



Sustainability
Digitalization
Skills

TRANSFORMING THE EU RETAIL & WHOLESALE SECTOR

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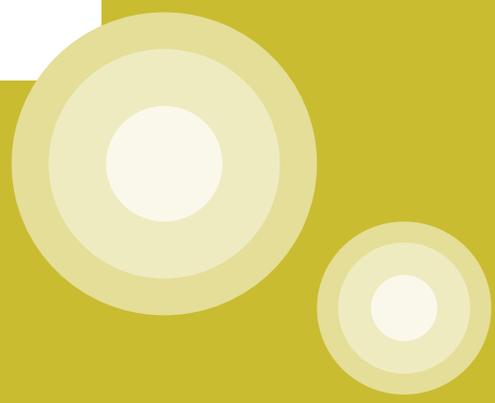
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INTRODUCTION

The retail and
wholesale industry
is in the midst of
transformative
change.







The retail and wholesale industry is a key economic sector in the European Union (EU). It comprises nearly 5 million enterprises, about one-fifth of all companies registered in the EU. Retailers and wholesalers employ more people than any other private sector in the EU—about 26 million or 13 percent of the workforce. Collectively, these companies meet roughly one-third of total household consumption needs in the EU, generating annual revenue close to €7 trillion.¹ The sector is in the midst of an accelerated transformation. Consumer demands are changing, and megatrends such as the growth of e-commerce, the need to decarbonize the economy, and an aging population pose threats to current business models—and provide opportunities for growth. To seize these and other opportunities, retailers and wholesalers must invest in three areas through 2030: sustainability, digitalization, and, skills and talent. Bold moves in all three areas will bring benefits for

companies, consumers, suppliers, and the overall EU economy.

- **Sustainability.** The sector needs to play its part in decarbonizing the economy to meet the targets of the Paris Agreement on climate change. The value chain contributes about 40 percent of overall EU greenhouse gas (GHG) emissions, less than 5 percent directly from the sector's own operations and about 95 percent from other activities up and down the value chain (for example, farming, manufacturing, and transportation).
- **Digitalization.** Digital interactions are the norm and the doubling of the share of e-commerce (from 15 to 30 percent by 2030) is expected to drive 90 percent of the sector's growth. Eight hundred billion gigabytes of customer data were generated in 2021 across the world. Using this data for advanced analytics and artificial intelligence, together with the high potential for automation, will help companies

maximize value creation and technological advances will make adoption easier.

- **Skills and talent.** As the largest private-sector employer in the EU, the sector can drive upskilling and reskilling of the current workforce and improve employee productivity.

By transforming in these three areas, retailers and wholesalers will be able to increase their resilience, fulfill their social and environmental missions, and unlock new business opportunities beyond the traditional trade. They may attract and retain talent more easily, and their employees may benefit from more training and lifelong professional development. Consumers could benefit as well. The transformation could give them more choices and convenience, as well as enable them to take on more responsibility for the planet. Society across the EU and around the world could benefit as the sector curbs GHG emissions and helps protect the land, water, biodiversity, and health and

¹ Eurostat 2019.

safety of communities. Overall, the triple transformation allows the sector to move toward more efficient, robust, and sustainable business models.

To make the triple transformation happen, retailers and wholesalers will have to increase their annual investments substantially.

According to McKinsey modeling, companies across all retail and wholesale subsectors will need to invest an additional 0.8 to 1.6 percent of their revenues till 2030 on average. That

equals an industry total of €315 billion if companies set themselves less ambitious targets (the conservative scenario) or €600 billion if the sector takes on more commitments (the ambitious scenario). SMEs account for about 10 percent (€35 billion to €60 billion) of the total. That equals about one-fourth of the sector's EBITDA margin, a considerable share of revenues, in a low-margin industry. EBITDA margins are typically 4 to 6 percent in food retail and 4 to 10 percent in nonfood retail. The wholesale sector has even lower EBITDA margins.

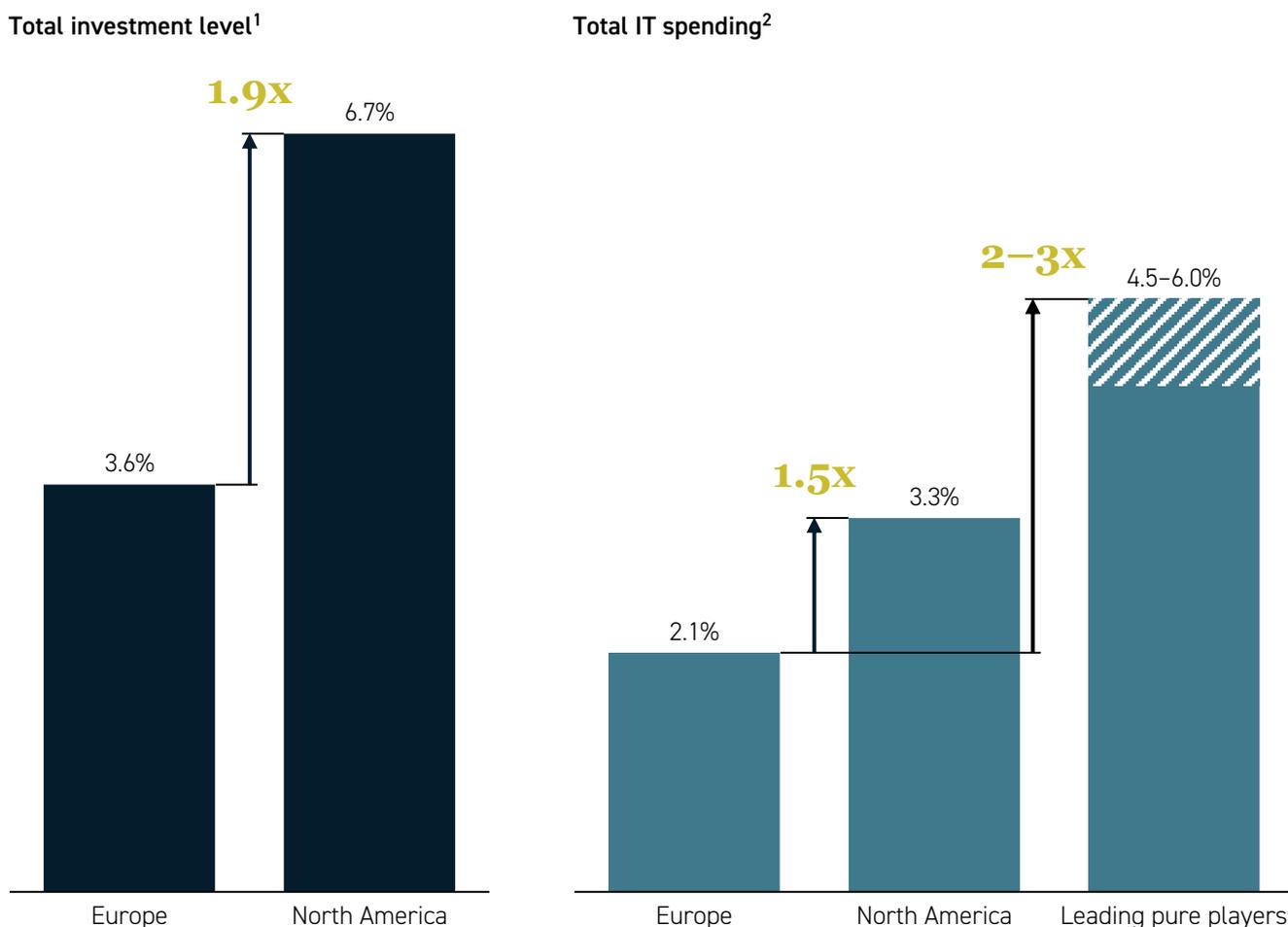
From a global perspective, European retailers and wholesalers invest less than other players in other regions, as shown in Exhibit 1.

The investment gap (3.6 percent in the EU compared to 6.7 percent in North America for large companies) could become a liability for European players as competition is increasingly global in the digital age.

Exhibit 1:

European retailers and wholesalers invest less than other players.

Percent of revenues



1. Includes total capital expenditures and IT operating expenditures.
 2. Includes IT operating and capital expenditures.

Source: Company financial reports; McKinsey benchmark on IT spending

“The retail and wholesale sector is important to the European Union—and it will have to invest to keep pace in a dynamic global market.”

Further challenges, such as the COVID-19 pandemic, supply-chain disruptions, the war in Ukraine, record inflation, and soaring energy prices are causing many players to defer investments to protect profitability. In the current economy, increasing consumer prices to offset the cost of investments is widely considered difficult. Retailers and wholesalers therefore need to find ways to transform the sector in a way that balances short and long-term goals. Investing in energy efficient equipment, for example, can help reduce both GHG emissions and operating costs.

While retailers and wholesalers can accomplish a lot on their own, collaboration across the value chain and external support will be key to accelerate the pace of the effort and ensure sufficient scale. If suitable support mechanisms and policy measures are put into place, retailers and wholesalers can make the necessary investments in sustainability, digitalization, and skills and talent and implement the required long-term changes.

THE TRIPLE TRANSFORMATION SURVEY

As part of this report, McKinsey and EuroCommerce surveyed 24 companies, including some of the largest retailers and wholesalers across the various subsectors in the EU. The survey gathered insights on the maturity level of companies across the three transformation areas—sustainability, digitalization, and skills and talent—as well as ambitions and future needs by 2030.

This report, prepared by McKinsey and EuroCommerce, in collaboration with EuroCommerce’s members, outlines the sector’s ambitions for 2030 on sustainability, digitalization, and skills and talent. It presents a consolidated view of the changes retailers and wholesalers could make, including investments that might facilitate the triple transformation. It also discusses the challenges the sector faces and the support it may need.

The analyses and potential paths forward presented in this report are meant to address the needs of all five million of the EU’s registered enterprises, spanning all business models, most of the industry’s subsectors, and companies of all sizes, from large corporations to SMEs (from traditional mom-and-pop stores to franchisee stores). Less than 1 percent of those companies are large, and most operate in one country only, or in a limited number of countries. All of the remaining companies are SMEs, only 8 percent of which have ten or more employees. That said, the required actions will differ, especially between larger and smaller players.



The sector is competitive and growing slowly, especially in Western Europe, as markets are mature and population growth is stagnating. In most countries, retail and wholesale have been growing roughly in line with inflation. Growth rates in Central and Eastern Europe were slightly higher, due to rising purchasing power in those economies. With the high inflation rates across the EU and soaring energy prices, retailers are seeing declining volumes especially in the nonfood categories, as consumers' disposable incomes are declining.

