austria, Belarus, Belgium, Bosnia and Herzegovina, Bulgaria, Croatia, Czech Republic, Denmark, Eastern Europe, Estonia, Finland, France, Georgia, Germany, Greece, Hungary, Ireland, Italy, Latvia, Lithuania, Netherlands, North Macedonia, Norway, Poland, Portugal, Romania, Russia, Serbia, Slovakia, Slovenia, Spain, Sweden, Switzerland, Türkiye, UK, Ukraine, and Western Europe.
[1]Traditional revenue includes traditional buying and selling, trade spend (eg, in grocery), rental of stores-within-stores, and wholesaling (eg, by retail brands that also sell through 3rd-party channels); beyond trade revenue includes 3rd-party marketplace activity (counted as gross merchandise value), data monetization, monetizing assets with B2B customers, and consumer financial services.
[2]Includes B2C and B2B services, including retail media.
Source: Euromonitor; Statista

[26] McKinsey Retail Adjacency Consumer Survey Europe, June 23–30, 2022, n = 6,121.
[27] "Projections for 2023-2028," Euromonitor, 2023, accessed September 2024.

Where to play

Retailers should prioritize new services based on elements such as adjacency to the current activities, value propositions, abilities, culture, high-growth potential, attractive margins, and low capital investments. Typically, segments can be grouped around themes such as health, mobility, finance, and insurance (Exhibit 13).

What assets to leverage

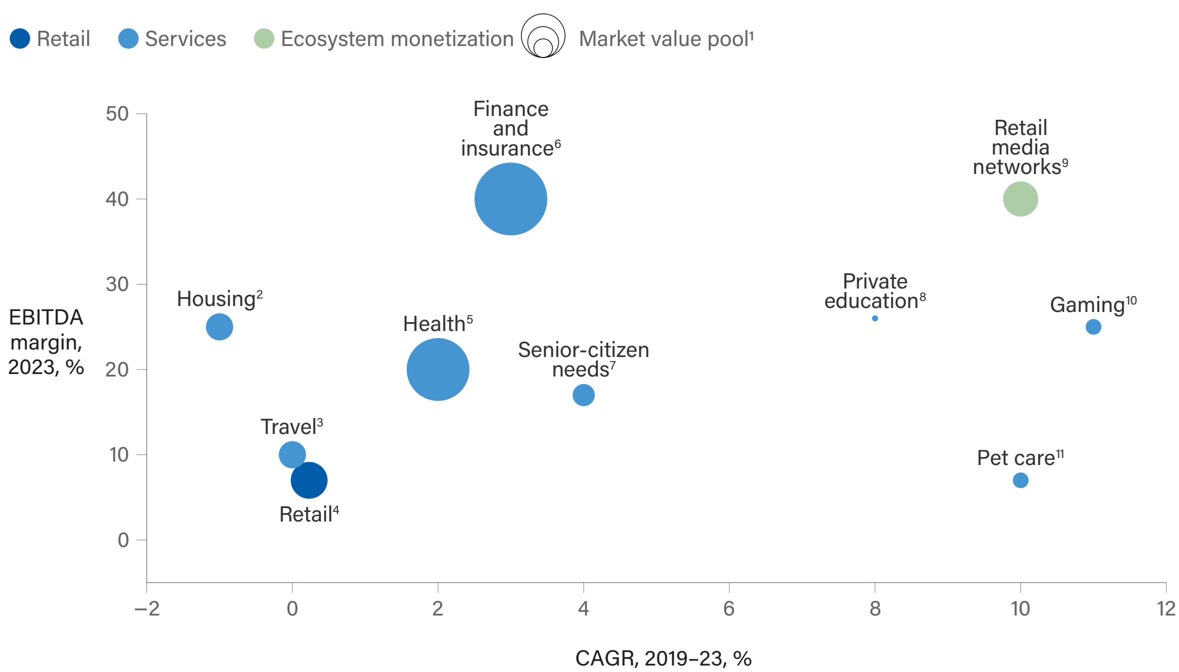
The next step in developing an ecosystem strategy is evaluating existing tangible and intangible assets—for example, brands, loyalty programs, stores, apps, products, services, and expertise—for potential use in the new ecosystem (Exhibit 14). Harnessing these assets and capabilities can drive growth, improve odds of success, and reduce investment needs.

For example, a third-party marketplace can be a launching pad for an ecosystem of new and profitable services such as RMNs, financial services, or fulfillment. In particular, RMNs can support the development of e-commerce and marketplace strategy and generate significant value at minimal costs. Given the costs involved in creating and scaling e-commerce operations, retailers have a strategic need to drive higher profitability. RMNs have the potential to offset some of those higher costs: the investment required to build an RMN is relatively low, while selling ads on a retailer's site can deliver margins of 60 to 85 percent.[28]

Exhibit 13

Markets for adjacent services have a better outlook than traditional retail in the long run.

Adjacent services' growth and profitability

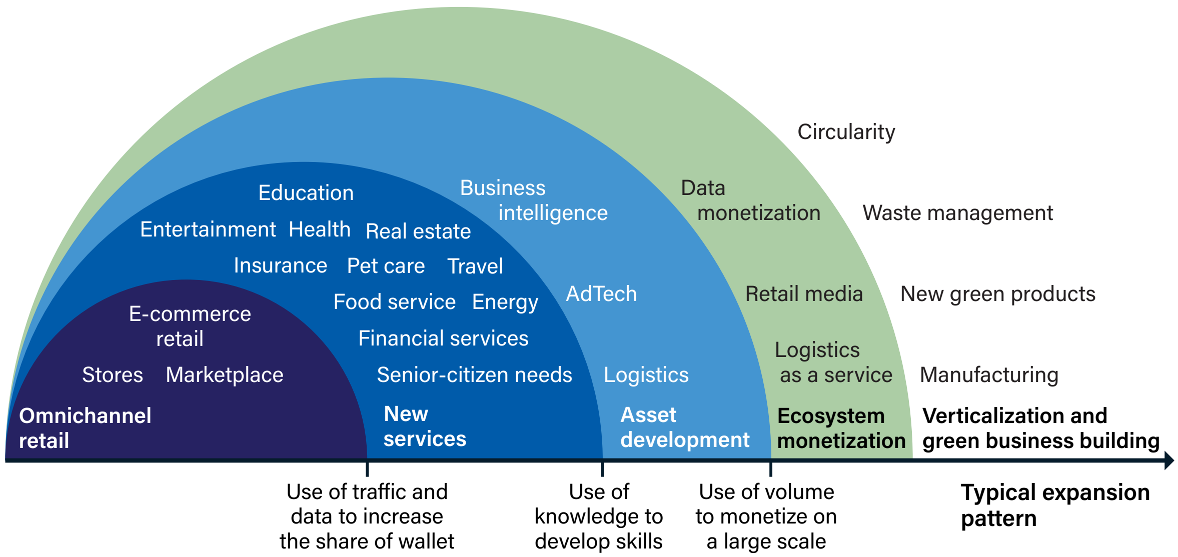


[1]Market value pools based on market value of the main public companies of selected European countries (France, Germany, Italy, Spain, Sweden, and UK).
[2]Home improvement retail, real estate development, real estate operating companies, and real estate services.
[3]Travel tickets by different travel modes; EBITDA margin based on travel agencies only.
[4]Apparel retail, broadline retail, computer and electronics retail, food retail, home furnishing retail, and other nongrocery retail.
[5]Biotechnology, healthcare distributors, healthcare equipment, healthcare facilities, healthcare supplies, healthcare technology, and pharmaceuticals.
[6]Asset management and custody banks, diversified banks, investment banking and brokerage, multiline insurance, property and casualty insurance, reinsurance, and specialized finance.
[7]Seniors' support products or services (eg, home care).
[8]E-learning courses and materials.
[9]Advertising platforms using retailer data for targeted marketing and performance tracking (eg, in-store digital advertisements or online banners).
[10]Casinos and gaming, interactive home entertainment, and movies and entertainment.
[11]Pets' well-being and health products or services (eg, vet services).
Source: Euromonitor, 2023; Statista, 2023

[28] John-David Appleby, Carly Donovan, Craig Macdonald, and Björn Timelin, "Opportunities for e-commerce success in Europe: Retail media networks," McKinsey, July 5, 2022.

Exhibit 14

For individual retailers, there is a typical pattern of expansion into related categories.



Source: Marco Catena, Richard Mayfield, and Rakhi Williams, "Beyond retail: Why retailers should think 'services' and 'ecosystems,'" McKinsey, January 11, 2023

Amazon is currently the leading RMN by measures such as market share and advertiser usage. Still, a majority of advertisers plan to spend ad dollars on other RMNs as well. In fact, 80 percent of advertisers engage with at least one RMN beyond Amazon.[29] As advertisers continue to reimagine their value propositions, they recognize the benefit of expanding into RMNs that provide access to unique, highly targeted audiences and different cost tiers. In Europe, for example, Amazon accounts for approximately 60 percent of RMN revenues, but players such as ManoMano and MediaMarkt have launched their own RMNs.[30]

How to win

The next key step is developing a blueprint for the most promising business model targeting a specific market segment. Retailers should consider the full range of business models, including subscription, freemium, marketplace, and leasing. Our research found leading retailers design ecosystem strategies that create a virtuous cycle among multiple businesses.

How to make it happen

Retailers should have some foundational elements in place before pursuing attractive ecosystem opportunities. These elements include an integrated single database that allows customer development across businesses, lean but decisive portfolio management to oversee the ecosystem strategy, and a standardized go-to-market approach using pilots before committing significant capital.

By considering these perspectives, nongrocery retailers can successfully identify opportunities beyond retail, increase customer satisfaction, and achieve sustainable growth in a rapidly evolving retail landscape.

[29] Marc Brodherson, Jon Flugstad, Quentin George, and Jack Trotter, "Busted! Five myths about retail media," McKinsey, June 7, 2022.
[30] "Leading digital retail media networks in Europe in 2023, by advertising revenue," Statista, February 2024.

5 End-to-end cost optimization

Nongrocery retailers are at a critical juncture. As noted earlier, the sector's growth is expected to stabilize at about 0.6 percent a year (adjusted for inflation) through 2028. Retailers also face consistent margin pressure from persistent inflation and increasing cost of goods sold (COGS).

That calls for a comprehensive approach to cutting operational costs. Doing so in silos is likely to lead to incremental gains at best or increased costs elsewhere in the business at worst. For example, reducing the return policy deadline may generate savings in distribution centers but lead to declining customer satisfaction scores and additional costs in customer service centers from a rise in complaints.

Retailers must now consider optimizing costs and working capital across their functions and value chain segments, including integrating technology to significantly simplify processes. This end-to-end approach to cost optimization is imperative and can decrease costs by 10 to 20 percent and generate inventory savings of around 10 to 30 percent.

End-to-end optimization in action

Several examples highlight the challenges and improvements retailers could achieve through an end-to-end approach.

In-stock rates

High out-of-stock rates can result in missed sales and dissatisfied customers. Today, the root causes of products being out of stock are more varied than ever and cut across functions. Retailers cannot solely blame the supply chain, nor can they expect store teams to solve out-of-stock issues alone. Instead, functions must collaborate to improve in-stock rates.

For instance, commercial and supply chain teams can work on optimizing buying plan timelines. Supply chain and store teams can focus on improving outbound pick accuracy and delivery timelines. And store, IT, and e-commerce teams can use on-shelf monitoring systems to send automated restocking notifications at appropriate times during the day.

Network design

Retailers typically evaluate the design of their store networks and distribution centers by gathering high-level inputs across the organization (such as turnover forecasts or store openings and closures). Retailers often optimize their online and offline networks separately, missing cross-channel opportunities and cost savings. A unified approach would better optimize both networks.

Arcaplanet CEO Nicolò Galante noted, **"To be omnichannel, everything needs to be centered around the customer, and a company cannot do this by working in separate divisions or categories. Therefore, our processes—from commercial planning to pricing to data to loyalty—are omnichannel. We don't have separate pricing structures for the store and e-commerce; we don't have separate category managers for the store and for e-commerce. Every function mirrors this customer-centric, omnichannel, cross-functional view."**

Indeed, by aggregating tools, models, and data-sharing infrastructure across teams from stores and distribution centers (for example, labor data), merchandising (product segmentation data), and finance (growth forecasts), retailers can build more sophisticated models.

Beyond supply chain, unifying data and systems across channels can enable headquarters productivity for retailers in other processes as well. High-value examples include adding new product lines or SKUs easily and

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propagating change to all channels, updating product content or imagery and allowing it to flow to all points of presentation to consumers, agilely adding or subtracting seasonal assortments, and aligning dynamic pricing analytics and administration to assure that changes flow to all purchase points as soon as decisions are made.

Return rates

Returns are one of the most pressing—and most expensive—problems e-commerce and fashion retailers face. They can cost 15 percent of overall sales and up to 20 percent of online sales. Moreover, return processes involve many steps and handoffs across functions.

By building a cross-functional optimization team (for example, drawing on the IT, analytics, merchandising, finance, and supply chain functions), retailers can identify breakage points in the return process, develop and prioritize solutions, and build analytical models or digital twins to test solutions before implementation. This approach could help retailers save working capital and increase the speed of inventory.

