

European nongrocery retail: Transition and transformation

After an unpredictable several years, nongrocery retailers in Europe are seeking to uncover pockets of growth. To succeed, they will need to navigate differences across markets and retail categories.

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In the past four years, the nongrocery retail industry 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.

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 industry'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 *2024 State of Retail Europe: Transition and transformation in nongrocery retail*, delves into the key trends that will shape the nongrocery industry in 2025 and beyond. This report offers new

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.

insights and perspectives that we hope will help retailers navigate ongoing uncertainties and seize future growth opportunities (see sidebar, “About the research”).

About the research

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.

The state of retail

Four trends have shaped the nongrocery retail industry in recent years, and our analysis suggests these same trends will continue to be influential in the years ahead.

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 such as furniture and DIY were hardest hit. 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.

Amid this environment, most top European markets are expected to grow 0.6 percent through 2028, adjusted for inflation (Exhibit 1)—though the dynamics vary by country and category.

Nonfood 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	-1.4	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	-1.4	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	

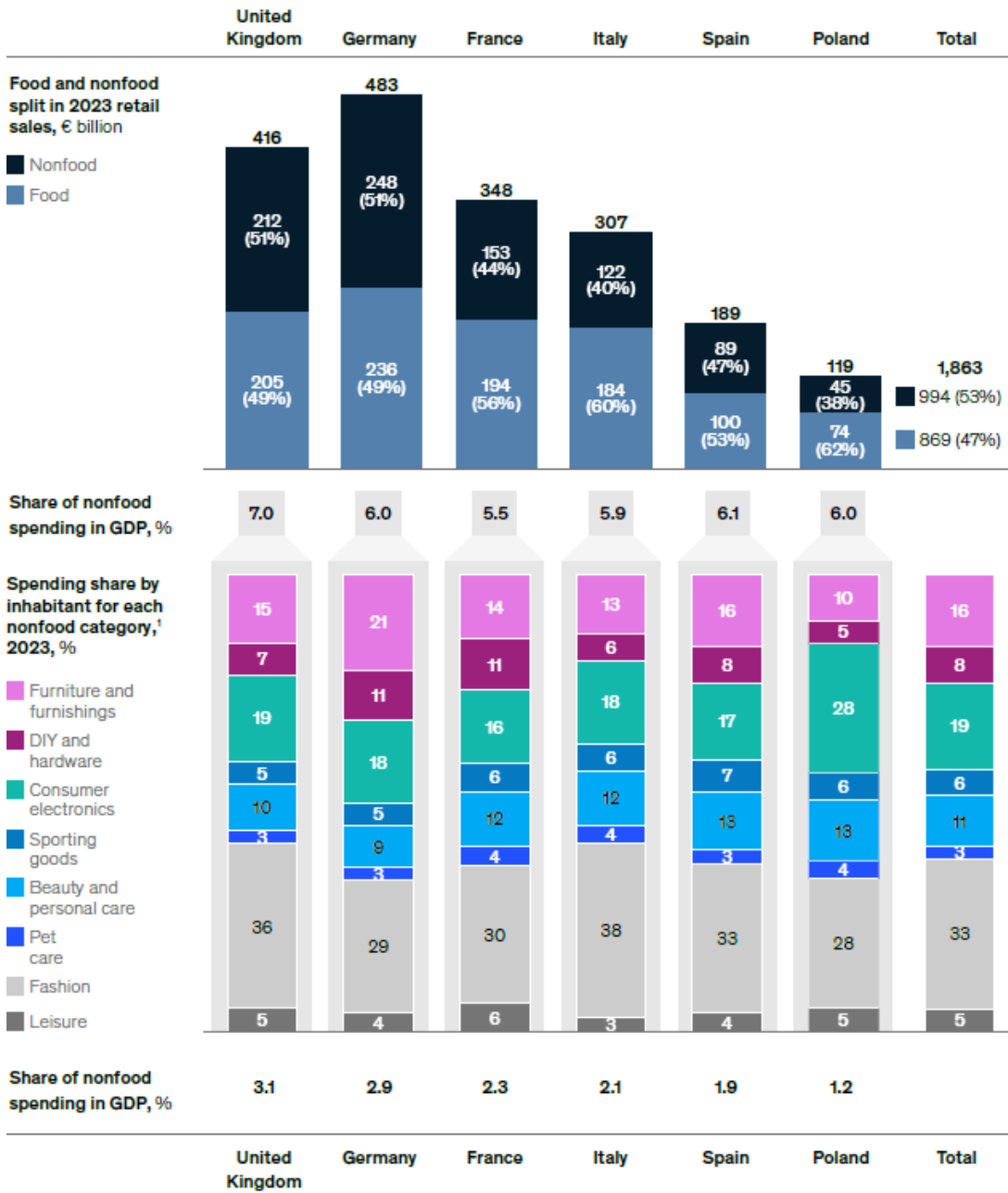
¹Accounting for sportswear.
²Including fashion and leisure.
³In real terms.