Helping all players transform will require a concerted effort from stakeholders—from farmers and primary manufacturers to suppliers, entrepreneurs, and educational institutions. In the right economic and regulatory environment, retailers and wholesalers could become a driving force for the entire European economy and help the EU achieve the objectives of the [Green Deal](#), [Digital Decade](#), [European Skills Agenda](#), and other initiatives.

SCENARIOS

Two scenarios were assessed to estimate the potential cost of the triple transformation for the EU retail and wholesale sector. In the more ambitious scenario, the total cost (cash-out) for retailers and wholesalers will come to €600 billion by 2030 (split into about €60 billion for SMEs and €540 billion for large companies). In a second, more conservative scenario with less ambitious targets, the total investment still amounts to €315 billion (split into €35 billion for SMEs and €280 billion for large companies). In either scenario, large companies stand to shoulder about 90 percent of the total investment, while about 10 percent could fall to SMEs. The scenarios are detailed in the subsequent chapters.



FOCUS OF INVESTMENTS THROUGH 2030

Investments will be required in three areas (see Exhibit 2):

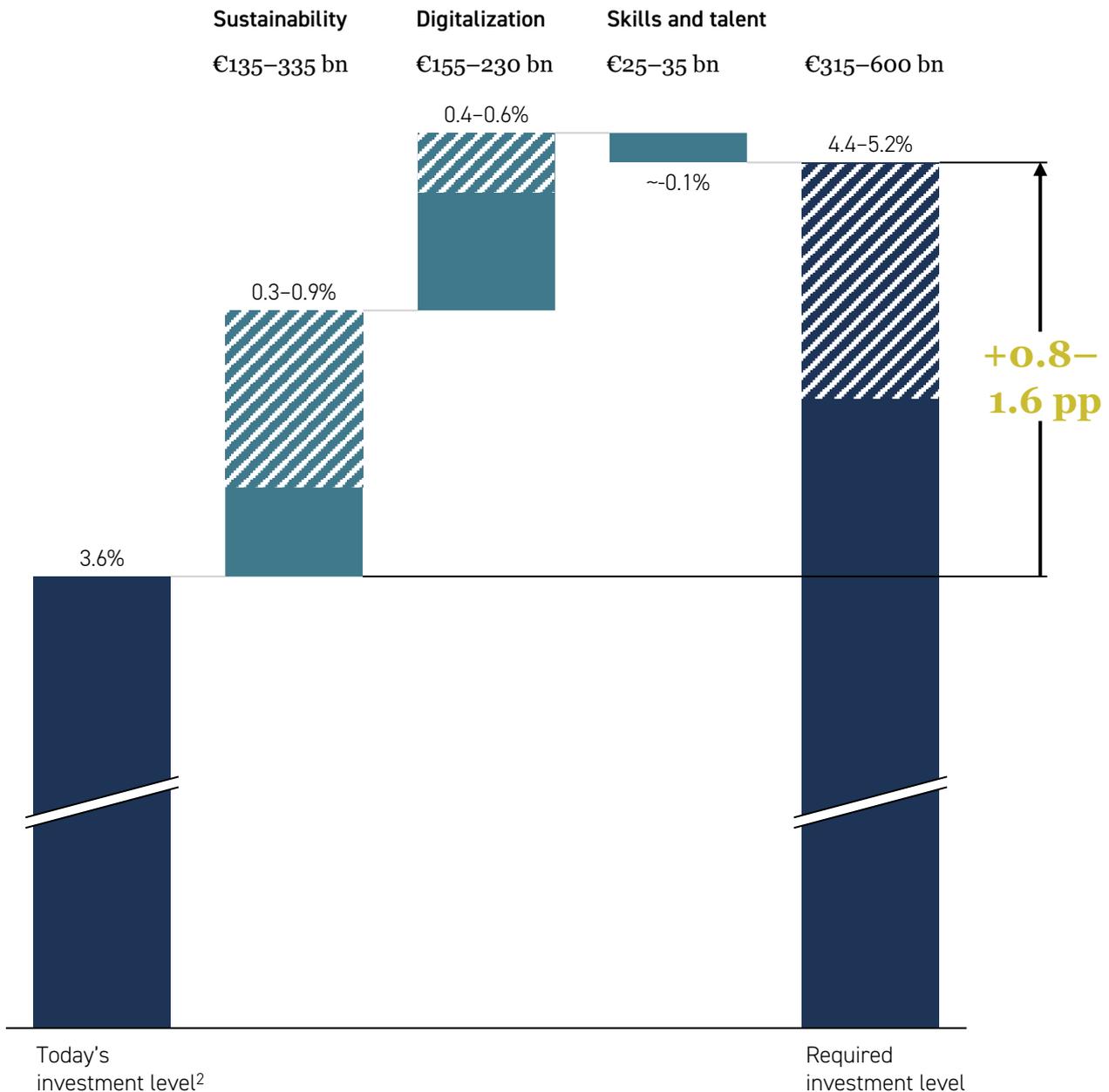
- **The sustainability transformation.** An ambitious investment of €335 billion, or a more conservative investment of €135 billion over eight years will help the sector move toward net-zero operations across its value chains, shift to more sustainable assortments within its range of private-label and branded products, and create more circular business models to reduce waste and costs as well as create new revenue streams. Retailers and wholesalers can help reduce Scope 3 emissions by making sustainable options easily accessible to consumers and providing transparency on GHG emissions and other aspects of sustainability. To move the needle on Scope 3 emissions, retailers and wholesalers can also work closely and in partnership with their supply-chain partners, including farmers.
- **The digital transformation.** An ambitious investment of €230 billion, or a more conservative investment of €155 billion over eight years could enable the sector to evolve into a truly omnichannel industry that provides a seamless experience for customers, boosts automation across the value chain, scales up advanced analytics to drive growth and operational efficiency, and modernizes IT.
- **The skills and talent transformation.** Retailers and wholesalers are already training some ten million people on the job every year.² Further investments totaling €25 billion (conservative scenario) or €35 billion (ambitious scenario) will enable the other two transformations and help expand apprenticeship programs and implement the Pact for Skills. Smaller enterprises may take advantage of public programs and seek the support of the private sector to augment their investments in skills.

2 Triple Transformation Survey; company interviews.

Exhibit 2:

Each of the three transformations will require additional investments through 2030.

Cumulative investment 2023–30 and a share of the sector's total annual revenue¹



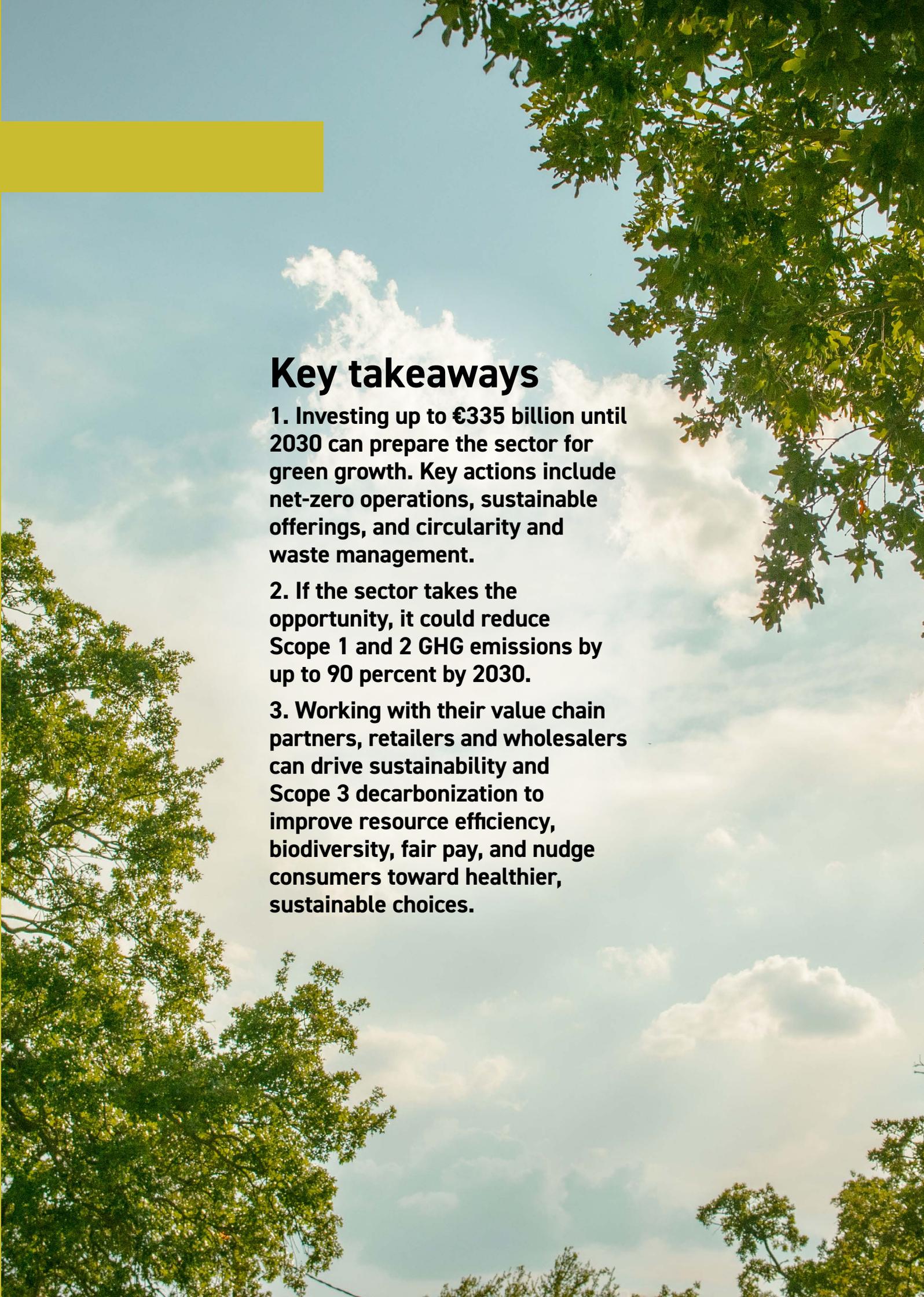
1. Figures related to the total retail and wholesale sector adjusted to reflect the relevant scope of action. Activities excluded from the analysis are all types of agents and distributors; wholesale solid, liquid, and gaseous fuels and related products; wholesale pharmaceutical goods; and wholesale chemical products.
 2. Capital expenditures and IT operating expenditures for EU retailers and wholesalers.