What end-to-end excellence requires

End-to-end excellence encompasses an operating model and mindset that enable retailers to better serve customers, improve operations, and drive turnover and margin growth. Retailers that pursue optimization can find the "in betweens" of value—opportunities that become obscured or lost because of inefficient handoffs between teams or opaque processes. The value in a retail business does not come from the sum of its parts alone; it is also generated when the functions work together. To make end-to-end excellence a reality, retailers could take the following actions:


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Align on organization-wide goals

As a first step, company leaders could establish one shared goal that the entire organization should be measured against. One example is product shelf availability. Customers care most about whether an item is available when they want to buy it. Therefore, a retailer might set a company-wide on-shelf availability target instead of separate ones for distribution centers and stores.

Once the CEO and COO endorse this goal, their buy-in will help remove roadblocks, enforce decision making, and create a solution-focused mindset that cascades down to the rest of the organization.

Empower leaders to reach across the organization

Organizing and empowering the end-to-end team is often more difficult than deciding which problems to tackle. The most effective teams consist of leaders who wield influence across functions, are deeply knowledgeable in their respective areas, and demonstrate a can-do attitude. Retailers could look for different leadership profiles, such as employees with a generalist background, or design career paths that allow employees to develop the skills required for such positions.

Without this kind of leadership, business silos and department hierarchies will win out, diminishing the effectiveness of an end-to-end transformation. Once the team is in place, organizations should schedule weekly meetings to ensure leaders keep working together.

Prioritize data transparency, accuracy, and availability

Data transparency allows retailers to identify a problem's root causes, quantify impact, and prioritize solutions. But making accurate data transparent and accessible across an organization is also one of the most difficult tasks for retailers—especially if major functions take a myopic view of the business and design narrow metrics of success.

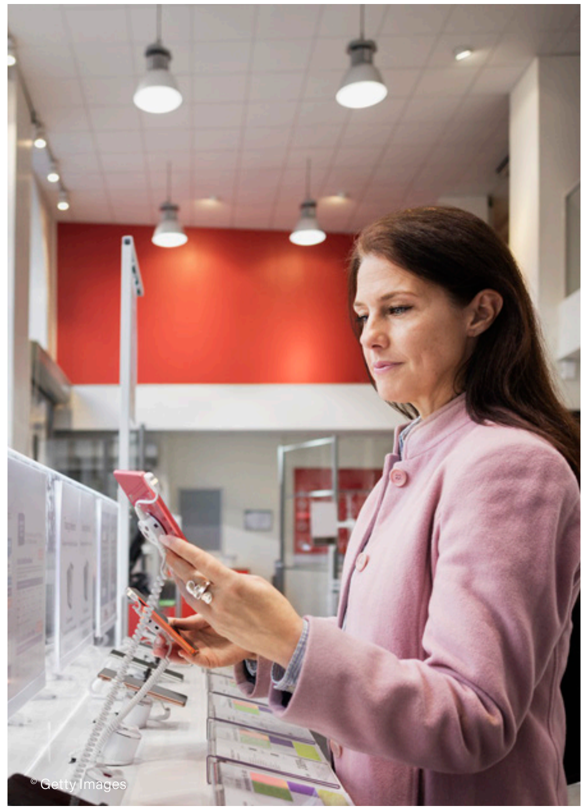
To promote data transparency, retailers could create universally defined, cross-functional metrics to hold all functions accountable. One way to accomplish transparency is to combine data from different retail functions, a task that typically requires integration across multiple systems.

Deploy advanced tech solutions and adapt processes

Advanced technology tools can facilitate integration among business units. However, processes must be redesigned, tailored, and simplified to ensure the tools are broadly adopted and incorporated into daily operations. In the case of improving in-stock rates, AI can assess data on inventory, points of sale, and online ordering to predict when an item will go out of stock and alert the stores to take action. Generative AI–powered chatbots can field customer calls to identify network delivery issues, while machine learning algorithms can improve end-to-end forecasting for complex promotions.

6 Accelerating AI deployment

Across the nongrocery retail value chain, our analysis estimates generative AI can offset margin pressures by 1.2 to 1.9 percentage points. Gen AI based on text and multimodal data (such as images, voice, video, and code) has grabbed many headlines recently, and it could contribute to 15 to 30 percent of AI's total value. However, it is still eclipsed by nongenerative AI. Predictive and prescriptive AI models built on large quantitative data pools aggregated from the transactions and interactions retailers have with their customers and suppliers could be much more important, boosting productivity and generating the other 70 to 85 percent of economic impact.[31] AI's impact will not be fully independent—rather, it will act as an accelerator enabling retailers to capture the impact of each of the other five levers more fully and more rapidly.



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Leading AI use cases

We have already seen retailers deploying "traditional" AI and generative AI in a range of use cases:

Merchandising

AI-based commercial optimization has made significant progress in recent years. The latest generation of algorithms for shelf space allocation, assortment, pricing, and promotion can help retailers better understand customer behavior (such as the net effect of a promotion on share of wallet) as well as anticipate competitor reactions, differentiate the commercial offer at a more granular level, support root cause analysis, and automate relevant parts of the work. Adopting the latest generation of digital optimization tools and approaches can significantly increase same-store sales and profit.

Customer interactions

Generative AI has the potential to transform customer interactions through hyper-personalized retail media messaging as well as promotions and offerings. AI and generative AI are being increasingly tested and applied across the retail value chain in CRM, marketing, on-site user experience, pricing, and operations, among other areas. This capability not only provides value to the customer but also promotes sustainable shopping practices. AI can analyze market conditions, competitor pricing, and customer demand to inform business decisions, maximizing sales or margins. It can also create targeted promotions by analyzing customer behavior and preferences, boosting the effectiveness of marketing campaigns. Further, AI assesses feedback and reviews to gauge sentiment and identify areas for improvement, thereby enhancing customer satisfaction and loyalty.[32] Such efforts can help retailers predict which customers will likely churn and take proactive measures to retain them.

In addition to enabling experiences on first-party retail websites, apps, and third-party marketplaces, we will see consumers shopping while armed with AI tools. Companies such as Faircado have developed AI-powered browser plug-ins that automatically find and suggest cheaper secondhand alternatives for online shoppers. As consumer tools evolve beyond product search toward personal shopping agents, retailers will face the most informed customer base ever and must adapt their strategies accordingly.

Supply chain

AI can help to further improve demand and replenishment planning.[33] For instance, digital twins could

31 "LLM to ROI: How to scale gen AI in retail," McKinsey, August 5, 2024.
32 "Gen AI in customer care: Early successes and challenges," McKinsey, April 26, 2024.
33 "Tech-enabled transformations: Three supply chain success stories," January 29, 2024.

enable retailers to track the movement of goods and manage inventory in warehouses. AI can optimize inventory levels and reduce stockouts or overstock situations, track inventory in real time, automate replenishment processes, and improve stock distribution across various locations. It can also identify the most efficient delivery routes, reducing transportation costs and delivery times through dynamic routing based on real-time traffic data.

Store operations

Scheduling store labor is often a manual, time-intensive task for retailers, but incorporating AI could increase efficiency. Indeed, AI can ensure adequate staffing levels based on store traffic patterns, employee availability, and sales forecasts. In addition, workforce chatbots could assist with onboarding sales associates and building their knowledge and expertise. Creatively designed, AI-powered self-service experiences for customers can also free store staff to focus on higher-value tasks.

Support functions

AI agents, powered by large language models, could help automate some activities in service centers. For example, gen AI could enhance the effectiveness of HR agents and chatbots and also streamline contract management, ensuring compliance and optimizing terms based on historical data and market conditions. They can also enable effective multilingual support, allowing customers, employees, and vendors to interact in their preferred languages with high-fidelity translation at low marginal cost—and thereby increase productivity for retailers globally.

Deployment challenges and hurdles

Although AI and gen AI could create significant value, retailers face major obstacles to successful deployment. They run the risk of becoming dependent on AI providers, which could increase pressure on margins. A rapidly evolving regulatory landscape and uncertainty on compliance combine to hinder implementation. Some retailers also struggle to aggregate and manage data such as customer transaction data. The result is an incomplete understanding of customer behavior and the types of offers that may be most appealing to them.

On the organizational side, a lack of talent with AI capabilities has left many retailers to rely on ad hoc, Excel-based models. Such methods present opportunities for AI to improve accuracy.

Implications for nongrocery retailers

Retailers that have successfully harnessed AI are significantly outperforming the competition. Indeed, over the past five years, AI leaders have achieved 2.1 times the annual sales growth and 2.5 times TSR compared with their peers. Retailers seeking to successfully adopt AI can focus on three areas to accelerate deployment and capture its benefits at scale across their organization.

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Align on value through a business-led digital road map

Retailers that take a domain-led perspective on AI use cases—that is, prioritizing areas where AI could have the greatest impact—can benefit from economies of scale and scope (Exhibit 15). In our experience, a focus on high-impact, feasible domains with high ROI can help build the foundations for incorporating AI into additional domains. As with other technology solutions, retailers will have to determine where investments in AI can create a lasting competitive advantage and where to rely on external solution providers.

Set up the right delivery capabilities

Retailers must ensure they have the proper capabilities to support AI implementation and delivery. From a talent perspective, they may need to reskill their workforce to embrace data-driven decision making and hire AI leaders for senior positions.

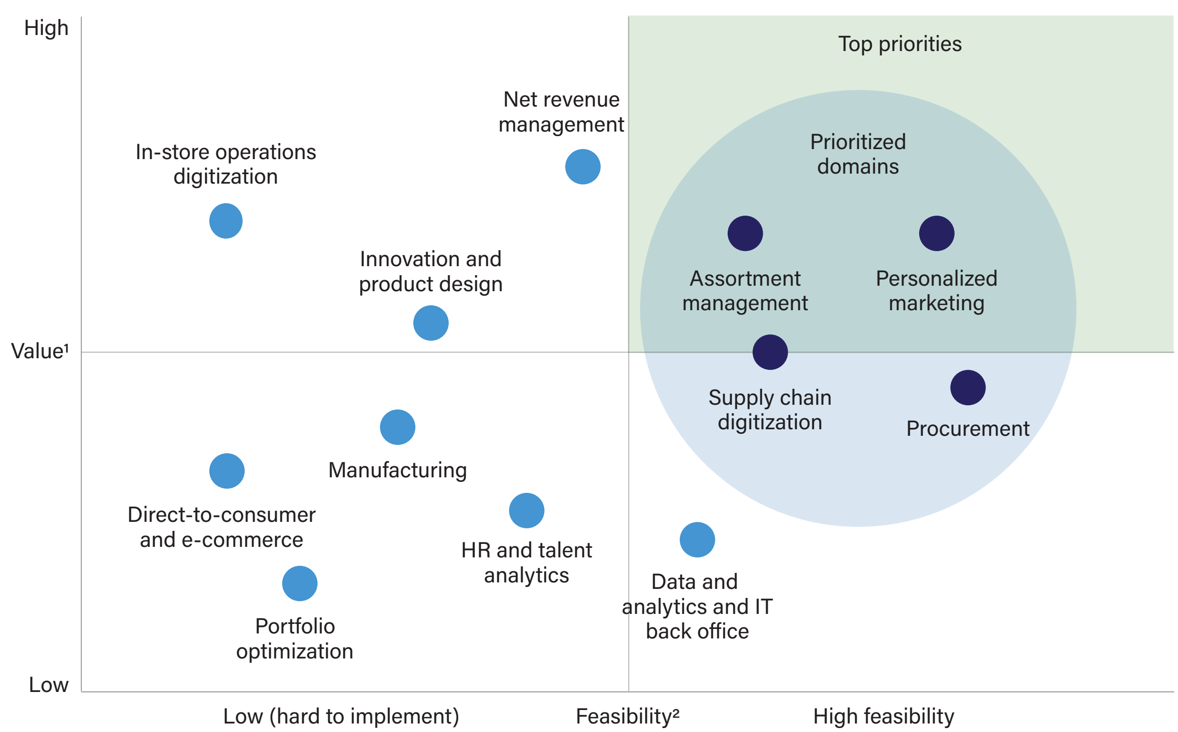
For example, store operations managers will need to increase AI literacy to incorporate these tools into their daily work. The creation of cross-functional teams can help champion a new way of working across the organization. Technology must be accessible and intuitive so employees can roll out AI use cases more rapidly. Since data is a foundational element of AI, well-governed data products can help to democratize access for decision makers and the entire workforce.

Manage change to support adoption and scaling

Retailers should be prepared to rigorously track and communicate progress and impact from AI use cases. For example, following stage-gate logic to assess and approve use cases can help steer investments toward previously selected domains with the most promise and highest impact. Ensuring the organization adopts a new way of working can require supplemental investments in change management initiatives. In addition, retailers can create buy-in from employees by clearly communicating how AI can enhance productivity and advance their career path while improving their quality of life by eliminating or significantly simplifying menial, repetitive data-intensive tasks.

Exhibit 15

In retail domain-led digital transformations, certain domains can be prioritized to maximize value and feasibility.



[1]Measured by improvements in customer experience, financial benefits, speed to value, and synergies with other domains.
[2]Measured by executive sponsorship, data readiness, technology readiness, ease of adoption, and ease of enterprise scaling.
Source: McKinsey *Rewired*

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Chapter 3

Implications and priorities for nongrocery retail sectors

The six themes for nongrocery retailers reflect sectorwide trends and provide a road map to unlock growth opportunities. These themes will play out differently in each nongrocery category, so executives should be prepared to adjust their strategy accordingly.