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 wealthier 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 2). 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 fashion² accounts for the lion’s share of Italians’ nongrocery budget.

² Includes apparel and footwear.

The appeal of nonfood 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.
 'FEach 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

Optimistic yet cautious consumers

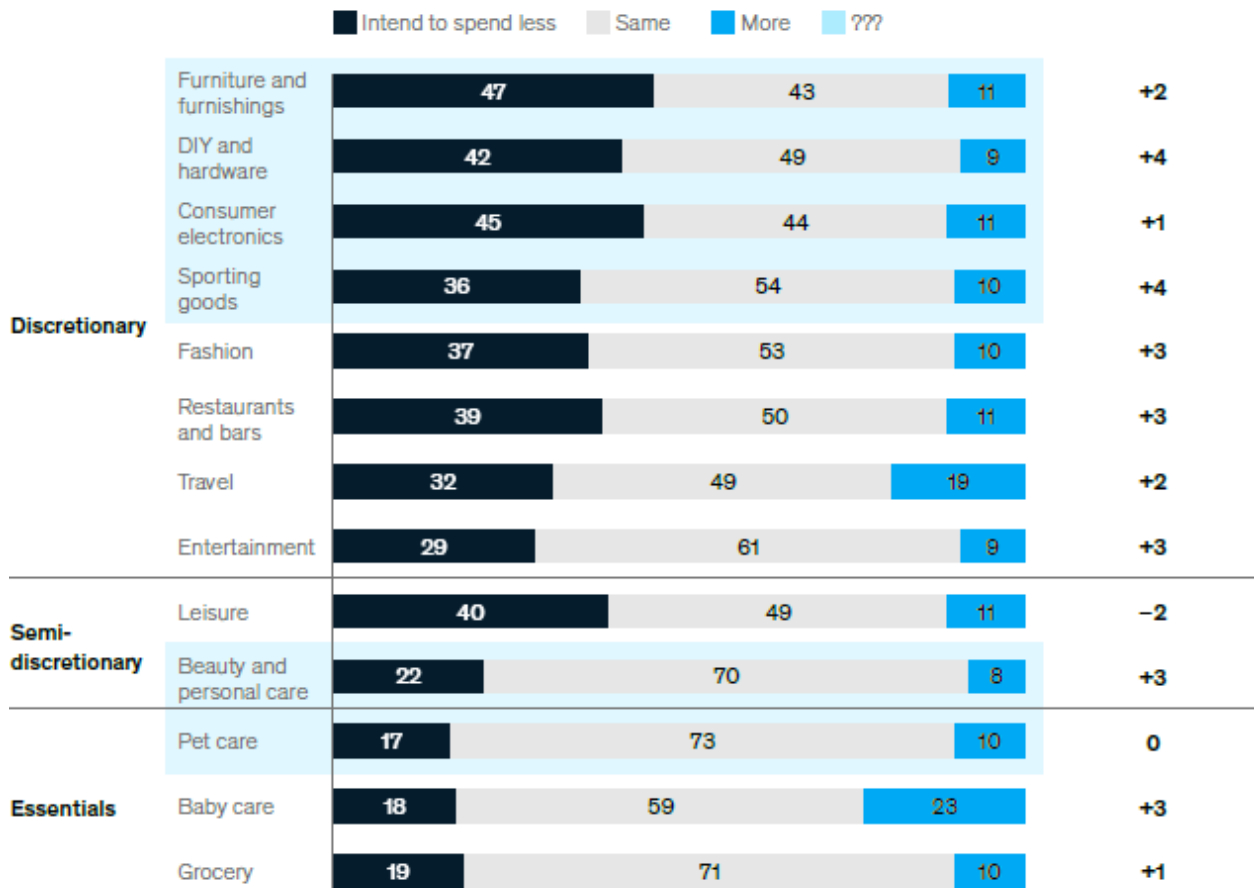
According to a McKinsey survey, consumer optimism is returning in Europe, reaching positive net intent for the first time since 2023.³ It has especially seen an uptick in Germany, Italy, Spain, and the United Kingdom, where it is above the EU average. However, according to McKinsey's Consumer Sentiment Pulse Survey, nongrocery retail categories could still be hit negatively in the short term. 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 3).