Source: McKinsey analysis

SUSTAINABILITY

The sustainability transformation will be an opportunity for the sector, as well as for consumers, suppliers, and the EU overall.





Key takeaways

1. Investing up to €335 billion until 2030 can prepare the sector for green growth. Key actions include net-zero operations, sustainable offerings, and circularity and waste management.

2. If the sector takes the opportunity, it could reduce Scope 1 and 2 GHG emissions by up to 90 percent by 2030.

3. Working with their value chain partners, retailers and wholesalers can drive sustainability and Scope 3 decarbonization to improve resource efficiency, biodiversity, fair pay, and nudge consumers toward healthier, sustainable choices.



The EU has set a target to cut GHG emissions by 55 percent by 2030 and reach net zero by 2050. To achieve rapid change at scale and make a real difference in the fight against climate change, the sector would need to invest up to €335 billion if it is more ambitious, or €135 billion if it is more conservative, in three action areas: net-zero operations, sustainable offerings, and circularity and waste management.

SMEs would have to invest €10 billion to €25 billion. Large companies would have to invest €125 billion to €310 billion. This is equivalent to an incremental annual investment of 0.3 to 0.9 percent of revenue. The sustainability transformation may prove to be an opportunity for the sector, as well as for consumers, suppliers who decide to act early on, and the EU overall.

1. The status quo

European retailers and wholesalers and their value chains account directly and indirectly for about 40 percent of all GHG emissions in the EU.¹ Less than 5 percent of the sector's total

emissions are a direct result of retail operations (Scopes 1 and 2), where the majority of emissions stem from vehicle fleets, refrigeration, and electricity purchased by retailers. More than 95 percent of GHG emissions within the retail and wholesale value chain are Scope 3 emissions.² These include upstream emissions that occur during the production of the goods sold by retailers and wholesalers, especially in primary production like agriculture, and downstream emissions that occur during the consumption and use of the sold goods.

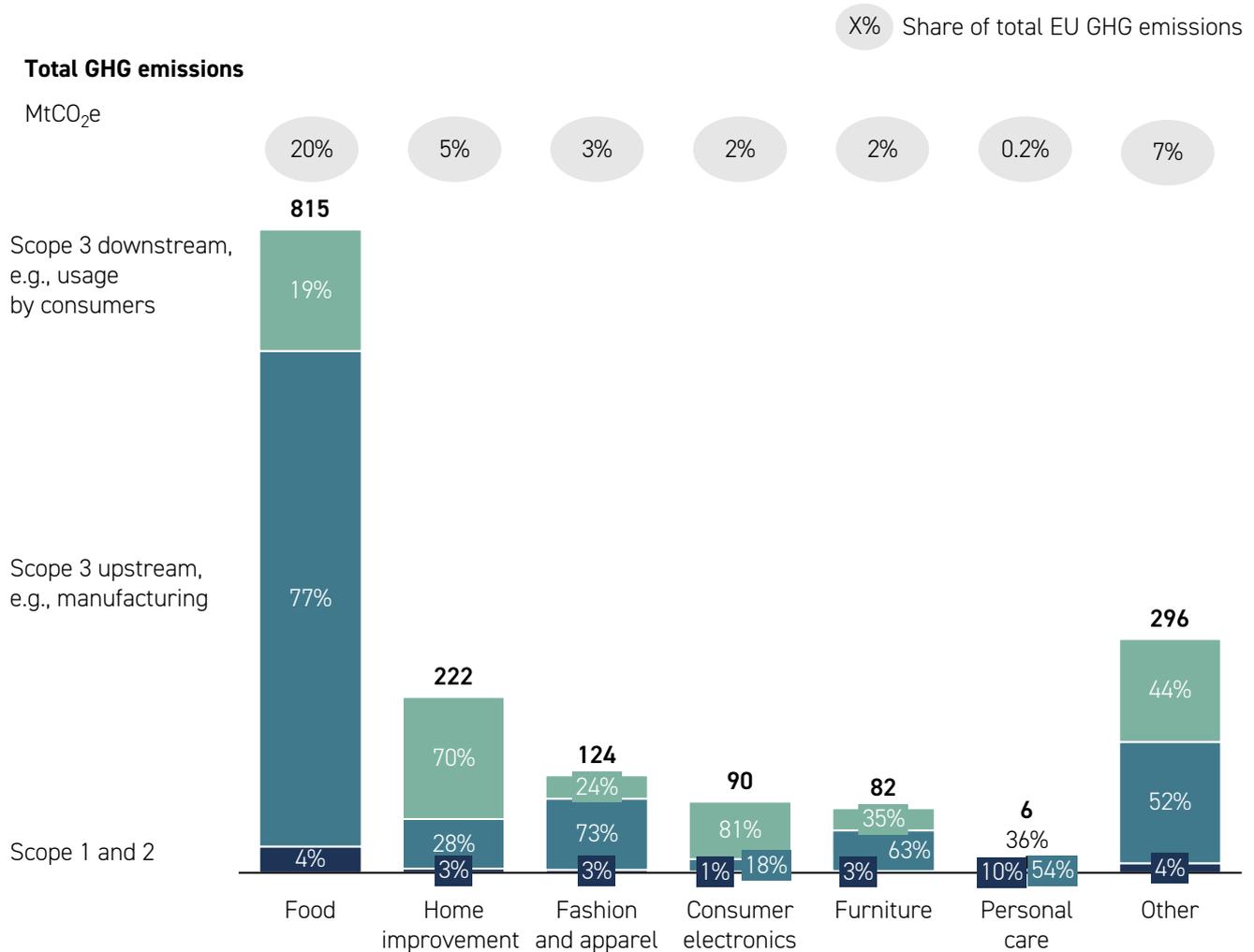
Beyond decarbonization, the sector also has a significant impact on other dimensions of sustainability. For example, the food, fashion, and furniture subsectors currently account for a large part of land use and therefore contribute to biodiversity loss, and the food, fashion, and consumer electronics subsectors contribute significantly to packaging and product waste generation. With a sizeable workforce directly employed in retail and wholesale and in the upstream value chain, the sector also has a significant impact on livelihoods.

¹ McKinsey analysis based on data from CDP; industry studies.

² McKinsey analysis based on data from CDP; industry studies.

Exhibit 1:

Food, home improvement, and fashion and apparel have the largest contributions to EU retail and wholesale GHG emissions.



Note: Figures may not sum to 100%, because of rounding.
Source: McKinsey CatalystZero; CDP; industry studies

2. The transformation

There is growing pressure from all sides to accelerate the sustainability transformation in retail and wholesale—from consumers, investors, employees, regulators, and NGOs. NGOs have been increasingly outspoken when it comes to exposing what they see as wrongdoings and calling companies to account, while consumers increasingly demand sustainable options—either due to direct concerns about the effect of less-sustainable practices on their health or due to a growing awareness of

the limited resources and vulnerability of the world they live in. According to the McKinsey Conscious Consumer Sentiment Survey,³ 37 percent of European consumers care (deeply) about sustainability. Products that are marketed as sustainable outgrow the market average by a factor of three.⁴

At the same time, more and more investors are adopting ESG criteria and channeling capital to sustainable companies. Sustainability also matters in the race for talent. Employers that are perceived as sustainable have a better

chance of attracting, retaining, and inspiring purpose-driven people.⁵

On the regulatory front, the UN has adopted SDGs and the EU has set ambitious decarbonization goals. The later include reducing GHG emissions by 55 percent by 2030 (relative to 1990 emission levels) and achieving net-zero GHG emissions by 2050 (see insert).⁶ These targets are in line with the Paris Agreement, which seeks to limit global warming to well below 2 degrees, ideally 1.5 degrees (relative to preindustrial levels). It is expected that

3 "Understanding the consumers of the future," forthcoming on McKinsey.com.
4 NYU Stern Sustainable Market Share Index 2021, https://www.stern.nyu.edu/sites/default/files/assets/documents/FINAL%202021%20CSB%20Practice%20Forum%20website_0.pdf
5 <https://www.worklife.news/talent/how-sustainability-has-become-an-advantage-in-the-talent-war-but-candidates-arent-fooled-by-greenwashing-say-experts/>
6 https://ec.europa.eu/clima/eu-action/european-green-deal/european-climate-law_en

CARBON NEUTRALITY VERSUS NET ZERO

Carbon neutrality, is commonly used to refer to carbon dioxide (CO₂) only and is often associated with the practice of offsetting emissions, rather than reducing them. In contrast, *net zero* is a more comprehensive, more ambitious standard. Net zero focuses on rapid, real emissions cuts of all GHG emissions (including, not only CO₂, but also methane, nitrous oxide, and other GHGs). It requires companies to set quantified targets (for example, halving emissions by 2030) for their entire value chains, including indirect emissions (Scopes 1, 2, and 3). For details, see <https://sciencebasedtargets.org/net-zero>.

the sector will be required to ensure compliance with reduction targets both for direct (Scopes 1 and 2) and indirect (Scope 3) GHG emissions.⁷

So far, 33 percent of the 50 leading European retailers and wholesalers have set science-based decarbonization targets. Of these, 75 percent have set Scope 1 and 2 reduction targets that are in line with or exceed the anticipated average EU target. Regarding Scope 3 GHG emissions, there is more variance. At the time of writing, the Scope 3 reduction targets adopted by Europe's top 50 retailers and wholesalers range from 10 to 70 percent by 2030, with varying reference points.⁸ Even if retailers and wholesalers were to achieve net zero on Scopes 1 and 2, the Scope 3 targets set by retailers and wholesalers so far will not be sufficient to reach the overall 55 percent

reduction target of the EU. Retailers and wholesalers need to take more decisive action on decarbonization, and increase their collaboration with other players in the ecosystem, especially suppliers.

While decarbonization is a significant and pressing challenge, it is only one aspect of sustainability. Other benefits of sustainable practices include improved resource efficiency, biodiversity, livelihoods, and health (see box "Multiple facets of sustainability"). Many retailers and wholesalers are already pursuing projects and initiatives to address these aspects. That said, new regulations regarding biodiversity, worker livelihoods, and healthy food products will likely be introduced into Europe soon. These include regulation on deforestation-free products and requirements for sustainability due diligence.⁹

⁷ Expert interviews; company interviews.

⁸ Based on McKinsey analysis using SBTi data. Reference points included per square meter, per unit of value added, and per kilogram of raw material purchased.