Furniture and furnishings

Prolonged periods of time spent indoors during the pandemic, continued remote work arrangements, and a renewed appreciation for the home environment created significant tailwinds for the furniture and home furnishings market. However, soaring costs from inflation have eroded margins and present obstacles to growth.

Key strategies for furniture and furnishing retailers:

Evolve market strategies in line with strengths. Retailers will have to choose a clear path between positioning themselves in polarized growth markets (low prices versus premium products), where competition is fierce, or remaining in a shrinking midmarket, which would require greater market share to ensure profitability. Value-driven consumers gravitate toward discounters and ready-to-assemble products, while the premium segment is also expanding (5.7 percent CAGR[34]), driven by rising demand for bespoke designs and elevated aesthetics.

Pursue third-party marketplaces. Consumers are increasingly purchasing furniture online. As one example, IKEA's e-commerce sales increased threefold from 2018 to 2023.[35] Retailers could open their furniture portfolio to third-party online marketplaces and facilitate the online–offline customer journey (through in-store availability of stock, professional advice, and delivery services, among other tactics).

Develop furniture-related services. Interior design recommendations, furniture assembly services, or even shopping assistants could be an attractive value proposition for customers.

Adapt to the upcoming regulatory changes around sustainability. Retailers could develop new sustainable products in partnership with raw-materials suppliers and service providers to unlock new pockets of growth.

DIY and hardware

Demand for DIY products has waned in recent years because rising interest rates have slowed the housing market. DIY retailers have also faced mounting pressure from three new competitive forces: dominant online platforms, aggressive nongrocery discounters, and innovative new entrants (such as ManoMano). Nonetheless, home renovation support schemes (for example, regarding insulation and energy-efficient cooling and heating) could help maintain the market.

Key strategies for DIY and hardware retailers:

Unlock new pockets of growth by developing B2B offerings. We expect retailers to build exposure to growing subcategories (for example, smart-home equipment and energy-efficient, eco-friendly products) and incorporate services in their offerings (such as garden planners).

Expand the DIY and hardware product range. Retailers can differentiate themselves by building out their assortment to address customers' increasingly specific demands regarding DIY tools and equipment.

Tailor DIY and hardware store formats. Revitalized urban DIY store concepts could ensure that each format reflects the unique demands of its target market.

Consumer electronics

Consumer electronics retailers have been compelled to upgrade their technology and IT capabilities (such as CRMs, order management systems, and advanced data analytics) to keep pace with rapid advancements. Further, the sector was one of the first retail categories to shift from traditional mass marketing to targeted digital approaches.

Key strategies for consumer electronics retailers:

Establish value-added services for consumer electronics suppliers. Options could include RMNs supported by the development of marketplaces to transition toward a platform business model. Additionally, retailers could offer installation and repair services to their customers.

Launch data-driven loyalty programs. Retailers could offer consumers tailor-made opportunities to experience products or services (such as video games, audio, and photography) they are passionate about.

[34] "Luxury furniture market size, share & industry analysis, by raw material (wood, metal, plastic, and others), by end-user (residential and commercial), by distribution channel (online and offline), and regional forecast, 2024–2032," Fortune Business Insights, October 21, 2024.
[35] "E-commerce net sales of ikea.com from 2015 to 2023," Statista, May 27, 2024.

Sporting goods

To meet heightened postpandemic demand from certain segments, sporting goods retailers have developed strong private label offerings, with a diverse array of affordable products. Further, they have adapted their supply chains to mitigate potential disruptions and reduce the impact of external risks.

Key strategies for sporting goods retailers:

Adapt offerings to consumer preferences. Retailers could shift their assortment to include more products related to growing activities, such as running, fitness, Pilates, or paddle tennis.

Improve marketplace convenience. By emphasizing user experience, personalized promotions, and shopping advice, retailers could enhance the omnichannel customer journey.

Build flexible business planning execution. A focus on resilience could help address increasingly volatile demand and frequent supply chain disruptions.

Ramp up sustainability efforts. Retailers could offer equipment rentals, secondhand equipment offerings, and repair services.

Beauty and personal care

Retailers in this category have broadened their product ranges to include wellness-oriented, cruelty-free, and refillable items in an effort to enhance their appeal against lower-priced alternatives. They have also expanded their store networks through strategic partnerships. To foster deeper customer engagement and loyalty, retailers are creating immersive in-store experiences and hosting engaging events featuring collaborations with independent brands and influencers.

Key strategies for beauty and personal care retailers:

Enhance 'hyperspecialization' of beauty offerings. Advanced skin diagnostics and beauty advising services could help retailers cater to specific customer demands. Additionally, retailers could offer personal-care products from adjacent markets generating customer traction (such as dermatology and hair care).

Power up loyalty programs with personalized advantages and gamification. Redesigned loyalty offerings, with gifts, curated events, and tailored experiences, could foster greater customer interest and engagement.

Boost e-commerce performance with precisely targeted marketing and exclusive offers. More granular segmentation can position retailers to acquire and retain customers and efficiently compete with discounters (such as B&M).

Pet care

The long-resilient pet care sector is now facing challenges from consumers seeking the best value for money. Pet nutrition has long been on a premiumization journey, prompting retailers to position themselves as the preferred channel for discerning consumers. To maintain this edge, pet care retailers need to differentiate their assortments while avoiding overlap with grocery offerings.

Key strategies for pet care retailers:

Partner with pet food manufacturers. Retailers that forge partnerships could position themselves at the forefront of product innovation and diversify their offerings toward premium products, functional ingredients, and preventive care (for example, superfoods, vitamins, and supplements).

Enrich the value proposition with in-store services. To generate new revenue streams and differentiate the value proposition from grocery stores, generalist retailers, and online players, retailers could feature expanded offerings such as veterinary and pet grooming services.

Capture a piece of rising e-commerce growth. By offering a large assortment of products and specific services (for example, in-store pickup), retailers can stand out from online resellers.

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Chapter 4

Lessons from leaders

Nongrocery retail's trends and themes are playing out in different ways across categories and markets. A comprehensive, detailed understanding of the nuances in consumer preferences will be critical to uncovering growth opportunities and creating the right strategies to succeed. The following interviews with senior executives in European nongrocery retail shed light on these challenges and offer invaluable insights for navigating the coming years.

Interviews are listed alphabetically by company name.

Comments and opinions expressed by interviewees are their own and do not represent or reflect the opinions, policies, or positions of McKinsey & Company or have its endorsement.

Interview

Pet care anywhere: Arcaplanet's Nicolò Galante on omnichannel retail

Nicolò Galante
CEO, Arcaplanet

CEO Nicolò Galante discusses how Italian pet care giant Arcaplanet optimizes its omnichannel approach and shares his hopes for the retail sector's future.

Making pet care easier for owners is top of mind for Italian omnichannel pet care retailer Arcaplanet. Through its hundreds of brick-and-mortar and online stores, the company strives to reach customers where they are and provide them with myriad pet-focused products, including food, accessories, and supplements. McKinsey senior partner Franck Laizet spoke to Arcaplanet's CEO, Nicolò Galante, about the company's goals, where he sees retail heading, and how the company plans to differentiate itself. The following is an edited version of their conversation.

Q: What is unique about Arcaplanet's value proposition?

A: Arcaplanet operates in an omnichannel way, which allows it to provide higher-quality service. We focus on attracting loyal customers, so we try to encourage loyalty from customers any way we can. For example, we have quite a unique, successful loyalty program—90 percent of our sales across channels stem from our loyalty program.

Also, an important part of our sales health comes from offering goods from exclusive brands; they represent about half our sales. Unlike products from companies that sell, say, furniture or household appliances, our products are purchased repetitively. People buy pet food every other week, and if they like an exclusive brand we offer, we're able to retain their loyalty because they'll keep repurchasing items. After all, no one wants to continuously change how they feed their pet, as long as it's happy and healthy.

Q: How does your operating model align with your cost model?

A: We are quite good at working cross-functionally. To be omnichannel, everything needs to be centered around the customer, and a company cannot do this by working in separate divisions or categories. Therefore, our processes—from commercial planning to pricing to data to loyalty—are omnichannel. So we don't have separate pricing teams for the store and for e-commerce. We don't have separate category managers for the store and for e-commerce. Every function mirrors this customer-centric, omnichannel, cross-functional view.

We are also integrated at the product level, which helps make our brand more distinctive and more unique. We now produce almost all the dry food we offer, and we are building an R&D lab at the end of this year for wet food and accessories. We want to move more into product design, if not proper production.

To be omnichannel, everything needs to be centered around the customer, and a company cannot do this by working in separate divisions or categories.

Q: Where are you seeing changes in consumer trends? What do you expect to change in the future?

A: Since 2023, there has been a wave of inflation, which has increased customers' focus on value for money. Now that the European economy is not growing as fast, the pressure on value is going to stay with us for at least the next two to three years. For specialty retailers, the challenge is going to be to convince consumers to spend significantly more on premium goods than they would if they bought the products they find in the supermarket. But it can be done through services, innovation, functional benefits, and marketing.

Another trend we see emerging is personalization. Rather than buying a standard product for, say, any large adult dog, a consumer may want to buy a specific product for their five-year-old Labrador that lives outside, is healthy, and likes to go on long jogs with its owner. Now it's necessary to adapt as much as possible to provide the customer with something they feel is targeted to their pet. This is a clear trend that we see across countries. In some countries, it's even a direct-to-consumer trend for manufacturers. For example, some new pet brands are created to be hyperpersonalized: when customers input information about their pets, the companies give them a perfectly personalized regime with all the products they need.

Another trend that's present, especially in the United States, is humanization. It appeals to customers who want to treat their pet more like fully fledged family members. For our sector, it's good because people are willing to spend a big portion of their personal income on pets.

Q: How do you see the role of the store changing?

A: Even in ten years, I think stores will be the main source of sales in our sector. In every country, even the United States, stores contribute to 70 percent or more of the sector's revenue. The challenge is how to keep stores' profitability at the level that it is today. If we don't reinvent the stores every year, they will become less profitable as time goes on.

I think the store should be a point of service, a point of advice, and a point of differentiation. If they are only a touchpoint for customers to pick up online orders or to complete an emergency shopping mission, that probably won't be enough to stay profitable. But if you can go to a store and meet a professional who can give you good advice about the well-being of your pet and recommend a product, then that will give stores a way to be invaluable to customers. It's a very different reality than today's.

We are also retraining store staff to expand their role. Ten years ago, people were hired just to replenish the shelf, but now we've abolished roles in the stores, so everyone is multitasking, and they know helping the customer is their first priority. The next step will be to train them to be consultants.

It's a massive change in HR because it requires new training, a change in our recruiting metrics, and a change in our incentive system and compensation. It touches the whole range of HR.

Q: Do your stores already provide specialty services?

A: With our app, customers can book two types of services in a store: a dog wash and a nutritional consultation with one of our specialists, who are in certain stores. In the future, we want to offer other services, such as grooming and nail trimming.

Q: Looking ahead, what are your priorities? Where do you see growth and productivity?

A: The number one priority on the store side is the staff transformation we discussed, and we want to make store service better than going to a supermarket. We also want to find a more efficient, effective way to invest our margins. We want to use the power of customer insights. Today, we still use category and SKU level-insights for pricing and promotion, but we want to integrate that data with customer data to make pricing more targeted. And we're looking to improve vertical integration to make our products even more unique and innovative by partnering with third parties and universities on research.

Q: Where do you see the biggest bottleneck today?

A: When you transform, especially if you try to navigate territory that is uncharted, finding the right people can be difficult. We cannot go faster than our ability to place the right people in the right role. This is not necessarily a bottleneck, but it is dictating the pace at which we can transform.

If we take too big of a step, we cannot prioritize sustainable growth. This means hiring only when we have the resources to support our team's ongoing work.

Q: If you have one hope for the retail sector, what would it be?

A: In the retail sector, many people are not getting the recognition they deserve in terms of quality of life and compensation. It can be a tough sector, where the work is heavy. Every year, I spend one day working in our stores, and at the end of the day, my back is really hurting. For me, it's one day; for them, it's every day. My hope is that we can value, compensate, and train employees to make their quality of life better and allow them to have a better life outside of work. We are trying to do our part at Arcaplanet as fast as possible.

Nicolò Galante is the CEO of Arcaplanet. **Franck Laizet** is a senior partner in McKinsey's Zurich office, and **Marco Catena** is a senior partner in the Milan office.

Interview

BUT Conforama's CEO future-proofs its winning local furniture model

Alexandre Falck
CEO, BUT Conforama

Alexandre Falck's strategy to grow two of France's largest furniture brands augments their leading hyperproximity model with back-office synergies, diversified offerings, and an omnichannel approach.

European consumers are price-conscious,[1] especially when it comes to discretionary spending in categories such as furniture. It is thus more important than ever for furniture brands to differentiate themselves in the increasingly crowded and competitive sector. BUT and Conforama do just that. The French furniture distributor's winning formula is an omnichannel sales and marketing strategy, personalized offerings, and an incomparable hyperproximity model that includes robust, efficient local networks that extend throughout France.