³ 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, EU-5 (France, Germany, Italy, Spain, United Kingdom), n = 1,000 per country.

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

Expected spending per category over the next three months compared to usual,¹% of respondents

Delta net intent² versus 2023, percentage points



Note: Figures may not sum to 100%, because of rounding.

¹Q: Over the next 3 months, do you expect that you will spend more, about the same, or less money on these categories than usual?

²Net intent is the difference between respondents who intend to spend more and 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)

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

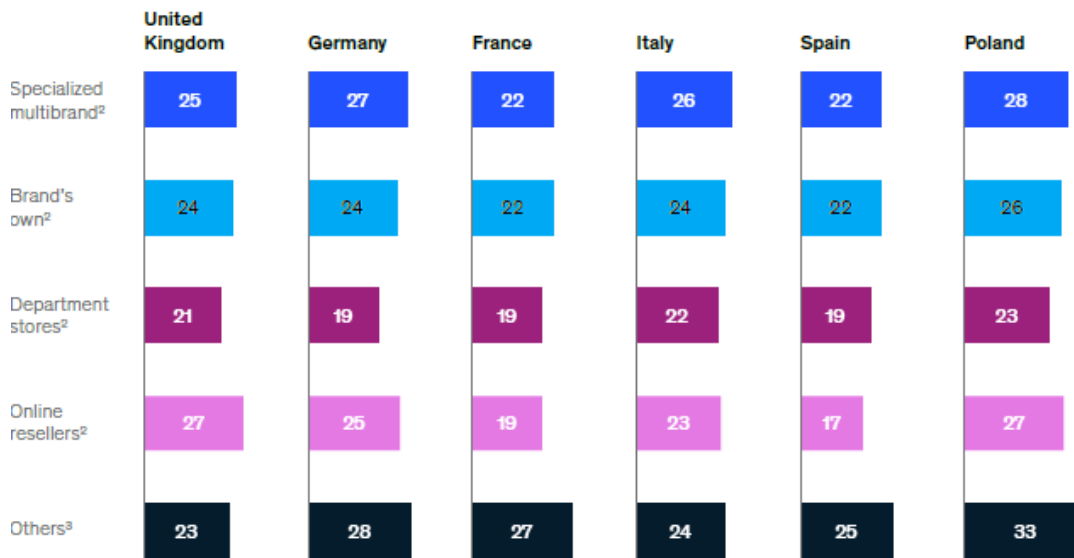
Rise of omnichannel journeys

E-commerce penetration increased rapidly during the pandemic, although 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.