⁹ https://ec.europa.eu/commission/presscorner/detail/en/ip_21_5916; https://ec.europa.eu/info/business-economy-euro/doing-business-eu/corporate-sustainability-due-diligence_en

Retailers and wholesalers hold a unique position in their value chains as the link between producers and consumers. This position gives them the opportunity to advance their sector’s sustainability. Retailers are well positioned to nudge consumers to consider more sustainable options, help increase transparency and coordination along the value chain, and make producers aware of the importance of a holistic sustainability transformation. In response to growing consumer demand, many retailers are already making more shelf space available for sustainable options.¹⁰ They are in the driver’s seat and do not have to wait for suppliers or other players to drive assortment sustainability. This is because many retailers control a large range of private-label products. Of course this is more limited for SMEs.

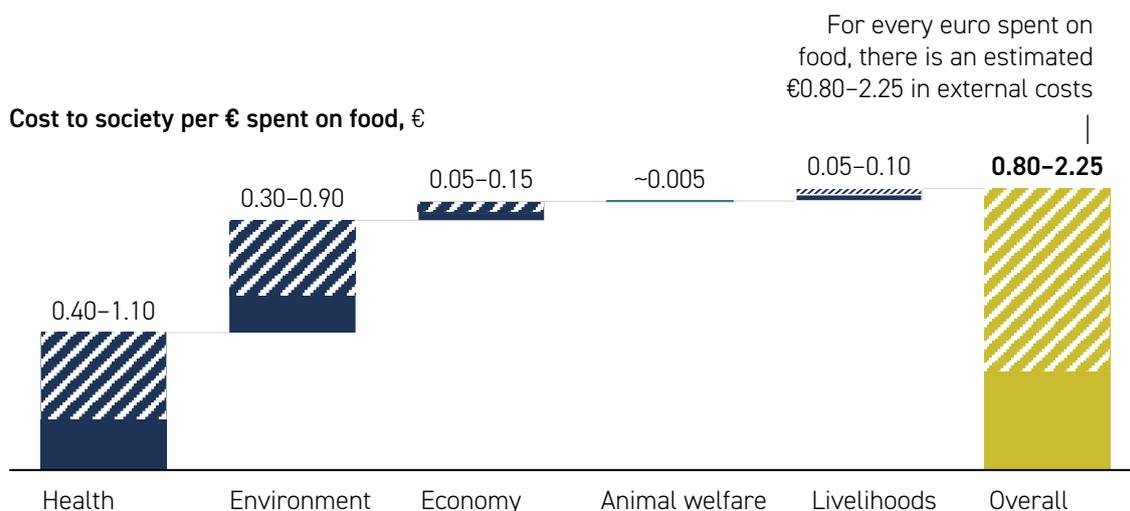
The sustainability transformation is an opportunity for retailers to differentiate their assortments, tap into growing green value pools, and develop new circular business models. In many cases, emissions reduction brings cost savings or new revenue streams. It is time for retailers and wholesalers to follow the example of the green pioneers in their midst and switch from playing defence (risk mitigation) to playing offense (value creation). If they act fast and decisively, retailers and wholesalers will be able to best combine what’s good for the planet with what’s good for their businesses. The transformation could be significantly accelerated through harmonized standards across the value chain and simplified rules. This would support not only the European retail and wholesale sector in its efforts to promote sustainability in the value chain but also the sustainability of the European economy as a whole.

Potential developments by 2030

If the sector takes the opportunity to drive the sustainability transformation, it could reduce Scope 1 and 2 GHG emissions by up to 90 percent by 2030, be a driving force for Scope 3 decarbonization, and improve circularity, efforts to promote biodiversity, and resource efficiency (for example, by increasing the plastic recycling rate to 70 percent). The sector could also continue to play an active role in nudging consumers to change their behaviors by providing clear information, expanding sustainable options, and advising them on sustainable consumption. If these efforts come to fruition, retailers and wholesalers receive the right support, and engage in cross-value-chain collaboration, the sector can help to advance the wider EU sustainability agenda substantially, far beyond its own operations.

MULTIPLE FACETS OF SUSTAINABILITY

According to the McKinsey HE²AL framework for (grocery) retail, sustainability encompasses five facets: health, environment, economy, animal welfare, and livelihoods.



Source: The Food and Land Use Coalition; The Rockefeller Foundation; Sustainable Food Trust; Perotti

¹⁰ <https://hbr.org/2019/06/research-actually-consumers-do-buy-sustainable-products>

“If they act fast and decisively, retailers and wholesalers will be able to best combine what’s good for the planet with what’s good for their business.”

Given that 99 percent of retail and wholesale consists of SMEs, the sector should make a joint effort to provide SMEs with the information, practical know-how, and support they need to play an active role in the sustainability transformation. Trade associations are well placed to support their SME members in their efforts to manage change.

3. Actions for consideration

Retailers, wholesalers, and their partners can pull many levers to advance and promote sustainability in their value chains. These levers can be grouped into three action areas (Exhibit 2): net-zero operations, sustainable offerings, and circularity and waste management. Taking decisive action in these areas can bring multiple benefits for the entire sector: compliance with future regulations, increased cost efficiency, reduced negative impact of any potential carbon tax introduced, lessened impact of overall energy price volatility, improved supply-chain resilience, competitive differentiation for first movers who satisfy customers' growing demand for sustainable choices, and the opportunity to make the sector

more attractive for job seekers. Many levers require investment from retailers and wholesalers. Others will likely be cost neutral but necessitate commercial or operational changes. And, while many levers are under the direct control of retailers and wholesalers, others require collaboration with upstream and downstream value-chain partners. Other influential players in the value chain, such as manufacturers and farmers, also need to act.

More generally, there are some structural factors that might inhibit or delay the implementation of certain changes, including scarcity of relevant technology, overregulation, difficulties with financing, a lack of infrastructure, and insufficient consumer education about sustainability. The more stakeholders cooperate across national borders on these factors, the faster and more effective the transition to a sustainable sector will be.

It is estimated that the sector needs to invest a total additional €135 billion to €335 billion (cash-out) for the sustainability transformation by 2030, equivalent to 0.3 to 0.9 percent of revenue.

SCENARIOS

Two different scenarios were assessed to estimate the potential cost of the sustainability transformation for the EU retail and wholesale sector. In the first, more conservative scenario, EU retail and wholesale achieve the required reduction of Scope 1 and 2 emissions by 2030 on average, but do not take a more active role in the sustainability transformation. In the second, significantly more ambitious scenario, EU retail and wholesale play a leading role in the sustainability transformation and contribute to the

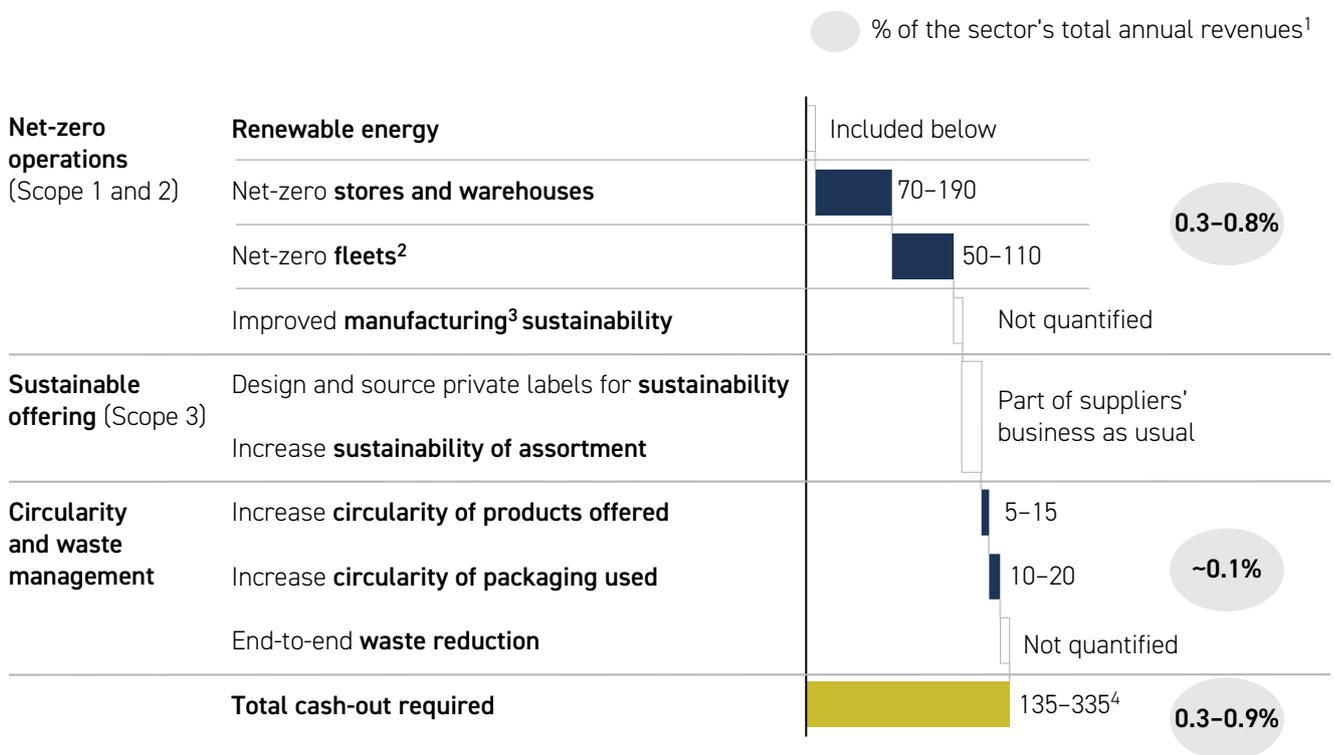
EU sustainability agenda as outlined above. Specifically, the scenarios are based on the following assumptions:

- **Conservative.** Assumes a focus on a 55 percent reduction of Scope 1 and 2 emissions, with limited efforts to reduce Scope 3 emissions.
- **Ambitious.** Assumes the sector targets reducing Scope 1 and 2 emissions by 80 to 90 percent (exceeding expected Green Deal requirements), with bold efforts to substantially reduce Scope 3 emissions.

Exhibit 2:

The sustainability transformation is a win-win-win opportunity for the sector, the EU, and society.

Additional cash-out required, € billion, cumulative 2023–30



1. Based on 2019 retail and wholesale market size.
2. Includes fleet decarbonization of retailer' and wholesalers' own and third-party fleets and charging infrastructure
3. For vertically integrated players.
4. Includes investments in retailer and wholesalers' own operations as well as establishing additional collection/sorting/recycling infrastructure for plastic packaging, fashion and apparel, consumer electronics, and furniture circularity.