BUT Conforama chairman and CEO Alexandre Falck has engineered BUT and Conforama's continued success. Since he took the helm at BUT in 2018, Falck has overseen the relaunch of the franchise, the acquisition of Conforama France in 2020, the integration of the two brands in 2023, and an ongoing transformation that seeks to fine-tune the brands' omnichannel strategy. McKinsey senior partner Franck Laizet recently joined Falck to discuss the CEO's approach to growing two of France's largest traditional furniture companies within a rapidly shifting marketplace of brick-and-mortar stores, rising online sales, and intensifying sustainability efforts. The following is an edited version of their conversation.

Q: What makes BUT and Conforama's target value proposition unique, and how is your operating model aligned with that?

A: We are known for our furniture line, first and foremost. We also sell decoration products and consumer electronics. BUT and Conforama are deeply rooted in France, from our manufacturers to our distributors, most of which are smaller traditional furniture sellers that continue to hold significant market share. The ongoing success of traditional sellers is a testament to their excellent salesmanship and their strong local networks, which extend to almost every small town in France. They provide custom work in partnership with manufacturers via a highly efficient and hyperpersonalized commercial model. Traditional sellers have been doing quite well, even though their purchasing power is limited when compared with larger, international businesses. Big-box retailers' purchasing power is vast, and they have integrated part of their manufacturing process. Even though most of their sourcing and operations are located outside of France and their style lines are limited, they enjoy a great reputation in France and are extremely powerful brands.

[1] Jessica Moulton, Gizem Ozcelik, and Nadya Snezhkova, "An update on European consumer sentiment: Steady spending over the summer," McKinsey, September 9, 2024.

BUT was the first to implement environmental labeling on products, two years before it became compulsory, and we intend to continue the conversation on eco-design and environmental impact. BUT and Conforama's core challenge is reconciling two opposing forces: our ecological responsibility for our environmental footprint and our responsibility to create value and develop our business. Our job is not just to generate revenue but to create employment. In our case, we're supporting the entire furniture sector in France because we're the only large player selling furniture made in France. To balance our responsibility to run a profitable business that can continue to support an entire sector, we have to face ecological constraints head-on. Facing ecological restraints means sourcing eco-responsibly, which is more expensive. It means offering more sustainable products, which could mean lower sales volumes over time; and it means selling secondhand products, which make up a very small portion of our overall value.

Our long-term challenge is to figure out how to keep selling affordable, ecologically friendly products while also supporting customers' options to purchase secondhand furniture at a lower price point. It requires a balance across sectors that seems complex to achieve, and we are passionate about this challenge.

Q: How did BUT's acquisition of Conforama evolve, and what are your plans for the future of both brands?

A: BUT and Conforama have roughly the same 50-year history of remaining stable through various market cycles. Conforama was a market leader, while BUT began as a group of independent retailers that broke away from the newly formed consortium that was Conforama at the time. BUT federated a large number of independent distributors and commanded a strong purchasing model. It combined that with a decentralized sales model based on proximity and local entrepreneurship. BUT's and Conforama's market shares eventually stabilized at around 10 percent each.

Amid a complex regulatory and competitive landscape, BUT's hybrid operating model of agile traditional sellers became harder to sustain. BUT still managed to create significant value for everyone—we almost tripled the profit sharing paid to BUT colleagues, for example. Meanwhile, Conforama encountered difficulties and was ultimately unable to reopen some of its stores after the COVID-19 pandemic lockdown.

BUT shareholders ultimately acquired Conforama and decided to operate both businesses independently, which allowed us to better understand the Conforama model and identify relevant synergies. We integrated as a group in 2023 and began a major transformation. Our goal is to continue to develop the two brands concurrently and for them to remain independent and competitive in their field for all things customer-facing. Meanwhile, we want to build a transverse back office that will handle logistics for both businesses by centralizing what used to be parallel procurement operations. This will allow us to use the same back-office platform to take advantage of the many acquisition opportunities in our sector to bring more brands—from pure players to specific distributors—into the group.

The transformation is ongoing. It initially focused on mutualizing logistics such as warehousing and transport, which required the substantial deployment and upgrade of digital management systems to ensure both brands were compatible across their logistics operations. Logistics will be combined over the next two years, and IT systems will be upgraded over the next five years or so. We can then bring funding under one roof, along with all functions apart from commercial, marketing, and HR, which are highly specific and therefore essential to keep within each brand.

Q: What do you see changing in consumer trends over the past few years?

A: Consumers' priority is managing their purchasing power, so buying is almost entirely price-driven at the moment. This is largely due to the nature of a furniture purchase, which is rarely essential and therefore can be postponed, but it is also due to increased competition from players that aim to position themselves through pricing. Some of our European competitors are now accelerating across the continent and in France with a low-cost model for small furniture and bedding as well as a very strong online presence that is a testament to such discount pricing approaches.

Q: Customers place more and more importance on a seamless journey between a brand's physical store and its online experience. Where does that leave the role of the store?

A: To me, online and physical are intricately linked, not two separate channels. The customer experience must indeed be seamless, from browsing to purchasing to after-sales service. We have made progress on this front, but we need to do much more.

Our development model is based on hyperproximity in small towns and villages and on franchises. Our online presence enables us to offer the same range of products at a 1,000 m² [square meter] store in the middle of a small town as a 5,000 m² store on the outskirts of large cities. The customer will visit the store and be advised by a salesperson who will facilitate the sale, even if the product is not physically present in the store. Then the product will leave the warehouse and be delivered to the store three days later, when the customer will pick it up. This could be considered an online sale, but it would not have happened without the salesperson at the store or the warehouse delivery capability, so it could also be considered a store sale. The point is that a sale is no longer tied to either a digital or a physical channel.

A recent survey found that 84 percent of French customers continue to prefer physical stores. Those stores are essential to creating a warm, professional in-person experience. There is also the question of the last mile in the furniture purchase journey, because we deal with large, heavy products. A store acts as a highly efficient collection point where the warehouse delivers these large, heavy products, and our customer can either borrow a van from us to take delivery or use their own trailer to bring the product home. Of course, a consumer could buy a bed from a Chinese fast-retail online brand and have it delivered in a few days, but not many players can emulate this model profitably. However, with those online brands, a shopper would never experience the personal attention that our salespeople provide in a store.

Q: In a context of lower sales volumes at higher prices, where do you see growth prospects?

A: There is still room to grow in France, specifically for Conforama. We can apply the winning BUT development model to Conforama, with between 100 and 150 new small franchise stores from both brands going deep into the French regions. Given our geographical presence, it's unlikely that we'll achieve a very large share of sales online, but we are making more investments in online user experience and stock management to ensure most products remain available immediately. We are at a share of 10 to 15 percent for online sales, and while we might not reach our regional competitors' 25 to 30 percent, we should eventually achieve 20 percent. This will be demand that we capture from pure players and big-box stores. We have found that online sales don't really cannibalize store sales and, in fact, drive more demand overall.

This hybridization of commerce can allow us to run tests as we take new services and new products on board as a multisector brand. Any one of these new lines could become an important market segment, and there are many other customer needs that could be fulfilled this way. For example, we are quite strong in the sale of traditional services such as guarantees and financial services, and there is no reason why we shouldn't be able to develop more of those. There are many growth levers available to us. The one thing we won't do is go abroad.

Finally, the integration of BUT and Conforama into a common back office that is robust and efficient will help ease any potential buildup operations.

Q: What is your single biggest challenge today?

A: We have a strong balance sheet because BUT created a lot of shareholder value and a large part of that remains in the company. We're in the process of restoring Conforama's balance sheet, so capital is not a concern right now. The real challenge is building a culture in which two brands that were rivals for the better part of 50 years can pool their logistics and back office while remaining healthy competitors. It's a situation that requires a careful approach; both brands have to align somewhat on pricing and marketing but otherwise remain completely independent. Ultimately, I'm convinced we're building a strong internal culture and magnifying the success we've achieved with our existing models.

Alexandre Falck is the chairman and CEO of BUT Conforama. **Franck Laizet** is a senior partner in McKinsey's Zurich office.

Claire’s Richard Flint: The in-store experience is intrinsic to value

Richard Flint
President of Europe, Claire’s

Claire’s president of Europe, Richard Flint, sees growth in expanding Claire’s global footprint, educating consumers about its piercing services, and supporting self-expression across generations.

For a large and growing number of young consumers around the world, getting their ears pierced at one of Claire’s 2,750 stores is a rite of passage. Piercing is core to Claire’s value proposition, as is selling basic and on-trend fashion accessories such as jewelry and hair and beauty products. But Claire’s caters not just to Generation Alpha (Gen A)[1]: the retailer also curates offerings for Gen Zers as well as the millennials who shop with their children and pay for their purchases.

Although online retail sales continue to increase, Richard Flint, Claire’s president of Europe, sees no end to the brick-and-mortar Claire’s store. On the contrary, he is doubling down on the in-store experience. “You’re never going to get a piercing online,” he says. McKinsey senior partner Franck Laizet and EuroCommerce director general Christel Delberghe spoke with Flint about Claire’s value proposition, category and assortment mix, and omnichannel strategy. They also discussed the distinct headwinds facing physical retailers and Claire’s approach to sustainability. The following is an edited version of their conversation.

Q: What is Claire’s unique value proposition?

A: At the core of our value proposition is our piercing service. We are one of the world’s leading ear piercers, and nose piercing is a growing part of our business. We offer a safe, fun, and reassuring experience whether you’re having your ears pierced for the first time, already have multiple piercings, or want a diamond or a value product.

Beyond that, our brand was founded on the value proposition of creating self-expression. We enable our consumers to buy from a wide assortment of interesting products, including some cool, licensed products unique to Claire’s, to express themselves and “be the most you.” Our multicategory proposition—with everything from body jewelry to pendants, bracelets, and hair products—allows our consumers to fulfill whatever look they’re going for, whether it’s basic or premium. We don’t discriminate.

1 Gen A refers to people born between 2010 and 2024.

We are also currently focusing on value at our stores around the world. Every retailer, including Claire's, raised prices because of inflation. Now it's time for us to realign a bit and create great value. We have new, lower prices across hundreds of SKUs in multiple different categories. We want consumers to know we're not just thinking about the transaction—we're also thinking about the value.

Q: To what extent is continually changing the assortment part of your value proposition?

A: Ultimately, fashion plays a big part in our brand. So although we have core products, we increasingly look to motivate and inspire through new fashion products. We have a seasonal cadence and an event cadence. We're renowned as a Halloween destination and for our Christmas items, which span a range of categories. Then we try to maximize all the other key moments throughout the calendar year to make sure consumers have what's relevant to them.

We also have a big loyalty program in the United States and United Kingdom, so we use data analytics to look at what our consumers want. We have high consumer centricity. Being consumer-focused and ensuring we learn continually based on consumer feedback are core to our operating model. We involve consumers in key areas to get their feedback in the moment before executing at retail.

Q: How do you manage the end-to-end supply chain, especially inventory?

A: That's done with a rigorous cadence to ensure we cycle through each season with products that are resonating well. Unlike most retailers, if we're stuck with some stock that isn't resonating, we jump on that and act fast. We use promotions and markdowns, and consumers know we will always have areas in our stores where they can find those.

Q: What dominant consumer trends do you see?

A: With the onset of TikTok, consumers can self-express even more automatically and immediately, so we need to be on-trend with them. For example, when Taylor Swift was playing concerts across Europe and the United States, we were there with bracelets, head wraps, and other products. We try to pick up on what's coming, double down on it, and show our relevance.

Q: How do you see the role of the store and online changing during the next five years?

A: I'm a big believer that brick and mortar is still the future of retail. People still want experiences—you're never going to get a piercing online. Of course, we focus a lot on online because it's the start of the consumer journey. Our online proposition linked to loyalty is directing people to our stores and creating a clear omnichannel message. We offer the option of buying online and picking up in stores, which is a great business for us. People come into stores to pick up and then shop for additional purchases, like a pendant to go with a pair of earrings. We are also effective at using social and email channels to help support our brick-and-mortar stores.

Q: Where do you see retail investment headed?

A: As a brick-and-mortar retailer, we want to continually invest in products and the store experience. That's the heart of retail for me. From trending to core products, we need to have exactly what consumers need in stock, and we make sure they return to buy again. While consumers may research or purchase a piece of jewelry or a hair bow, they're much more likely to be inspired by new ideas or products while shopping in person. We book appointments for piercing online so when people combine it with a visit to a restaurant or the cinema, they don't have to wait 20 minutes. It isn't just about financial investment; it's about investing in the experience.

Q: What are your growth levers beyond store expansion globally?

A: We're continuing to grow transactions and serve consumers through our value-added services. Our penetration in ear piercing varies by market. In more-mature markets such as the United Kingdom and the United States where piercing has been established for many years, a very high percentage of our revenue comes from piercing. In less-mature markets, piercing may traditionally be done in a pharmacy or medical setting. We are making a big push to educate and reassure consumers to grow that base. And that's happening successfully in places such as Italy and Spain. We are also focusing on delivering the best possible product at the right price at the right time to our customers, something that sounds simple but is complex to do right. If we can achieve those things, we are poised for growth.

Q: How is Claire's adapting to new sustainability legislation and reporting requirements?

A: We've invested in LED lighting across every store globally, so we've gone big in one area to make a difference, and it's in the place where our customers shop. For our staff and our consumers, that's important. The whole trend around youth wanting to buy thrift and secondhand is very different, and businesses have to adapt, but our core business is still very relevant. People are still going to want piercings.