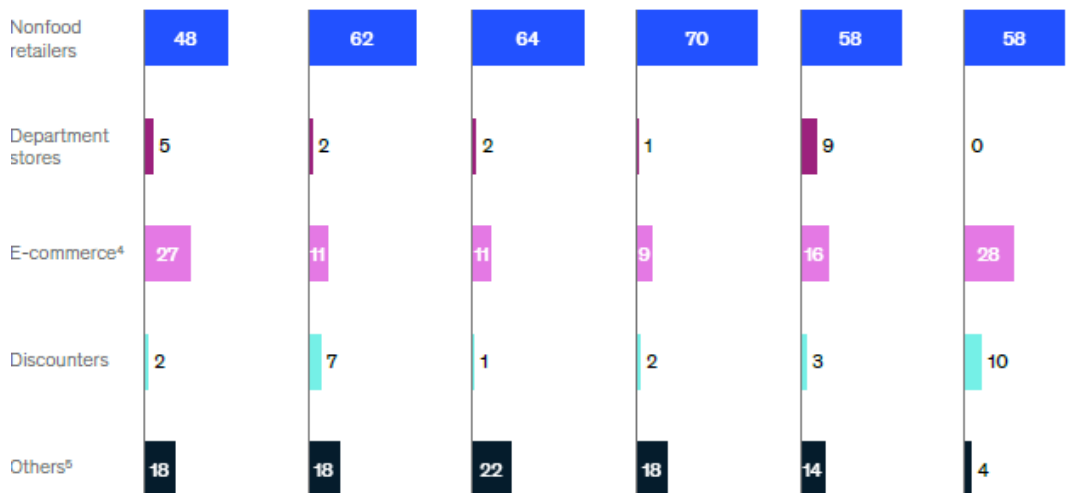
Its growth stems from the greater presence of omnichannel journeys in consumers' shopping habits: more than 50 percent of consumers reported using both online and in-store options to research and purchase nongrocery items. This figure rises to more than 60 percent in retail categories such as sporting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

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

Consumers intent to spend more or significantly more two years from now,¹ % respondents



Retail channel market share, 2023, %



¹Q: Looking to ~2 years into the future, do you think you will spend more or less on the following channels?

²Examples of players by channel include the following: specialized multibrand: Decathlon, OB; brand's own: Ikea, KIKO; department store: Selfridges, Galeries Lafayette; online resellers: Amazon, eBay.

³Includes grocery stores, second-hand charity stores

⁴Accounting for all e-commerce purchases.

⁵Includes grocery, direct selling, and automatic vending.

Source: McKinsey State of Nongrocery Retail Consumer Survey (August 2024, n= 15,214)

Characteristics of European nongrocery retail consumers

In addition to conducting country and industry analyses, our research explored the preferences and behaviors of consumers. Four characteristics stood out.

First, 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. 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.

Second, 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. 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.

Third, 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. 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.

Last, 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.

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Six value themes for nongrocery retailers

Collectively, these trends and consumer behaviors are presenting numerous challenges to the business models of nongrocery retailers. To thrive in this environment, they must excel on all fronts. Enhancing both revenue and profitability will be crucial to finance their transformation. Six value themes hold the key; the first four seek to boost revenues, while the last two aim to improve margins:

1. Redesign their value proposition
2. Engage with their customer base in innovative ways

3. Develop the omnichannel experience of tomorrow
4. Better leverage the traditional selling of goods to offer complementary services (such as consumer finance, travel, and retail media)
5. Focus on end-to-end operational excellence and resilience
6. Accelerate the thoughtful adoption of AI across the organization

The full report provides a detailed examination of the steps nongrocery retailers can take in each theme, examples highlighting industry leaders, insights from EU executives, and deep dives into six nongrocery categories.

The years ahead will present plenty of obstacles for nongrocery retailers. While growth across Europe may be modest, opportunities can be found in specific markets and categories. Leading retailers will likely monitor consumer patterns, tailor their product offerings accordingly, and expand their reach by embracing adjacent services and innovation. The insights in the full report provide a valuable reference for retailers as they chart their own path to growth.