Source: McKinsey analysis

Net-zero operations

Net-zero operations is the action area that is under the direct control of retailers and wholesalers. Net-zero operations is made up of four topics: renewable energy, net-zero stores and warehouses, net-zero fleets, and sustainable manufacturing (for vertically integrated retailers and wholesalers).

Addressing these topics can help reduce Scope 1 and 2 GHG emissions. Although these emissions represent less than 5 percent of the total GHG emissions attributable to the sector, both large companies and SMEs need to adopt net-zero operations to achieve their Scope 1 and 2 decarbonization targets and advance the sustainability of the ecosystem as a whole. At a cost

of €120 billion to €300 billion, net-zero operations could enable retailers and wholesalers to reduce Scope 1 and 2 GHG emissions by 50 to 90 percent by 2030. Given the vast number of trucks, stores, and distribution centers, optimizing operations is likely to be the costliest task for retailers and wholesalers. In every neighborhood in every town, there is probably a store that could be optimized. However, while making operational changes would require substantial investment, most levers have a positive net present value (NPV) or are at least NPV neutral. This is why most retailers and wholesalers will likely want to decisively decarbonize their own operations beyond what some are already doing.

Renewable energy

Energy—in terms of electricity and heat—is a topic that cuts across all operational topics, from stores and warehouses to fleets and manufacturing. Retailers can improve the energy efficiency of their operations and switch to renewable sources where available, thereby helping the EU drive the transition to green energy. Specifically, they could use existing assets to produce renewable energy. Those who own stores and warehouses could install solar panels on the roofs to generate electricity, either for their own operations or for shoppers to charge electric vehicles (EVs) in the parking lot or as a new source of revenues; in some countries, the installation of a certain number of charging stations is already required by regulation.



“While making operational changes would require substantial investment, most levers have a positive net present value (NPV) or are at least NPV neutral.”

Switching to green energy providers may be difficult because some EU countries still rely primarily on nonrenewable energy sources, such as coal. For retailers operating in these countries, self-generation of renewable energy (including heat) with solar panels and heat pumps may be especially important, both to promote energy independence and reduce their carbon footprints; in today’s times of soaring energy prices, it might also be an economic imperative.

Retailers and wholesalers can leverage, for example, virtual Power Purchase Agreements (PPAs) to aggregate virtually the load of a lot of small suppliers and drive Scope 3 reduction this way. An American retailer has been the first company in the world to launch such programs. Net-zero energy is relevant to the next three topics, and the cost of adoption is reflected there.

Net-zero stores and warehouses

In the food subsector, the main drivers of store GHG emissions are refrigeration and lighting. In the nonfood subsector, the main drivers of store GHG emissions are lighting, heating, ventilation, and air conditioning. At a cost of €20 billion to

€50 billion, decarbonizing existing stores could reduce Scope 2 GHG emissions by 30 to 50 percent. At the same time, it may also help reduce Scope 1 GHG hydrofluorocarbon emissions from old cooling appliances.

Some retailers already apply digital solutions, like building management software (BMS) and remote digital management, to optimize and control energy consumption in their stores. Comparing store consumption remotely by looking at load profiles can help detect anomalies. Initiatives targeting lighting, refrigeration (if applicable), heating, ventilation, and air conditioning, for example, could help reduce energy consumption to best-in-class levels (30 to 50 percent below the current EU average).

At a cost of €50 billion to €140 billion, decarbonizing warehouses would address 20 to 40 percent of Scope 2 GHG emissions and potentially some Scope 3 GHG emissions, from warehouses owned and operated by third parties. Decarbonizing warehouses may also help reduce some Scope 1 hydrofluorocarbon emissions from old cooling appliances.

If retailers and wholesalers build or encourage new stores and warehouses to be built in a way that minimizes GHG emissions (net-zero), further reductions could be achieved. An important lever to achieve warehouse decarbonization could be to reduce energy consumption to a level that is 20 to 60 percent below the current average energy consumption of existing warehouses. However, reducing energy consumption alone may not enable retailers and wholesalers to meet net-zero targets for their stores and warehouses. This makes switching to green energy providers where available or generating green energy themselves also important (see section on renewable energy above). The cost estimates above are adjusted to include an allowance for companies to self-produce green energy.

Net-zero fleets

At a cost of €30 billion to €70 billion, decarbonizing fleets (both owned and outsourced) could reduce Scope 1 GHG

emissions by 70 to 90 percent (own fleets), as well as substantially reduce Scope 3 GHG emissions (outsourced fleets).

The most important fleet decarbonization lever is to substitute vehicles with lower-GHG alternatives, such as EVs. Retailers and wholesalers that switch to EVs in their own fleets will also need to install charging infrastructure in their fleet depots. This will likely add another €20 billion to €40 billion to the required investment (including the cost of charging infrastructure for consumer EVs in parking lots).

The decarbonization of fleets will be multiphased, as different technologies will achieve total cost of ownership parity with internal combustion engines at different points in time. Initially, retailers and wholesalers may explore options and try different solutions, including electrical, hydrogen-fueled,

or liquid-biogas vehicles (if and where the infrastructure for EVs or hydrogen-fueled vehicles is not yet available) to gain hands-on experience. For short-haul delivery, especially for the last mile, they can quickly adopt EVs. In some urban areas, delivery by (electric) cargo bikes could also be a viable solution, provided safe bike lanes are available. For longer distances, companies may rely on liquid biogas until EVs and hydrogen-fueled trucks have the requisite capacity and reach a more competitive price point.

Other fleet-related levers include optimizing routing to reduce total and empty mileage, optimizing truck fill rates, optimizing the distribution center network for sustainability while balancing for cost (as well as e-commerce growth), and setting decarbonization criteria for providers of third-party logistics. With all that said, achieving net-zero logistics may take some time.

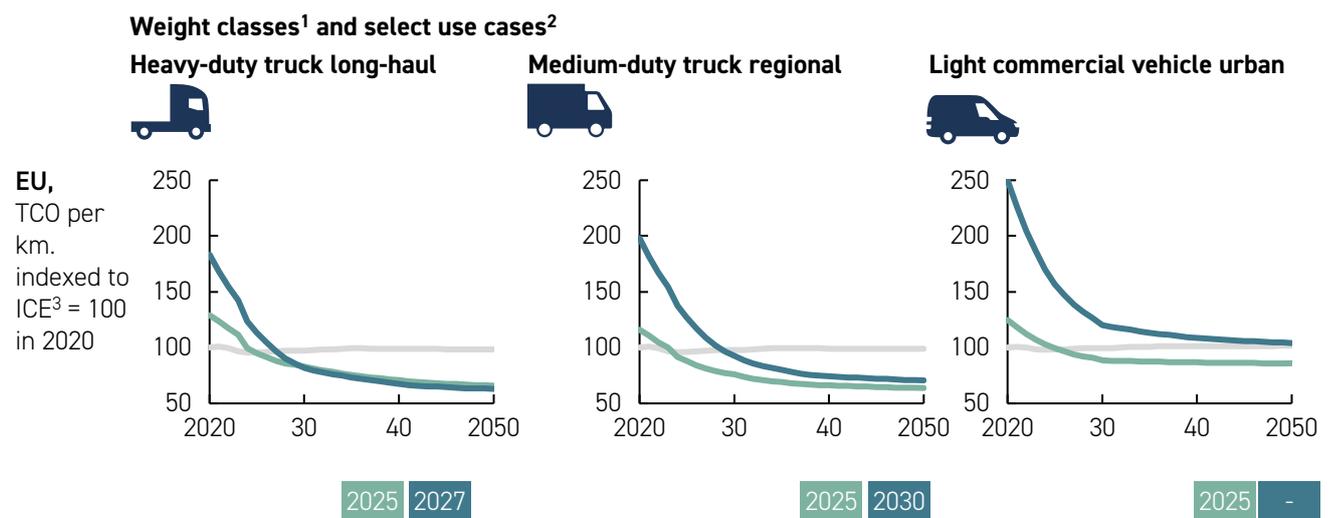
Exhibit 3:

Electric vehicles will reach total cost of ownership (TCO) parity with diesel across segments by 2025; later for hydrogen.

Average TCO in expected case adoption scenario

2022 UPDATE

 Battery electric vehicle parity year  Fuel cell electric vehicle parity year



1. Weight class definitions: Heavy-duty truck >16t, medium-duty truck: 7.5–16t, light commercial vehicle: <7.5t.
 2. Selected use cases represent the majority in the given weight class.
 3. Internal combustion engine.

Source: McKinsey Center for Future Mobility; McKinsey Energy Insights' Global Energy Perspective

“In effect, retailers may help to accelerate the transformation of the entire value chain and fulfill the larger EU sustainability agenda.”

Sustainable manufacturing (for vertically integrated retailers and wholesalers)

Some retailers and wholesalers also produce some or all of the goods they sell. These players can reduce the environmental footprint of manufacturing—both in food and nonfood (for example, apparel, sports, and personal care). They can achieve this by switching to green energy sources, self-generating energy at production sites, reducing water consumption, optimizing product design, and revising sourcing strategies. While many of these levers contribute to decarbonization, sustainable manufacturing may also bring improvements in other sustainability dimensions, such as resource efficiency, biodiversity, livelihoods, and health. Getting more involved in the sustainability transformation of manufacturing may also make it easier for retailers to lead the way for consumer packaged goods (CPG) companies and promote collaboration across the value chain.

According to a McKinsey analysis, dozens of levers can be applied in this area. As an example, platforms, such as McKinsey’s RedE (Resource Efficiency Deployment Engine), can help companies identify, rank, implement, and track opportunities to improve the energy efficiency of manufacturing, from parameter adjustment to refurbishment or replacement of equipment.¹¹

Sustainable offering

Providing a more sustainable offering for consumers can help retailers and wholesalers move the needle on Scope 3 GHG emissions and other aspects of sustainability, such as biodiversity, livelihoods, and human health, and help them support the EU sustainability agenda. This is because the demand for sustainable options is growing across countries and generations.¹² If retailers and wholesalers put more sustainable products on their shelves, give them more prominence in stores, and provide consumers with clear, transparent information about sustainability, consumers will buy more sustainable products. Before long, this increase in demand could lead to an increase in supply by manufacturers and producers. In effect, retailers may help accelerate the transformation of the entire value chain and fulfill the larger EU sustainability agenda.