Q: What is Claire's biggest challenge in the coming year?

A: We serve Gen A and Gen Z consumers, so we have to make sure we're relevant to both. At the same time, we need to cater to the parents, guardians, and relatives who not only are paying for those items but also may want to buy jewelry, hair products, or beauty products for themselves. Serving across generations can be tricky because you never want to lose your core consumer base.

Q: If you could grant one wish for the retail sector, what would it be?

A: Some of the headwinds offline retailers face that have nothing to do with markets or consumers. Physical retail needs to be built on a level playing field with the digital space, so we have to address things such as wage, occupancy, and energy inflation because retailers can't just keep raising prices.

Richard Flint is Claire's president of Europe. **Christel Delberghe** is the director general of EuroCommerce. **Franck Laizet** is a senior partner in McKinsey's Zurich office.

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Barbara Martin Coppola on making sport sustainable and accessible

Barbara Martin Coppola
CEO, Decathlon

Barbara Martin Coppola, CEO of Decathlon, wants to democratize sport and preserve the planet. The company's circular business model advances both goals.

The sporting goods sector has seen steady growth for several years,[1] a trend that is expected to continue: analysts estimate CAGR of about 7 percent by 2027. Achieving this growth hinges on several factors, including navigating shifting consumer preferences and embedding the right business and operating models while making progress against sustainability targets.

McKinsey senior partner Franck Laizet connected with Barbara Martin Coppola, CEO of global sporting goods company Decathlon, on these themes. Coppola spoke about the company's circular business model, commitment to sustainability, and dedication to continuously evolving its store experience and products to meet all customers' needs. The following is an edited version of their conversation.

Q: What is unique about Decathlon's consumer value proposition, and how is your operating model aligned with that?

A: The first thing that distinguishes us from other companies is the breadth of our offering. We provide gear for people ranging from beginners to experts in 80 sports. Since Decathlon was created in 1976, it has been our goal to democratize sports and serve all sports under one roof.

Another unique feature of Decathlon is its focus on innovating gear for utility. It's about elevating sport experiences for all athletes at all levels and understanding their pain points. Our teams iterate on designs to produce high-value, high-quality items that provide a better experience for the user at an affordable price.

The last thing that is quite remarkable is our focus on sustainability. It's about not only decarbonizing but also introducing circularity. We have more than 100,000 people in the company, all of whom are engaged in reducing our environmental impact and preserving our global playground—that is, the planet.

As for the operating model, Decathlon has a vertical business model: we handle everything from research and development to production and supply chain in-house. This integration helps us maintain the quality, affordability, and innovation that we value—and do it in a sustainable way. To that you add 100,000 people, all driven by a deep belief that sport is improving lives and improving societies and, hopefully, doing so in a way that is positive for the planet.

[1] Sabine Becker, Gemma D'Auria, Sajal Kohli, and Alexander Thiel, "Time to move: Sporting goods 2024," McKinsey, January 30, 2024.

Q: What are you seeing in terms of consumer trends?

A: The world of sport is bigger than performance and getting stronger. Now, the focus is on well-being and health. It's about moving to feel connected to yourself and others and, hopefully, the environment. With this shift, sport is much more democratic. It's an invitation for all people, young or old, to move and play sports.

A second important trend is ethical consumption. People are becoming more conscious, asking questions like, "Where did the materials for the product that I'm buying come from?" They're seeking not only products that have a reduced impact but also alternative business models. They're questioning if they need to own the product or if they can rent it or buy it secondhand.

Last, technology is embedded in pretty much everything we do within sports. There are personalized apps, electronic devices that track activity, and even electronic coaches. It's seamlessly integrated into our physical world. And I think a lot of creativity is going to come out of this trend—creative solutions to assist us and personalize movements that are positive for us.

Q: How do you see the overall experience with the brand and the product evolving? What is the role of the store versus online, and how are digital technologies helping you connect with your customers?

A: We are and will continue to be in an omnichannel world, where stores have an important role and are connected to digital touchpoints. They are fully complementary. Stores are evolving so that you can not only come and get personalized, expert advice on what item is right for your practice but also receive services. They're acting as circularity hubs where you can repair your bike, return products that you don't use anymore, and buy new or used products.

Alongside this, we have a vast wealth of digital offerings that exist to enhance the user experience. They are designed to inform, advise, and help plan sporting adventures for customers. We recently launched a totally new e-commerce platform, which is both beautiful and intuitive. In parallel, we have apps such as Decathlon Outdoors and Kiprun Pacer that connect like-minded sports lovers and design training plans or map out ideal hikes, all deeply personalized to the user. Overall, our objective both online and in stores is not just to sell products—it's to accompany people on their sporting journeys. In the future, combining physical touchpoints with personalized customer data from e-commerce could help us develop app features such as alerting people when it's time to upgrade their equipment. Everything is connected in our customer journeys.

Q: How long will it take to invent the store of tomorrow and deploy it across your network?

A: It's an evolution that I hope never stops. We're continuously testing and learning what works for the user. And this may change based on location. We have more than 1,700 stores in more than 70 countries around the world, so some concepts might work in China and might not work in France, for example. It's about finding the right balance between concepts that are part of the Decathlon identity that you can find anywhere in the world and being adaptable to local demand. And this pertains not only to the product mix but also to the different services and experiences.

We've been evolving different elements little by little to establish the store of the future. One is the brand and the way we express Decathlon's identity. We're also reimagining the journey within the store, the design of certain products, and the range of products we offer. Behind all this change is technology. As we make changes, we're collecting user feedback and using it to make data-driven decisions on what to target. Now with AI, we'll be able to test more facets of circularity and more services and learn faster what works and doesn't as we continue to evolve over the next 50 years.

Q: Where will future growth come from, especially looking at Europe, where the overall economic outlook is for slower growth?

A: Sports are still growing. What has changed is which sports are growing. For instance, fitness is going up, team sports have been going up, and cycling is traversing a revolution via electric bikes in cities. Because Decathlon has more than 80 sports under one roof, we're in a very good position to weather these fluctuations. The important thing is to recognize the needs of the population in different countries and quickly cater to them.

Circular business models are also an important source of growth. Two models in particular have had incredible growth. One is renting, especially for bikes—not only for kids but also for adults using electric bikes. It's a recurring subscription, paid monthly. One reason it works well is that Decathlon has repair shops within our big shops, so when people return their bikes, the bikes get refurbished and repaired and can be rented again.

> **Now with AI, we'll be able to test more facets of circularity and more services and learn faster what works and doesn't as we continue to evolve over the next 50 years.**

Our other business model is Second Life. We have launched several campaigns to buy back equipment that people don't use anymore and put it back up for sale in stores and online. These items fly off the shelf. Decathlon is working to make these models available everywhere in Europe, and beyond.

Q: What will be your biggest challenge moving forward?

A: Several big transformations are happening at the same time. There's AI, which we need to embed to increase productivity by complementing what we can do as humans. There's ESG [environmental, social, and governance], where Decathlon is very advanced and engaged. However, this involves redesigning every single product, looking end to end at the value chain, and working with partners to achieve the lowest possible impact while making sure the products are durable enough to be part of a circular business model. And on top of that is the constant effort to digitalize, both in terms of how we work together and what we invent. It's a lot to manage while also working to keep more than 100,000 employees engaged and energized.

Q: If you had one hope for the retail sector, what would it be?

A: I hope the sector moves together to preserve the planet. Some of the changes the sector needs to make involve very significant investments—for instance, moving away from plastic. But this sector doesn't exist without the planet; sport is reduced when the planet is depleted. We are in symbiosis with nature. And not only that but also doing the hard work to rethink the way we do things brings economic growth. It has been proven that more sustainable and inclusive companies perform better. For these reasons, I believe this sector should be guiding the way for other sectors.

Barbara Martin Coppola is the CEO of Decathlon. **Franck Laizet** is a senior partner in McKinsey's Zurich office.

Interview

Europe's largest premium beauty retailer is all in on omnichannel

Sander van der Laan
CEO, Douglas Group

Sander van der Laan, CEO of Douglas Group, wants brands to continue to invest in retail. His omnichannel strategy does just that.

Beauty is booming. The global beauty market grew 10 percent in 2023, and growth is predicted to be steady through 2028 at about 6 percent. In this time, high-price tiers are expected to outpace lower-price ones. Indeed, luxury beauty, which represents just 4 percent of the sector, grew 13 percent from 2022 to 2023 and is set to grow 9 percent annually over the next four years. Growth in physical channels also accelerated from 2022 to 2023, while online sales growth stayed strong.

None of this is news to Sander van der Laan, CEO of Douglas Group, Europe's largest premium beauty retailer. In his two years at Douglas Group, Van der Laan has seen steady growth and spearheaded an omnichannel approach that prioritizes both in-store and online sales and experiences. McKinsey senior partner Franck Laizet recently connected with Van der Laan to learn more about where the company's growth is coming from, the critical role of the in-store experience, and how Douglas Group is overcoming challenges to advance its omnichannel strategy. The following is an edited version of their conversation.

Q: What is Douglas Group's value proposition and how does your operating model support it?

A: Within beauty, there is what we call premium beauty. We are selling brands with a certain level of selectiveness and partially are the exclusive partners to premium brands. This already distinguishes us from a drugstore, supermarket, or clothing store. And within the world of premium beauty, we want to be a premium player.

We also want to be an omnichannel player. Premium beauty is actually perfectly suited for omnichannel. First, the likelihood that a mobile customer is going to buy a new fragrance for €250 online, without ever having seen, smelled, or tried it, is not very high. So there's a clear logic for offering a store channel. Second, many retailers, certainly grocery retailers, struggle with EBITDA in the online domain because the balance between what customers spend and what the company invests is not very good. For Douglas Group, we see good returns for offline and online, so our focus is just to provide what the customer wants.

Our omnichannel offering targets five core beauty categories: fragrance, skin care, color cosmetics, hair care, and accessories. In our business, fragrance is by far the biggest, which is also the biggest category in Europe. That's different in the United States, for instance, because Americans generally don't use fragrances as regularly as Europeans do. Within those categories, we have a very strong position in fragrance, skin care, and color cosmetics. We do see that hair care is becoming a new growth category because people are starting to use more premium brands. And because the distribution via hairdressers is less efficient, some of those premium brands are seeking new distribution points.

In all, we are the largest premium beauty retailer in Europe, with 22 markets. And we are also number one both offline and online in Europe.

Q: What growth trends are you seeing in beauty and, in particular, premium beauty?

A: I started my career 30 years ago working in the personal care division of Unilever. At that time, personal care was already a growth market, and that's still the case today. Beauty is still growing across the world because when people become more affluent, they want more beauty products. Premium beauty is growing ahead of the mass market, so we believe there is a good future for premium brands.

That growth varies across European countries as the premium beauty penetration differs. France is the largest market from a per capita perspective with a high premium beauty penetration, yet France has relatively seen less growth over the past ten years in premium beauty compared with Central and Eastern Europe. As the affluent customer base there grows, the retail sector, including the premium beauty sector, is growing ahead of Western Europe.

On the customer side, more people are entering into premium beauty segments—for example, moving from a bottle of shampoo for €6 to a bottle for €30 or more. On the sector side, there are probably ten or 15 major premium beauty players, and they are investing into launching new brands, growing exclusive brands, or buying start-ups and scaling them up. For instance, four brands make up our corporate brands portfolio. One brand carries the name Douglas—or, in France, Nocibé. You could consider this brand an entry price point for premium makeup, skin care, and hair care. In addition to that, we also own and develop three exclusive brands: Jardin Bohème, One.two.free!, and Dr. Susanne von Schmiedeberg, which are exclusively sold at Douglas. And we believe these brands are an important growth lever as well.

Q: How do you view the role of your stores versus online? Do you see your stores evolving in the next five to ten years?

A: I joined Douglas two years ago, and I inherited a "digital first" strategy. We were very focused on e-commerce, and we were kind of neglecting the store channel because there was a strong belief that this category would become completely digitalized. During COVID-19, that was the right strategy. During COVID, we also closed 600 stores. But post-COVID, we saw a huge rebound of customers from online to offline. Today, 70 percent of our overall sales are realized in stores. So we decided to move away from digital first and launched a new strategy focused on building a true omnichannel proposition.

Our goal is to integrate stores and e-commerce. For instance, in the stores, if we don't have a certain brand, we don't want to tell the customer to go to another store. We want to help the customer to buy it online. We can order it online and deliver it to the store or to their home or workplace. In stores, we also want to provide more services. So we're not just selling products but also offering beauty treatments, for instance. While we are selling a makeup treatment for €20, €50, or €100, we can also sell a product or a brand to that customer, and we can develop a personal relationship with the customer, which is more difficult for online retailers.

We also decided to redesign our format portfolio. We used to have four physical store formats, and now we have two: a premium format and a luxury format. The luxury format is for first-class high-street locations such as the Düsseldorf Königsallee—places where the neighborhood is characterized by premium lifestyle and fashion. In that kind of shopping environment, we expect different customers, and those customers expect luxury and niche brands. We also have decided to focus on store sizes between 100 and 800 square meters, whereas that used to be between 50 and maybe 3,000 square meters. So you could say we want to create a more efficient store.