Creating a sustainable offering may not require substantial investments by retailers and wholesalers, at least not in terms of capital expenditure (capex). Rather, it is about collaborating with their suppliers and primary producers to review the assortment, including private-label and branded products sourced from CPG companies; adapt processes; and train employees. As this process will require time, retailers and wholesalers would benefit from starting as soon as possible. A sustainable offering will also help retailers and wholesalers meet extended producer responsibility requirements.¹³

Private-label products

Private-label products present an immediate opportunity because retailers are directly responsible for specifications. Potential levers include:

- **Sustainable design.** Product developers can design private-label products with lower GHG and biodiversity impact, healthier ingredients, less packaging, and a focus on increased reusability or recyclability.
- **Sustainable sourcing.** Procurement managers can set holistic sustainability criteria for suppliers of pre-products, components, and ingredients, both on a company level (for example, for net-zero, resource efficiency, biodiversity, livelihood, and health goals) and on a product level (for example, sourcing products with lower GHG and biodiversity impact, more sustainable packaging, and more nutritious ingredients). Retailers and wholesalers may prefer producers who have already set clear sustainability targets or implemented production practices with sustainability benefits, such as regeneratively produced products.

¹¹ <https://www.mckinsey.com/industries/retail/our-insights/turning-down-the-cost-of-utilities-in-retail>; <https://www.walmartsustainabilityhub.com/download?id=0000015c-7910-db06-addd-f9383a680001>

¹² <https://hbr.org/2019/06/research-actually-consumers-do-buy-sustainable-products>

¹³ <https://www.oecd.org/env/tools-evaluation/extendedproducerresponsibility.htm>

REGENERATIVE AGRICULTURE

A sustainable offering depends on sustainable production practices, especially in subsectors in which production-related emissions make up the largest share of emissions (such as in food, apparel, furniture, and personal care). Since most production-related GHG emissions are connected to the farming stage of the value chain, agricultural practices like regenerative agriculture (RA) can help to advance the sector's sustainability transformation. RA refers to a set of farming practices that aim to maximize soil health and enhance natural resources through minimal soil disturbance (for example, through low- or no-till farming), crop rotation, permanent soil cover, agroforestry, and integration of livestock systems (such as rotational grazing).

The key benefits of RA include lower GHG emissions, increased soil health, better biodiversity outcomes (such as increased pollinator populations and reduced pest and disease

pressure), and more efficient use of water and nutrients. Initial studies also indicate that crops from farms that follow RA practices have a healthier nutritional profile than the same crops grown on conventional farms.¹⁴ Additionally, RA reduces the dependency on agricultural inputs, such as fertilizers,¹⁵ and produces more stable yields through better resilience to droughts and floods.¹⁶ Last but not least, RA has a high profit potential that is connected to income from carbon credits, cost savings, and additional revenue streams.

One of the key challenges of RA is its potentially lower yield (compared to conventional agriculture). That said, some studies show that a yield increase of up to 20 percent could be achieved within a five-year period, for example, through no-till practices. Another challenge is the fact that the benefits of investing in the transition from conventional to RA practices will only manifest after three to five

years, which requires farmers to take a mid-term perspective. There also are no clear guidelines on what RA should entail. Finally, consumer awareness is virtually nonexistent so far because there are no widely known labels that communicate RA benefits to consumers, and because soil health is not a priority for most consumers.

Retailers and wholesalers can help overcome the current challenges associated with RA and thus accelerate the transition toward more sustainable production practices. For example, they can increase the share of products they source from regenerative sources, motivate the sector to set clear guidelines on RA in a joint effort, and support the communication of RA benefits to consumers.

Learn more about how agriculture can help the world reach net zero [here](#).



¹⁴ <https://peerj.com/articles/12848/>

¹⁵ <https://www.forbes.com/sites/forbesfinancecouncil/2020/01/30/is-regenerative-agriculture-profitable/>

¹⁶ <https://www.noble.org/regenerative-agriculture/organic-vs-regenerative-agriculture/>

To advance the sustainability transformation of private-label products effectively and efficiently, a clear understanding of GHG emissions and other sustainability-related effects and levers at the product level may be required. Marginal abatement cost curves (MACC), for example, can help determine the impact and cost of different decarbonization levers (Exhibit 4).

Branded products

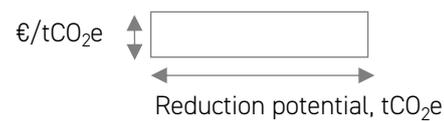
For branded products sourced from CPGs or smaller suppliers, category managers may want to increase the share of products with a low GHG and biodiversity impact, healthy ingredients, and sustainable packaging. To make

this happen, they can set respective targets for their suppliers. Unlike major CPG corporations, smaller suppliers may need support in their efforts to adopt sustainable practices, through capability-building workshops or analytical support, among other things. Retailers could even build product-level MACCs and share these with SME suppliers. This will enable SMEs to prioritize decarbonization initiatives in a way that maximizes sustainability impact while minimizing cost. In addition, these MACCs could provide a fact base for discussions between retailers and suppliers regarding trade-off decisions about decarbonization initiatives.

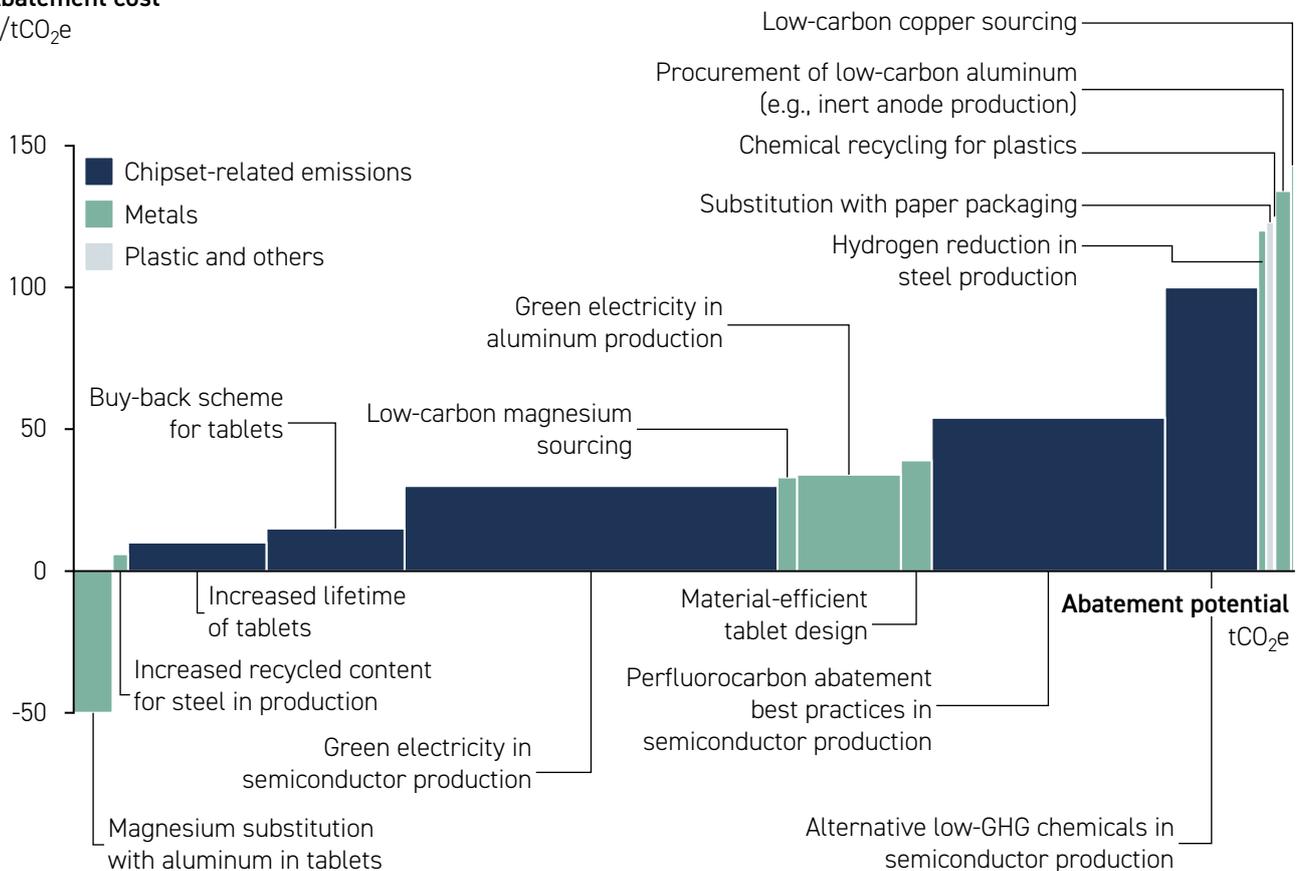
Exhibit 4:

Most of the emissions from tablets stem from the production of energy-intensive semiconductors.

Global high-level MACC for generic tablets and example levers for suppliers and product developers



Abatement cost
€/tCO₂e



Source: McKinsey and Material Economics analysis

SUSTAINABLE OFFERING IN GROCERY

Grocery is a subsector of retail that brings a wealth of opportunities to advance sustainability. Grocers are in a unique position to drive improvements beyond what they are already doing to meet EU targets. Specifically, supporting consumers in the transition to diets with higher shares of plant-based foods could bring multiple benefits, including:

- **Lower GHG emissions.** For example, substituting 100 grams of beef with 100 grams of a

plant-based alternative can lead to a 90 percent reduction of GHG emissions (see also Exhibit 5).¹⁷

- **Reduced deforestation and biodiversity loss.** A recent study suggests that substituting 20 percent of global beef and veal consumption with lower-impact alternative proteins could halve deforestation.¹⁸
- **Promotion of human health.** A diet with less (red) meat will help combat noncommunicable diseases, such as strokes, heart disease, cancer, and diabetes.¹⁹

Some companies have already started setting goals for the shift toward a more plant-based assortment. One leading European retailer aspires to derive 60 percent of all protein in its assortment from plants by 2030. When contemplating such initiatives, retailers may benefit from considering the needs of all stakeholders. Farmers, for example, may need support to shift to more plant-based production systems.

Exhibit 5:

Supporting consumers to shift to lower-impact proteins can significantly impact grocers' GHG emissions.

GHG impact of meat and dairy assortment decarbonization for average Western European retailers in 2021

Product	Consumption reduction, ¹ %	Substitution ²	Impact on food-related GHG emissions, ³ %
Beef and veal	-30	Chicken +33% Plant-based meat alternatives +33% Pulses +33%	-5.8
Milk	-30	Plant-based beverages +100%	-1.2

1. Percentages are applied to the absolute amount of beef/milk sold in 2021.
 2. Substitution percentages are applied to the absolute amount of consumption reduction (total consumption volumes are held constant).
 3. GHG impact is estimated by multiplying the volume sold per category with average category GHG footprints. A total food-related GHG footprint includes all food and nonalcoholic beverage emissions, excluding non- and near-food emissions.