We are also starting to expand again, adding 200 stores over three years. And we are refurbishing 400 of our 1,800 existing stores. In the meantime, we have just launched a more premium version of our website to mirror the look and feel of our newest stores and ensure customers get the same kind of brand experience.

Long term, we believe that e-commerce will grow a little bit ahead of stores because customers are becoming more and more digital. At the same time, our digital interface is not only meant to support our e-commerce shop but also to drive customers to the stores.

Q: How important is the service aspect of the in-store experience?

A: Before coming to Douglas, I worked for two other retailers: a supermarket and a nonfood discounter, and these stores were built around self-serve concepts. Douglas, however, has 15,000 beauty advisers. So for the most part, we are actually selling the articles. You do not walk into a Douglas store, grab your products, and fill a basket. There is a lot more interaction and advice between the adviser and the customer. We also offer mini treatments on the shop floor. An adviser may put eyeshadow on a customer's eyelid or provide them with a sample. So there are some services that are free of charge.

In addition to that, we are seeing a lot more beauty salons, wellness centers, massage parlors, and nail studios. This is a booming sector, and we want a share of that, especially in the categories we are active in. In certain stores, these categories have become a sizable percentage of sales; it's not a rounding error anymore.

Q: What do you see as the biggest challenges for you in executing your vision for the future of the company?

A: Whereas many big, international companies or brands are quite centralized in terms of brand positioning, brand development, and innovation, Douglas is a very decentralized organization. The good side of this is that local markets have a lot of ownership, and we're able to cater to those markets. The flip side is, we created unnecessary complexity and duplicity because the brands we sell are actually remarkably consistent, and many come from the same market: France. So there is some complexity and duplication in our processes, and we are trying to resolve that step by step.

One initiative is to create a European network of omnichannel warehouses. We had 22 supply chains supporting 22 countries, and we are working toward seven warehouses supplying 22 countries. Most of them are going to work across borders, because the biggest economic challenge of our business model is stock. We just need a lot of stock, and that's a result of having stores. But often that stock is sitting in the wrong stores. So we want to build a more efficient inventory management model.

Another big component is systems. Historically, we have tended toward local and legacy systems, and we are trying to move to a more harmonized, groupwide IT architecture. As you know, these things don't happen overnight; it will take years. In the meantime, we want to grow the business. So we want to find a balance between maintaining this local agility while creating efficiencies and economies of scale.

Q: What is your hope for the future of the retail sector as a whole?

A: We believe in physical stores as an important channel and part of social life. But if there's only a Douglas store in the main shopping street of a town, that is probably not enough to attract many people. We need shopping environments with an attractive portfolio and variety of brands where people want to go and shop, not just at Douglas but also at other stores. And this is also why we want to provide more than just a sale and to provide services. I hope brands continue to invest in retail—and not only the retail brands but also beauty and other brands.

Sander van der Laan is the CEO of Douglas Group. **Franck Laizet** is a senior partner in McKinsey's Zurich office.

HEMA CEO Saskia Egas Reparaz is betting on high-quality Dutch design

Saskia Egas Reparaz
CEO, HEMA

The CEO of HEMA is opting out of the pricing race to the bottom. Instead, she's investing in increasing customer value and building a seamless omnichannel experience.

HEMA's mission is simple: "making daily life better in a more beautiful world."[1] The company sells a broad range of quality everyday items, which means that it competes in many of the same categories as both of the large online marketplaces: discounter players and fast-fashion giants. For many traditional retailers, this would be an uncomfortable position.

Saskia Egas Reparaz, CEO of HEMA, remains undaunted—perhaps because she has a clear sense of how the company can differentiate itself. HEMA has made a conscious choice to invest in high-quality Dutch design to produce beautiful, practical, and long-lasting products at affordable prices. This approach seems to be paying off: HEMA opened nine new shops in 2023, gross sales increased 7.4 percent to €2.1 million in fiscal year 2023, and profit before tax almost doubled over the same period to €61.2 million.[2]

McKinsey senior partner Franck Laizet and partner Kathleen Martens recently connected with Egas Reparaz to learn more about HEMA's philosophy, the critical role of omnichannel, and the challenges and successes that have accompanied HEMA's transition journey. The following is an edited version of their conversation.

Q: What is HEMA's value proposition and how does your operating model support it?

A: We sell everyday products, both in nonfood—including beauty and apparel—and food. Our value proposition is that we offer quality Dutch design. Our products are more practical, better in quality, and longer lasting. They are good for both your wallet and the environment.

Our operating model supports this by focusing more and more on design to value considerations. We are constantly assessing how our products might be redesigned or revised to deliver more value to our customers.

1 "About us," HEMA, accessed November 8, 2024.
2 "Success HEMA continues: Another rise in sales and profits," HEMA, May 23, 2024.

Q: How do you think about affordability, given that discounters are gaining market share?

A: We don't believe in the race to the bottom. Instead, it's a race to add value. Because if we add value, customers are willing to pay for added value. We believe there's always a market for good-quality items that are sold at a good price. Where prices are very low, quality is often low, too. In this case, we see customers coming back to us from online marketplaces and discounters.

We do, however, always need to be aware of the price point for each product at which consumers become annoyed. This price level will depend on the reference item for each product, which is often the price at a large regional or local discounter. Consumers may be willing to pay a bit more than this reference price for a better-quality everyday product such as scissors, for example, but they won't pay twice as much.

These sorts of category-based calculations should never stop. Every time you consider a new product or supplier, you should assess your customers and the relevant reference item and ask whether your product is adding enough value for the price. There was a time when the shopping experience itself was enough to persuade customers to pay more for good quality, but those days are over.

Q: What is the role of the store versus online sales channels?

A: Customers decide where and when they want to buy. Both clicks and bricks are crucial, which is why HEMA is truly omnichannel and always has been.

For online, we have strategically chosen a number of categories, such as photo services, in which we have become a target shopping destination. That's how we can win customers from the bigger platforms. We focus on important online shopping trips. The HEMA brand itself is also strong enough to generate organic online traffic.

Our stores can play a different role. Customers often want to touch the product before they buy it, and the role of in-store experiences has been building in importance for a long time. We're starting to rebuild and remodel our stores accordingly, giving them a more modern look and feel that will attract younger customers. In the future, there will also be more connection between the in-store and online channels. We see opportunities for customers who only shop online or offline to become omnichannel customers at HEMA. In the near future, we'll be looking to seize that opportunity to create a more seamless cross-channel experience.

Winning online is very important for our overall profitability. Omnichannel customers buy in multiple categories more often than customers that are only buying in store. We cannot compete with pure online players on completeness of assortment, but we have a competitive advantage in that our back office is highly productive. This productivity means that we can turn a profit on a relatively small order, which some of our competitors cannot do. We can profitably send customers just one or two pairs of socks, for example, whereas some of the big online players will only sell packs of five or ten.

Q: How do you balance the need for a constant stream of new products with your permanent collection, which typically has a higher margin?

A: Each category within our company has its own role, and with that comes a different level of profitability. In our business, it's very important to have newness. The same generally isn't true for nonfood products, where purchases can generally be delayed without a major impact. That's why we stock the food and beauty categories, why we have promotions, and why we place a lot of emphasis on seasonal themes—the constant newness helps to bring in customers.

Q: You've mentioned a number of ways in which HEMA is in transition—including an increasing focus on design to value and omnichannel activation. Where are you on your overall transition journey?

A: I would say that four years into this journey, we're about halfway. This transformation has been a marathon. We're now running in the main group, and our next task is to break away in front. Doing so will be partly a matter of mindset: we need to believe that we can.

We also need to seize a few growth opportunities. We're pushing to expand in core countries such as the Netherlands and Belgium, and we see a significant opportunity in France. And I've already talked about our growing strength around online sales and our store upgrade program: we're planning to have 70 percent of our stores upgraded by 2028.

In addition, we're continuing to invest in core categories, especially photo, where our ability to personalize and use high-end design distinguishes us from our competitors. Last, we need to improve our end-to-end supply chain, which can lower costs and increase resilience and therefore stock availability.

> **We don't believe in the race to the bottom. Instead, it's a race to add value. Because if we add value, customers are willing to pay for added value. We believe there's always a market for good-quality items that are sold at a good price.**

Q: What are the biggest challenges that you are facing on your transition journey?

A: The labor market, for example, is an issue for many organizations. Labor is becoming extremely scarce. The way to break through this is by attracting diverse talent, and that's what we're focusing on. In addition, we're facing uncertainty around future inflation and rising geopolitical instability, which has the potential to affect our supply chains.

And all this is happening against the backdrop of an extremely competitive retail environment, in which it's hard to compete against the big platforms.

Four years ago, we were not in a place where we could deal with these challenges. Now we are. I believe there's going to be a shakedown in nonfood players as other companies struggle to find a formula that enables them to differentiate themselves. There's a real opportunity for us because we are literally close to our customers with our stores in many shopping and village centers and online for products they need on a daily basis. The first part of our transformation journey may have been challenging, but it's made us much more resilient.

Q: What would be your one wish for your sector?

A: We need to stop the race to the bottom in terms of product prices. It's simply not sustainable. Resources are scarce, and we need to move away from the mindset that we can just buy things and then throw them away. Europe is asking companies to do more to decrease our impact on the planet—which we at HEMA embrace—but we need to do that in a way that is affordable, and we have competition that does not need to play based on the same rules. We need a level playing field for the sector, which means more standardization on what is expected in terms of sustainability and responsible production.

Saskia Egas Reparaz is the CEO of HEMA. **Franck Laizet** is a senior partner in McKinsey's Zurich office, and **Kathleen Martens** is a partner in the Brussels office.

Interview

Kingfisher's Thierry Garnier on the future of retail

Thierry Garnier
CEO, Kingfisher

The balance of online and in-person sales can be challenging for retailers. For Thierry Garnier, CEO of Kingfisher, the in-person storefront is vital for meeting customer needs.

The COVID-19 pandemic caused home-improvement projects to skyrocket[1]—and it fundamentally changed the way most people shop. Retailers with large product portfolios, such as international home-improvement company Kingfisher, had to optimize their physical and digital footprints, including making sure online sales met customer needs. As demographics shift and digitalization increases, leaders are thinking hard about the role of the physical store in an increasingly online world.

McKinsey senior partner Clarisse Magnin and partner François Videlaine sat down with Thierry Garnier, CEO of Kingfisher, to discuss how the company is navigating today's hybrid sales environment. Garnier offered insights into how Kingfisher leadership is thinking about the company's sales strategy, what the customer of the future will look like, and the advantages of online versus in-person retail. The following is an edited version of their conversation.

Q: How have consumer behaviors evolved in the home-improvement sector over the past few years?

A: We've noticed that the volume of home-improvement projects seems to be lower now compared with what it was back in 2019—more so in France, less so in the UK—but there's no reason to think this will last. People are still moving houses and redecorating their homes. In fact, we think there are several positive tailwinds that should push volumes back up in the short to medium term.

First, with the push toward net-zero emissions, many governments offer or are contemplating offering people the equivalent of the French Ma Prime Rénov'.[2] This could translate into increased demand for renovation materials over the next couple of decades.

Second, in the future, we expect more people to be working from home, and there seems to be a direct correlation between remote working and home-improvement spending.

And third, COVID-19 created a whole new generation of DIY enthusiasts.[3] For these reasons, we believe the market will recover above 2019 levels.

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1 "Home improvement projects - statistics & facts," Statista, October 1, 2024.
2 A government grant for homeowners to retrofit their homes with more energy-efficient features.
3 "Do-it-yourself (DIY) home improvement retailing business analysis report 2024: Global market to reach $959 billion by 2030, driven by rising adoption of online tutorials and how-to guides," GlobeNewswire, October 29, 2024.

Q: How would you define Kingfisher's unique value proposition?

A: We offer our customers three propositions: a mass-market offering with brands such as B&Q or Castorama, a hard-discount offering with Brico Dépôt, and an offering for professionals with brands such as Screwfix or TradePoint. This broad range of offerings makes us fairly unique. This is integrated into our Powered by Kingfisher strategy, whereby our stores are agile and empowered to act independently. At the same time, our stores are supported by in-house brands—which make up about half our sales—and by a common technology platform that includes online marketplaces.

Q: What do you think your customers will expect from you in years to come?

A: We feel that the customer of tomorrow will want a combination of speed and choice, and we believe in having a strong online presence. To create an attractive offering for this future customer, we invested heavily in our marketplaces, and online sales now generate more than 18 percent of our total business. This is among the highest proportion of online sales in our sector.

We have focused on store-based fulfillment and on click-and-collect [C&C]. We use our stores rather than warehouses to make deliveries very quickly. For example, we deliver directly to 60 percent of UK homes in 40 minutes or less with Screwfix. Nobody else does that in Europe at the scale of a country. And in northern France, we work with delivery apps to do C&C in 30 to 60 minutes.

We also vary our store sizes to fit different customer needs. We have many smaller stores, which might seem counterintuitive for a business like ours until you take into account that more people are living in cities and in smaller homes, families are smaller, and the population is aging. It can be a challenge to display kitchens and bathrooms in smaller showrooms, but we manage.

At the same time, we also see great upside in serving professionals alongside casual customers in larger stores. Entrepreneurs in this sector are mostly one-person operations, so for them, we focus on the service and convenience available at large stores.

More broadly, we think stores should offer an experience that gives you a reason to visit. It could be customer advice, physical interaction with a product, the convenience of a family visit to the store to buy a kitchen together, or just the proximity that makes collecting your purchases easier. For all those reasons, we believe in stores.

However, we think of the strongest players of tomorrow as neither pure brick-and-mortar retailers nor pure online players. To stay ahead, you need to be able to offer both an in-store and an online experience of very high quality. That means focusing more of your store staff on the customer experience and e-commerce order preparation and less on things like checkout.

Q: How do your stores fit into your online value proposition?

A: Ten years ago, retailers started putting the store back at the center of their e-commerce proposition. Back then, when Alibaba opened its physical retail chain Fresh Hippo in China, they created one 4,000-square-meter store that handled an average of 5,000 online orders a day, each delivered in 30 minutes. At the time, I remember large French grocery retailers were handling 20,000 daily orders across a network of about 200 large stores. At Kingfisher, we have decided to focus on our stores too, and at the peak of COVID-19, we reached 1.5 million online orders fulfilled per week; the largest part was delivered through C&C. This is a vision of e-commerce that is less prominent in Europe, but if you want to compete against major online retailers, you have to play to your strengths, which means leveraging your store network to compete on speed and super-fast C&C.

Q: How do you see your product range evolving?

A: Today, at B&Q, we have almost two million SKUs online and only 40,000 in stores. Our offerings are more curated in stores because of space limitations, but when you go online, you can see more home brands and our basic range of products in more colors and designs. This goes for furniture, decorations, wallpaper, patio furniture, and more. Putting the full range online gives us a real advantage by allowing us to have smaller storefronts and a larger catalog.

On the other hand, buying a kitchen or a bathroom online is harder, so that's where you need in-person showrooms, teams of trained salespeople, and design centers. Brick-and-mortar channels are particularly important for construction materials, which are almost exclusively sold in stores rather than online because the products don't lend themselves well to online shopping and home delivery is not viable.

So the role of categories, both in-store and online, is being redefined.

Q: How do you manage this redefinition?

A: We make decisions by considering how product categories, presentation formats, and types of customer intersect. For example, in a B&Q or Castorama, you will find larger ranges in outdoor, furniture, lighting, or decorations online, where customers tend to buy them. Customers who are professionals can also buy plumbing and electrical items online because they know exactly what they want. However, nonprofessional customers who need items that are more technical—for plumbing and electricity, for example—will want advice to make sure they're buying the right item, so we put more of those items in stores. Similarly, kitchen and bathroom ranges look better in a store because they can be displayed more attractively than in a photo online. It's a varied mix.

The advantage of C&C is that it gives us an edge over major online retailers. In the UK, for example, customers trust the B&Q brand because they can make their purchases online and pick up their items within the hour at our store, unlike with online delivery services. That drives foot traffic and helps stores feed into online sales.

Q: How do you empower stores to become more agile and independent when you have a strong online strategy?

A: When stores are at the center of your model, it's important to give them responsibility across the whole range of sales they can capture, including owning the e-commerce P&L [profit and loss] within their store P&L. That works only if stores are offered incentives to support any transaction configuration, even for online sales when they don't encounter the customer.

And here, CEOs will need to spend more of their time on tech issues. I spend about 20 percent of my time on tech, defining priorities for data and marketplace approaches, setting budgets, and shaping our cloud strategy. That's where teams need support. We're building two tech hubs in Europe to help us do just that.

Q: What are some of the challenges you're facing now?

A: I feel one of my biggest challenges nowadays is managing the evolution of our tech. We have a lot of monolithic legacy systems that we need to move away from. Leaving these systems is delicate because of all the interconnected dependencies throughout and the need to continue to run the rest of the business while we upgrade.

Another tech challenge is investing in obtaining and analyzing data across our online presence. This is related to another of our challenges: whether to optimize marketplaces for mobile or desktop use. Sales through mobile have accelerated over the past five years, but we're not yet ready to take the risk and fully prioritize mobile since we still have strong sales through our desktop site. We can use mobile phones in stores as payment devices instead of self-checkout kiosks. However, customers are still reluctant to do so, and that reluctance is uneven across territories, with the United Kingdom and Ireland switching to mobile far faster than France, Spain, Portugal, and Romania.

Q: What do you see on the horizon for retail?

A: There is real opportunity in tackling the net-zero challenge. We can have a real impact on Scope 3 emissions if we all work together to define common norms for our suppliers. By speaking in one united voice to suppliers, retailers could leap ahead ten years. We could use the same common approach to pick a single platform for environment data-sharing, such as Manufacture 2030.[4] This could make a real difference for all our Scope 3 emissions.

Overall, that's actually my real hope for the sector: to do more things together for the greater good, working in unison on important topics while developing our individual value propositions in parallel. Now that would be something.

Thierry Garnier is CEO of Kingfisher. **Clarisse Magnin** is a senior partner in McKinsey's Paris office, where **François Videlaine** is a partner.

[4] See the Manufacture 2030 website.

Interview

OBI CEO Sebastian Gundel on navigating the future of DIY

Sebastian Gundel
CEO, OBI

The company is defining its future by evolving its stores, reskilling its staff, and focusing on becoming the number-one destination for home and garden products and services in Europe.

How is Central Europe's biggest DIY player navigating this era of economic uncertainty and rapidly evolving consumer behavior? McKinsey senior partner Franck Laizet connected with the CEO of OBI, Sebastian Gundel, about the 54-year-old company's effort to embrace new service-oriented offerings and digital integration, retain its traditional strengths, and adjust to changing consumer behavior. The following is an edited version of their conversation.

Q: In a world of disruption, there is a focus on being meaningful to consumers and having a unique value proposition. What's OBI's approach?

A: OBI has quite a heritage, and it's critical we understand this heritage as a value. It enables us to be a trusted partner for our consumers in their home and garden. DIY customers face many different challenges, from individual skills to budget limits to very personal home conditions. The better we understand and the more we are engaged with them, the better we can serve them. And irrespective of whether a customer is skilled or not, we want to partner with them, accompany them, and, most of all, enable them. That's our mission and our proposition to the consumer, with the clear vision on all channels and touchpoints to become the number-one home and garden destination in Europe.

Q: DIY customers really seem to plan their purchases—there's a lot less emotional and impulse buying. Does that affect how you meet their needs?

A: Absolutely. In DIY, in many cases, you usually search and inform yourself, and you consult up to three or four months before you actually buy. That is true especially for larger projects. And as a trusted partner, we have to be present in that journey and continuously shape it while it happens. I can't say we have ultimately solved that, but we are working on it. People who buy on impulse is a typical wish in any retail sector—those customers give you additional frequency, the ability to cross-sell, and additional margins in the stores. But in the end, everybody who enters a DIY store comes with a very concrete need or wish. Our customers' first question most likely is, "Where do I find the right product or the right solution for me?" That's on top of their minds, and of course, we don't want to distract them by injecting too many opportunities for impulse buying. That needs to happen on top. When they've finished their main objective and are ready to leave the store, then they're ready for impulse opportunities. Of course, we aim to sell products—the more the better—but we always need to respect the customers' journey and take their wishes seriously. And that's valid for more than in the stores alone; we need to reflect this online, as well, since it's very much a search-driven behavior.

Q: What do you expect will keep changing in terms of consumer demand, especially post-COVID-19?

A: We've seen a step change in the level of online purchases and online reservation. In Germany, during COVID-19, for example, the only way to purchase stationary was to preorder your items for in-store pickup for quite a while. More recently, against the background of multiple crises we are encountering in Europe, we see consumers becoming more cautious about bigger investments. At the same time, another behavior we're observing is that short-term purchases have significantly increased. What does that tell us? For example, when the weather is great, people come and buy certain items. If it's not, they spend their money somewhere else. In summer, when temperatures drop from 30 degrees [Celsius] to 20 degrees, that is clearly reflected in our sales. At the same time, apparel retailers are growing sales by 40 percent because consumers realize, "Oh, I only have a t-shirt, and my pullover doesn't fit any more." I've observed these extremes for the last 18 to 24 months in a much stronger way than before.

Q: Does that kind of behavior carry a lot of operational implications?

A: The biggest difficulty is in terms of stock management and demand management, especially for impulse-driven categories. You need to have flexibility because otherwise, your stock levels will kill you. We need to professionalize our supply chain on the one hand and on the other, our assortment development needs to better reflect categories where choice is decisive and where there is the ability to adjust. If you talk about a specialty tool or a specialty appliance, our choice is decisive. But if we're talking about a plastic pool, we have the flexibility to switch from stocking on one that's three meters in diameter to one that's two meters, 80 centimeters in diameter without any big concern about customer demand.

Q: You mentioned the importance of online sales and planning the customer journey. How do you see the role of the store evolving?

A: Five years from now, our OBI DIY stores will still have the same role in terms of immediate product availability, ease, and convenience of shopping. Stores let you touch and feel the products—that's key. But we need to adapt our assortment by category. What is an immediate purchase? What is a planned purchase? Where do I need a broader variety of offerings and where not? The key challenge in our stores is how you convey this to the customer by clearly communicating, "This is our range for immediate takeaway, but there are the samples, too, of more items you can order." You'll find items on the screens or, ideally, in your app, which when opened in the store allows our people to then take an assisted-selling approach.

Today, our store employees mostly sell what's in the store. But in the near future, they will also be able to sell what's not in the store because what's in the store should be even more convenient and easy to purchase in a self-service approach. One of my goals is to enable our staff to sell what's beyond the store. We're already doing this: when you entered an OBI five years ago, you saw a can of paint with a price. Today, you'll see centrally positioned furniture in

Today, our store employees mostly sell what's in the store. But in the near future, they will also be able to sell what's not in the store because what's in the store should be even more convenient and easy to purchase in a self-service approach.

our orange brand color where you can find our most skilled staff. That is the concept of our new MachBar, which we just rolled out this year. The OBI experts at the MachBar will not only welcome you but also help, guide, and support you while on-site and will meet you again once you are leaving the store with, maybe, an empty trolley. Then they are able to sell you what we don't have physically in our store. And they're enabled by sharing the same technology as our customers. They can see the customer's account, they have access to the same products, they can order it, and they can also consult and follow up at home or even visit you in your home via video. This is the tool to not only bring our employees closer to customers in stores but also connect our digital and physical worlds.

Q: How do you see this transition toward "do it for you" happening?

A: A year ago, we launched end-to-end solutions where customers have a request—such as "I want a solar panel on my roof"—and we find a local partner for them to install the project and follow up to make sure everything is executed in a proper manner. Larger projects like this always work better if we do it under the OBI brand—as stated, we have 54 years of heritage and have therefore earned trust and established a reputation for competence. How often do you do large projects such as solar roofing? Probably every 20 or 30 years—or even just once in a lifetime. How often do you completely redo your kitchen or your bathroom? Maybe every 15 years. From a brand perspective, it's better to be the lifetime partner for your entire home and garden than to be solely a specialist for a kitchen, for example. Combining our brand and our customer relationship with the competence of our selected partners is our proposition, and it works well. It's completely uncharted territory, but we are so far meeting our business case assumptions with mid-double-digit GMV [gross merchandise value] after 18 months.

Q: That trend is just one of transformation challenges you're facing, correct?

A: The biggest challenge in transformation is the right balance between "transform" and "perform." We need to conquer new markets and new service opportunities, but at the same time, we are also optimizing our core business, which made us strong. And we need to make it happen on two channels: the technological and the cultural. We are coming from heritage IT systems, and we transform them into a more flexible and agile system landscape. Then there's the cultural transformation and upskilling of people in the Store Support Center—that's what we call our headquarters—as well as in the stores. At the end, you cannot focus on digital topics or on store topics only. Our staff is key.

Also, the world is getting more complex, and the operating model needs to become lean or stay lean, depending on where you are starting from, because otherwise you are eaten up by growing complexity. How do you make it lean, process-driven, efficient, and measurable? How do you measure progress not only from a consumer standpoint and a financial point of view but also in terms of operational KPIs? It's a true challenge.

Q: If you had a wish for the sector, what would it be?

A: Actually, I have three wishes. The first is that we are able to make working in retail attractive and we find enough people who bring the joy of working with consumers and in the ultimately direct exchange. In retail, the future workforce is a challenge. Second, I read all the time about retail becoming more difficult—and the valuation of retail companies is difficult—but I don't see that reflected in the prices of rents and buildings. My wish would be less pressure on the building market or rents. And third, I think good competition always helps to make you faster and to learn from each other—and I love competition—but my wish is that it would be fair.

Sebastian Gundel is the CEO of OBI. **Franck Laizet** is a senior partner in McKinsey's Zurich office.

Michael Busch's strategy for Thalia: Be everywhere

Michael Busch
Former CEO, Thalia

The former CEO of Thalia believes that partnerships and a seamless omnichannel experience are the secret behind the company's growing market share in a competitive sector.

In an influential 1992 essay in the *New York Times*, Robert Coover announced "The end of books."[1] He wasn't—and isn't—alone: commentators have been bemoaning the slow demise of the book for decades. Fortunately, no one appears to have told Michael Busch. When he became CEO of Thalia in the mid-1990s, the German book chain had fewer than 50 stores.[2] When he stepped down after 28 years, it had more than 500, and Thalia is now the largest bookseller in Europe.[3] The broader predictions of the book sector's demise now appear premature; the sector was predicted to grow at a CAGR of 2.2 percent through 2031 (starting in 2023).[4]

Busch remains heavily involved in Thalia, and he is firmly convinced of its potential. McKinsey partner François Videlaine recently connected with Busch to learn more about the secret of the company's success, the sector's next big challenge, and the critical role of omnichannel. The following is an edited version of their conversation.

Q: What is Thalia's value proposition?

A: You need to define your value proposition in relation to your competitors. Our principal focus is the book sector, though we also stock stationery and—increasingly—children's toys, gifts, and art supplies. We don't really compete with small booksellers, most of whom are struggling, or with the small handful of chain shops. Our major competitors are the big online bookselling platforms.

What we can offer is a high-quality omnichannel experience, and there are only one or two companies that are able to do that, because it requires an enormous investment in technology, processes, and logistics. Our customers have responded. A few years ago, they were in the mindset that buying online meant buying from a big platform, but they would come to us to buy in-store. That has now shifted. Our customers increasingly understand that they can access

1 Robert Coover, "The end of books," *New York Times*, June 21, 1992.
2 "Buchhändler seit 1919: Unsere Unternehmensgeschichte" ("Booksellers since 1919: Our company history"), Thalia, accessed on November 7, 2024.
3 "Omni-Channel-Buchhändler Thalia setzt Wachstumskurs ungebrochen fort und steigert im Geschäftsjahr 2022/2023 den Umsatz auf 1,8 Mrd. Euro" ("Omnichannel bookseller Thalia continues its growth path unabated and increases sales to 1.8 billion euros in the 2022/2023 financial year"), Presseportal, October 17, 2023; Francesa Pym, "Three centuries of bookselling come together as Thalia and Mayersche merge," *The Bookseller*, September 20, 2019.
4 *Books market size, share & demand, tends analysis report, 2031*, Straits Research, updated on August 7, 2024.

all the books they want—be that e-books, audiobooks, or physical books—without leaving the Thalia ecosystem or sacrificing in terms of user experience.

In fact, the synergies between the different channels are tremendous. That's our biggest advantage, and it's why our online market share jumped from 11 percent in 2019 to 20 percent in 2023.[5] Our online growth was pretty steady across that period. We didn't even see a dip in online sales at the end of the pandemic. And sales in our physical stores have significantly outpaced our competitors, too; the sector as a whole has broadly stagnated, while 2023 sales in our stores were 15 percent higher than in the previous year.[6]

Q: How do you think about the role of your stores versus your online business?

A: Customers are very disappointed if they can't find a book that they've come into a store to purchase, and you might not see them again. We have developed an online reservation system that gets around this issue for customers that want to shop in stores. Our turnaround time is quick. Sometimes the customer will get a message within a few hours to say that their order is ready for them to collect. About 25 percent of our online customers pick up in-store. And a good proportion of those will purchase the same amount again, on impulse, once they get to that store.

For urgent shopping missions, of course, the customer just wants same-day or next-day delivery, which is why both the online business and stores are vital. Currently, one-third of our business is online and two-thirds is in stores. That balance is still shifting toward online, but we're also still opening new stores. Asking which is more important is like asking whether you'd rather lose an arm or a leg. Sometimes the arm is better and sometimes the leg is better, but you need both.

Q: What's the rationale behind the continued expansion of your store network?

A: The real core of our operating model is to be everywhere. We have more than 500 stores across Germany, Austria, and Switzerland, as well as several thousand additional sales outlets.[7] For example, we manage the book business of many drug stores and supermarkets—sometimes under our own brand, and sometimes under theirs. About five years ago, we also started to let other retailers use our whole infrastructure by being part of our partnership program.

Why do we do this? It's because omnichannel is most effective where customers live within 20 kilometers of a store. The idea is to maximize our coverage based on this principle in order to support both online and in-store sales. Letting other retailers use our infrastructure means that we can close existing gaps more quickly and without significant investment. Retailers are queuing up to join, but we accept only those that actually help us increase our coverage.

Q: Can you talk through some of the synergies that come from omnichannel?

A: We are constantly looking at where we lose people across the customer journey and finding ways to use our omnichannel capabilities to deal with the issue. At Christmas, for example, customers may walk out of traditional retailers if the queue is too long or if products are not available, but our customers can immediately order online via QR code, using self-scanning.

More generally, product availability tends to be much higher online. Many toy ranges, for example, have many tens or even hundreds of products. We can't fit all of those on the shelf, but we can have a prominently displayed QR code that lets the customer see—and order—the full range.

Q: Do you plan to continue to broaden your product range?

A: We are already using our distribution center to widen our assortment, but only with products that are deeply related to our core: books. Toys are our current diversification focus. Both books and toys have an educational angle, which makes them two sides of a coin. We therefore don't have to convince our customers that we understand the toy market.

About ten or 15 years ago, we did try to expand into truly new areas, but the risk there is that your brand becomes diluted so that your customer stops perceiving you as a really first-class provider. We limit the size of our stores so that we can focus on profitability, productivity, and offering the customer a clear and coherent bundle of goods.

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5 "Omnichannel bookseller Thalia continues its growth path unabated," October 17, 2023.
6 Anja Sieg, "Germany's Thalia sees 11% annual revenue rise," *The Bookseller*, October 26, 2023.
7 "Omnichannel bookseller Thalia continues its growth path unabated," October 17, 2023.

Our balance is still shifting toward online, but we're also still opening new stores. Asking which is more important is like asking whether you'd rather lose an arm or a leg. Sometimes the arm is better and sometimes the leg is better, but you need both.

Q: What is the next big challenge?

A: We have developed an enviable position in our sector. That means we are frightening other players in our ecosystem. Our challenge is to reassure them that we're actually making the cake bigger. When a new partner comes onto our infrastructure, for example, they generate 15 to 25 percent more revenue and have a higher margin. That's a win–win situation.

A broader issue is that books themselves are losing ground to other mediums. We're in a fight against on-demand streaming platforms—both audio and video—for the time and money of our customers. The big hope is that other national and regional retailers are able to develop the sort of omnichannel excellence that brings customers back to downtown areas. Online platforms will never be able to deliver a human interface.

But we're not relying solely on in-store experiences to compete. Audiobooks have been a successful market for us, and we are also a major player in the e-book market. We sold e-readers comparatively cheaply, which means that many customers developed the habit of reading e-books. We've kept investing in e-reader technology, too, launching a reader with a colored display six months before our major competitors did. As a result, our e-book market share was 25 percent in 2023, which is higher than our overall market share in Germany of 24 percent.[8]

Our aim is not only to be competitive but also—slice by slice—to push back our major competitors in our segment. The key is to create an ecosystem where customers can get everything they need. The real battle is not between different booksellers but between different ecosystems. We want to show other companies what's possible.

Q: What do you think the future of the book sector will look like?

A: One advantage we have in Europe is that what happens in the US tends to hit us two or three years later, so we do get some degree of warning. My career has taught me to always look three to five years ahead and to ensure that your company is in a position to be able to react to new trends faster than anybody else. There will, of course, be new developments, and we'll have to adapt to them. But I've learned that looking too far forward can lead to a very scattered investment strategy, which in turn leads to a high failure rate. We don't have the resources to waste a lot of investment on developments that might never materialize.

Michael Busch is the former CEO and now speaker of the shareholders of Thalia. **François Videlaine** is a partner in McKinsey's Paris office.

[8] Ibid.

How Worten is leading Portugal's omnichannel retail revolution

Miguel Mota Freitas
CEO, Worten

The company's CEO, Miguel Mota Freitas, has overseen the electronics retailer's dramatic transformation into an omnichannel retail leader.

Less than a decade ago, Portugal's Worten was a brick-and-mortar electronics retailer. Today, it's the country's omnichannel leader, seamlessly mixing physical locations with e-commerce in a transformation that has resulted in the company—in direct competition with global e-commerce leaders—selling millions of products.

In this conversation with McKinsey partner François Videlaine, Worten CEO Miguel Mota Freitas reveals how the retailer redefined its value proposition and operating model, adapted to meeting changing customer needs, and embraced the promise of omnichannel. Freitas also discusses the challenges of making such dramatic organizational shifts, plus his hopes for the future of retailing. The following is an edited version of their conversation.

Q: What is unique about Worten's consumer value proposition, and how is your operating model aligned to it?

A: We come from a typical electronics offline retail value proposition: very price-driven, with relatively low levels of service. In the past five to seven years, we started a new, two-part journey. The first is clearly the core value proposition for Worten: to be really the best omnichannel player in the market. And the second is around marketplace positioning. We believe that the strongest omnichannel player in the market will be the winning player in electronics.

What does it mean to be the "best" in omnichannel? We have two strong assets to leverage: our people and our network of more than 200 stores. On top, we needed to also be a very good e-commerce player in electronics and link our offline and online operations. Building the tools to make that seamless integration between channels is a never-ending story. But while there is still a lot of work to do, we have made great progress.

In terms of getting the organization to be omnichannel, there's a "soft" part—like a cultural change needed—and a "hard" part around how you organize. The "hard" aspect was relatively straightforward to address because it aligns closely with the core organizational structures typically employed by retailers. The difficulty is that to be truly omnichannel, we needed to destroy the walls and silos that traditionally existed within the organization. This required a cultural and mindset shift as well as an adjustment to our work processes.

Q: How did you make your vision a reality?

A: We started seven years ago by making a clear statement: we want to be a digital company with physical stores and a human touch. This vision is still valid today. The first part of this statement is an important one. We started a project called Digitalism to introduce "digital first" thinking in our ways of working. It's not only about selling digitally but also working digitally and interacting digitally with customers and suppliers. We are now a different company than the one we were five or seven years ago. E-commerce is only about 20 percent of our sales, but in every meeting digital is at the center of the discussion. That shift is very important in delivering changes and developing a proposition that makes Worten a true omnichannel player.

Q: Has the shift also put the customer more at the center of your thinking?

A: There are two things in retailing that didn't exist until ten years ago: orders and customers. Most retailers—and this was our case—didn't really manage customers, we managed transactions: the customer comes, buys, takes the product, and leaves. Order management was even less of a priority because the transaction was complete. Now, more than 50 percent of our business is about managing orders. Only about 40 percent of our sales are what we call grab and go. That's very new for the company. Putting customers more in the center of the organization is also a shift. It's an area of investment in people and in systems. Retailers now really measure customer satisfaction and the longtime value of customers, among other new metrics.

Q: What role do the stores have when it comes to customer satisfaction? Do they have the same role as online?

A: First, we have 50 to 70 customer journeys that we measure every time a customer buys or interacts with us. Worten teams manage and report this internally every week to identify where are we doing better and where are we doing worse. Also, we've seen progress in two ways in the role of stores. First is from an experiential perspective. Stores are showrooms where our customers can touch and feel products, close to their homes, and get advice from our sales staff. Second is from a logistics point of view. Stores are pickup points for online orders and warehouses to stock products and also a trusted space for repair and after-sales management. For example, stores can remove the biggest pain point customers have when buying online: returns. And solving this problem with a human touch is something that online pure players are not able to do. This is a valuable differentiation element of our value proposition.

Q: How far have you pushed the omnichannel organization?

A: Conceptually, everything we do is integrated in the omnichannel logic; that's an important step. I still hear about a lot of organizations that have online and offline operations separated, and we don't. Bonuses is a relevant example. Store employees had evaluation KPIs related to offline sales. But all managing positions in the organization now use the same KPI for their annual bonus. So be it the CEO, a store manager, or a category manager, we all have the same KPI.

Q: When did you see a step change in your omnichannel journey?

A: Probably the pandemic period, where we had the strongest market share gains. That created positive momentum in the organization. To be omnichannel, you need the physical network, a very efficient operation, and a good online presence. To be good online, you need to be relevant online. If you're not relevant for the customer, they just forget that your brand exists. The biggest challenge for an electronics retailer is the low frequency of purchase. A usual customer buys twice a year, maybe. They buy a mobile phone, a TV, a refrigerator, but not every week. So even if you have the right service, assortment, and pricing, there's a certain risk that customers forget about you.

Midway through our journey, we felt that it wasn't enough to be solely a very good omnichannel player in electronics. We challenged ourselves to become a generalist marketplace and get customers to visit us more often and buy more than just electronics. We came from being an offline retailer with about 20,000 to 30,000 SKUs to offering ten million to 12 million products on our website—part of it sold by us, but a big part through marketplace operations and partners or sellers. It's a successful formula because we are the most visited e-commerce website in Portugal.

Q: If you had one hope for the retail sector in the next five or ten years, what would it be?

A: Electronics retail is a tough market. We need to find additional sources of revenue—for example, through services such as repairs. As a sector, what we need the most is innovation and, particularly, product innovation. Brands and retailers need to continuously introduce innovation in the market and enlarge the scope of categories where technology is relevant. The possibilities are limitless.

Our role is to be the independent advisers. We are the ones that need to help customers identify the best solution for their needs or problems. As long as that product innovation keeps coming to the market, I think the sector is very well positioned to continue to grow.

Miguel Mota Freitas is the CEO of Worten. **Ana Paula Guimarães** is a partner in McKinsey's Lisbon office, and **François Videlaine** is a partner in the Paris office.

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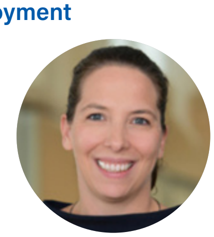

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