Source: Euromonitor; Poore & Nemecek "Reducing food's environmental impacts through producers and consumers;" McKinsey analysis

17 <https://css.umich.edu/publications/research-publications/beyond-meats-beyond-burger-life-cycle-assessment-detailed>
 18 <https://www.nature.com/articles/d41586-022-01238-5>; https://ec.europa.eu/commission/presscorner/detail/en/ip_21_5916
 19 [https://www.thelancet.com/article/S0140-6736\(19\)30041-8/fulltext](https://www.thelancet.com/article/S0140-6736(19)30041-8/fulltext)

Circularity and waste management

Today's predominant linear economic model has not yet been optimized to reduce waste. From a planetary perspective, linear models take more than they give back. To set the retail and wholesale sector up for long-term sustainability and satisfy consumer demand for sustainable solutions, retailers and wholesalers will need to move from linear business models ("use and dispose") to circular business models ("reuse or recycle") and reduce waste along their entire value chains. Although this paradigm shift does not solely depend on retailers and wholesalers, they can play a key role in driving change. At the same time, circularity and waste management is also an important value-creation opportunity for retailers and wholesalers. Potential benefits include incremental revenues from new business models (such as rental, refurbishment, or resale), cost savings through waste reduction, and improved long-term relationships with customers.

Circularity can also reduce GHG emissions because it reduces the need for virgin material extraction and processing required to keep products in use. The subsequent GHG emissions reduction offsets the GHG footprints of any actions that may be required to keep products in use. This theme is comprised of three topics: circular packaging, circular products, and end-to-end waste reduction.

Circular packaging

At a cost of €5 billion to €15 billion, shifting from current linear systems to more circular systems for plastic-based packaging²⁰ (both rigid and flexible) will help retailers and wholesalers reduce the use of virgin materials. Potential levers include:

- Increasing the share of circular input material for plastic packaging (such as recycled or bio-based plastics).
- Offering more circular packaging models (for example, refilling multiuse plastic containers for products sold in bulk). While the effect of this lever could be substantial, it likely requires a



fundamental rethinking of current processes. Also, consumer acceptance of circular packaging is still low in some countries.

- Establishing additional infrastructure for the collection, sorting, and recycling of plastic waste to achieve higher rates of closed-loop recycling (such as using old bottles to make new bottles).

While the first two levers are relevant for all retailers and wholesalers, the third lever could be especially relevant for large retailers and wholesalers controlling the end of life of packaging. Collecting and recycling packaging could give them access to low-cost input materials for recycled packaging. How collecting and recycling infrastructure is installed on the premises of retailers and wholesalers is still subject to ongoing discussions, particularly to determine whether these are public or public-private partnerships. Some retailers have already

installed equipment for polyethylene terephthalate (PET) bottle recycling in their stores.

A few countries, such as Germany, have already implemented some of the measures described above, such as waste collection and recycling, while others, such as circular packaging, still await adoption at scale.

Circular products

At a cost of €10 billion to €20 billion, shifting from the current linear systems to more circular systems for nonconsumable products (such as fashion, consumer electronics, and furniture) could significantly reduce the need for virgin materials (plastics, wood, and metals) and help reduce GHG emissions. Potential levers include:

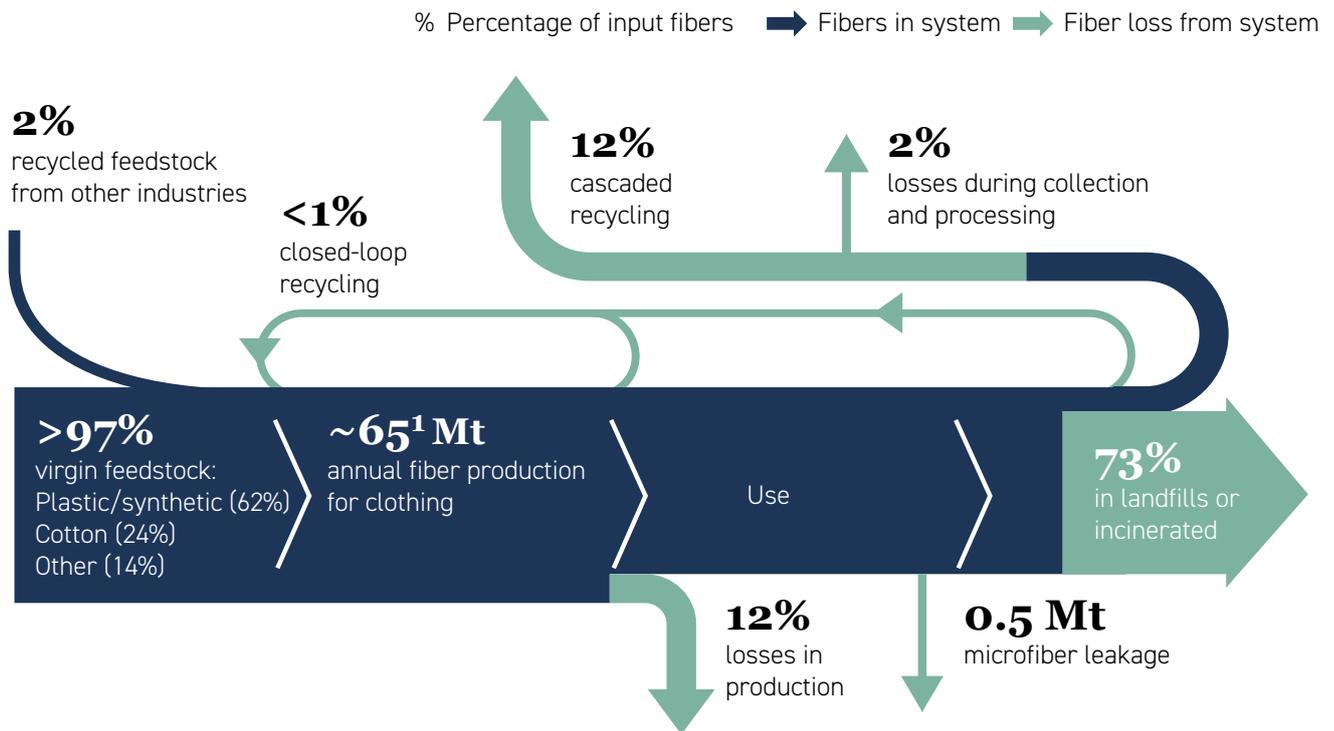
- Increasing the share of circular input material for products (such as recycled or bio-based materials).

²⁰ Plastic accounts for 60 to 70 percent of packaging in the EU, of which only about 40 percent is recycled today, compared to 70 to 80 percent of glass and aluminum.

Exhibit 6:

The apparel and fashion sector has huge potential to become more circular.

GLOBAL VIEW



1. Extrapolated from 2017 numbers using ~5% CAGR (for other numbers in graph, 2017 values have been assumed).

Source: Textile Exchange; Circular Fibers Initiative analysis, Ellen MacArthur foundation and McKinsey

- Increasing the offering of circular product models, such as renting out products, which may include new business models around repair shops and refurbishing, remanufacturing, and selling secondhand products. While the impact of new models such as these could be substantial, it would also require rethinking current processes.
- Establishing additional infrastructure for the collection, sorting, reuse, and recycling of products at the end of use to achieve higher rates of closed-loop recycling (for example, by using old furniture to make new furniture).

While the first two levers are relevant for all retailers and wholesalers, the third lever could be especially relevant for vertically integrated players, such as furniture retailers that also produce furniture, or apparel retailers that manufacture their own clothing. Collecting used products could give them access to low-cost materials for reuse or recycling. While some

players may choose to collect used products on their premises, others may choose to do it elsewhere or rely on public infrastructure. Some retailers in apparel have already started to collect and recycle or upcycle used products on their shop floors.

A detailed view on the circularity potential in the textile industry can be found in McKinsey's most recent report [Scaling textile recycling in Europe—turning waste into value](#).

End-to-end waste reduction

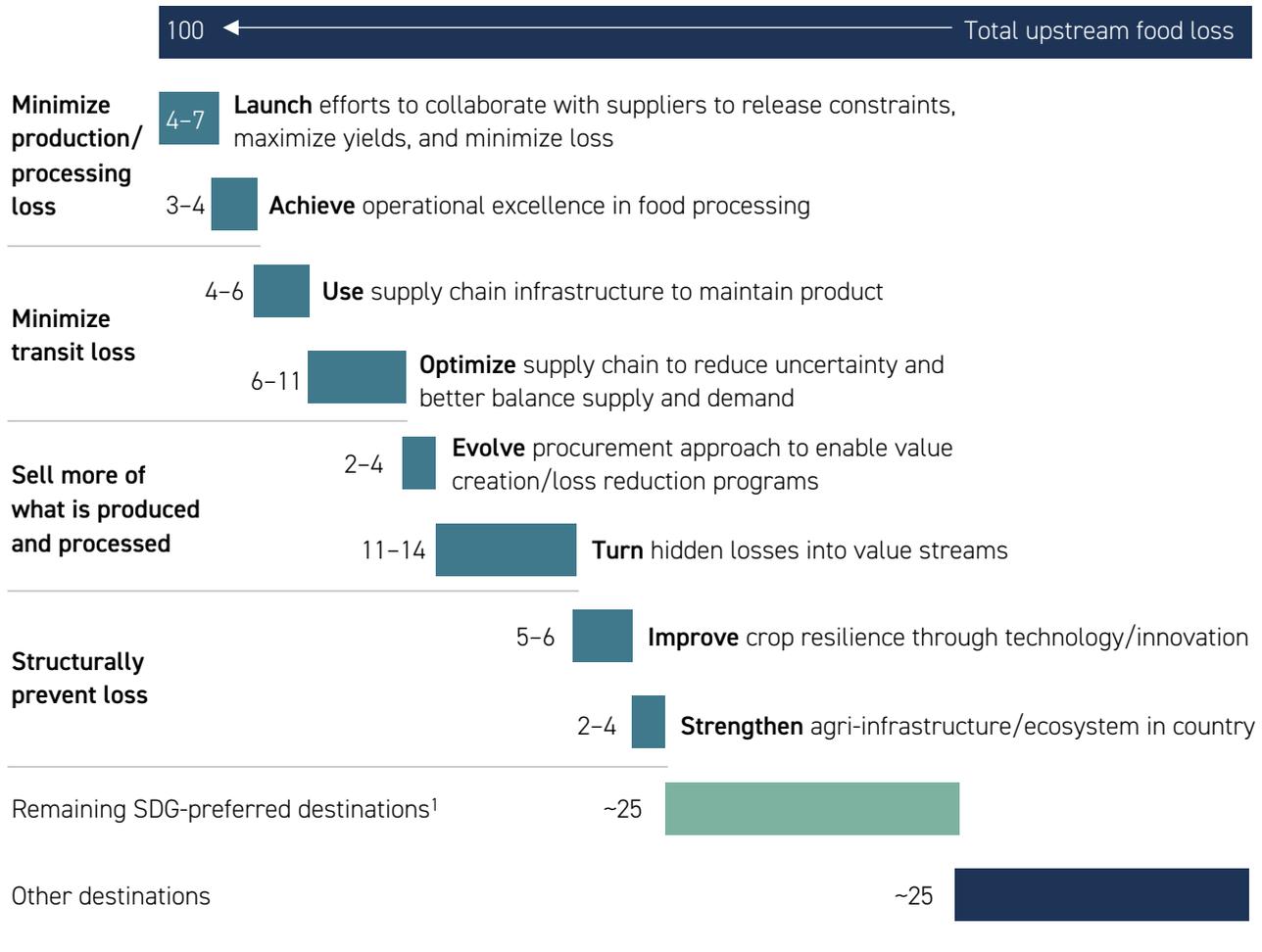
Reducing packaging and product waste is key to reducing GHG emissions in the value chain, but it will likely not require much investment from retailers and wholesalers. In fact, reducing waste may have a positive financial impact because it helps reduce the cost of goods sold. That said, retailers and wholesalers may need to adapt their processes to include sustainability criteria and train their employees on sustainability topics to promote waste reduction. Potential levers include:

- **Reducing upstream waste.** This could be accomplished by encouraging suppliers to improve production and processing technology, improving supply-chain infrastructure, and maximizing product utilization.
- **Reducing waste in retailer's and wholesaler's operations.** Retailers and wholesalers could reduce waste by improving demand forecasting, adapting procurement, and better utilizing waste streams.
- **Reducing downstream waste.** Downstream waste could be reduced by increasing the shelf life of fresh products, educating consumers on "use by" and "best before" dates, allowing consumers to buy exactly the weight or volume they need, and increasing the collection and reuse or recycling of waste at the end of use.

Exhibit 7:

Grocers can reduce upstream food loss by 50 to 70 percent.

Loss abatement potential in grocery per lever, % (index, total loss = 100%)



To learn more about how food retailers can reduce food loss, please read our recent article ["Reducing food loss: what grocery retailers and manufacturers can do"](#).

1. United Nations' Sustainable Development Goals.

Source: Press search, McKinsey analysis



4. Roadblocks and potential solutions

Most European retailers and wholesalers embarked on their respective sustainability journeys long ago. However, not all initial targets were as ambitious as they should have been in light of the magnitude of the challenge. Additionally, retailers and wholesalers face a number of roadblocks and barriers that keep them from achieving their sustainability targets as quickly and effectively as they aspire to. Examples of such roadblocks, as articulated by retailers and wholesalers in working group discussions and interviews, include:

- **Prioritization of other investments with a higher NPV or shorter payback periods.** This arises partly due to a lack of experience with investment in sustainability. In the Triple Transformation Survey, about 50 percent of companies

said that sustainability was not a priority, or that the company did not have enough funds to invest in sustainability initiatives.²¹

- **Conflicts of interest connected with other key transformation topics.** Improvements such as store automation (part of the digitalization transformation) may create higher GHG emissions due to the intensive use of technology such as cameras, sensors, and servers. The challenge is to optimize the store remodeling in a holistic way, considering factors such as productivity gains, cost, and GHG emissions.
- **Capability gaps and legal issues that impede collaboration with value-chain partners or competitors.** This creates an issue because such collaboration may be needed to reduce Scope 3 GHG emissions.

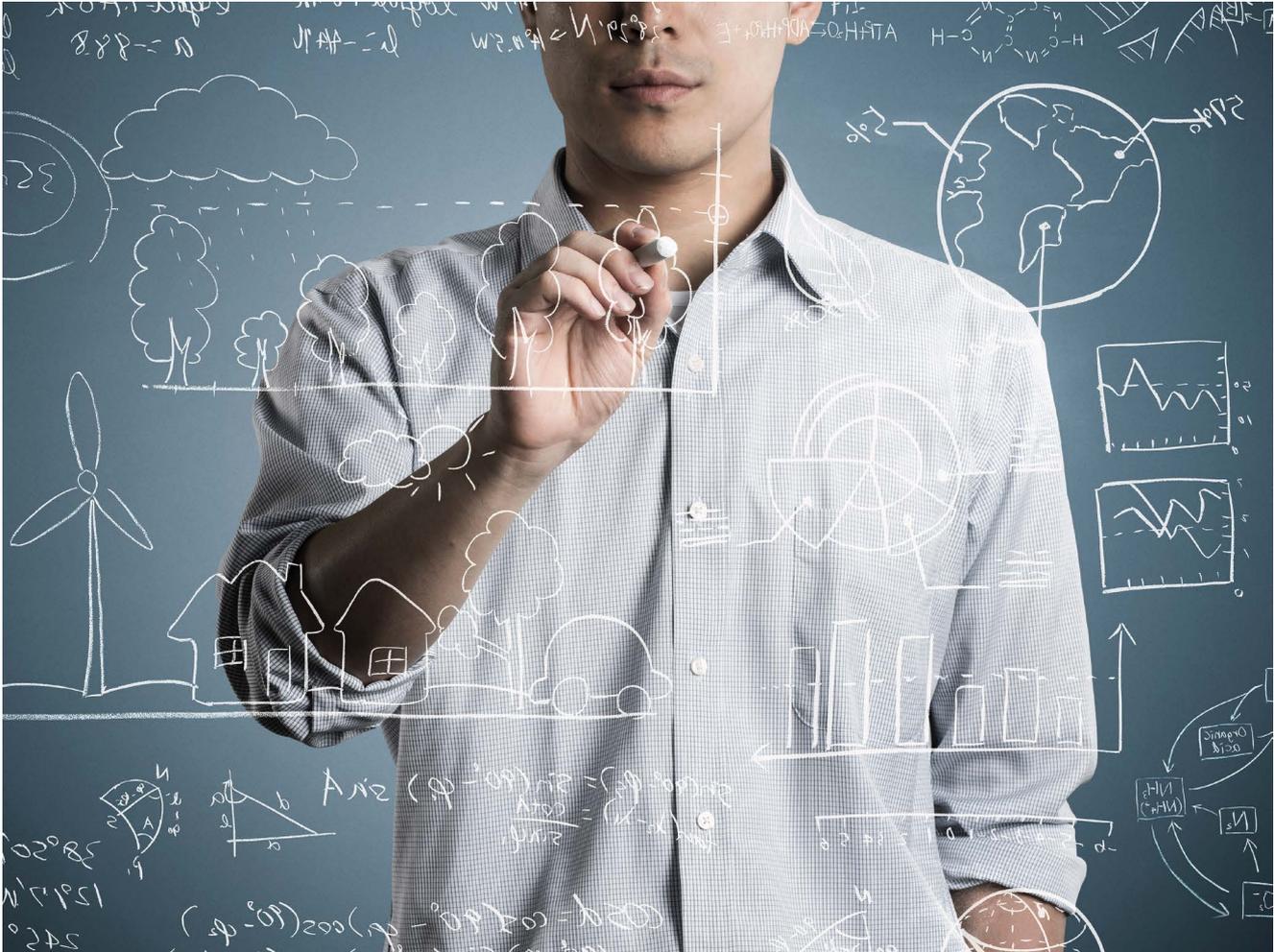
- **Uncertainty about who will fund Scope 3 decarbonization initiatives.** For example, suppliers may need to reduce GHG emissions for new production facilities.
- **Lack of harmonized standards, methodologies, and labels to measure, track, and communicate sustainability impacts.** An issue on the product and company level, especially at the level of individual products and beyond decarbonization metrics, contributing to consumers' doubt about greenwashing.
- **Higher sourcing prices of sustainable products and packaging.** For example, the market is experiencing a price premium with recycled PET versus virgin PET due to the current imbalance of supply and demand.

Other barriers include a lack of renewable energy in some EU countries, lack of know-how on sustainability topics, technological limitations (such as the limited range of EVs and fuel-cell trucks, or insufficient charging and fueling infrastructure), and varying degrees of consumer awareness and willingness to change behavior across subsectors and countries.

For smaller players (SMEs), many of these roadblocks are even bigger than for major corporations. SMEs often lack the expertise and resources to drive sustainability, and may not have the scale to achieve the discounts required to make investment in sustainability financially viable or manage the administrative burden.

A number of potential solutions could help clear existing roadblocks and accelerate the sustainability transformation of the sector. In the following section, we present suggestions articulated by retailers and wholesalers in working group discussions and interviews.

²¹ Triple Transformation Survey.



Direct cross-sector enablers

In some areas, retailers and wholesalers seek direct public support, including:

- **Regulation.** Retailers and wholesalers say that governmental regulation could be harmonized and simplified across countries within and beyond the EU. This could help create a level playing field for domestic and imported products. Harmonized, simplified regulation might also enable players in the value chain to set and meet holistic sustainability targets in a timely fashion.
- **Standards and norms.** The methodologies used and approved to measure and trace sustainability impacts (such as GHG emissions, biodiversity impact, and health impact) could be aligned and harmonized across regions, building on existing standards and standards that are currently in development. A successful past

example of introducing a universal standard in retail is the introduction of the barcode as defined by GS1 standards.²² Because the barcode was cocreated in a sector-wide effort, costs for individual players were kept low, while implementation was quick.

- **Financing.** Retailers and wholesalers could be granted access to dedicated financing (such as subsidies, fiscal changes, and public-private partnerships to accelerate investment in sustainability (capex)).

Indirect cross-sector enablers

In some areas, retailers and wholesalers seek indirect public support, which is support that could bring benefits not only for retail and wholesale, but for the entire value chain and for other industries as well, including:

- **Infrastructure.** Additional public infrastructure could be

established. Examples include fueling infrastructure for hydrogen and electric vehicles, collection and sorting infrastructure for product and packaging waste, and infrastructure for the utilization of waste streams. Also, more safe bike lanes could help decarbonize last-mile delivery.

- **Research, development, and innovation.** Public institutions could partner with private players or provide funding to drive research, development, and innovation around more sustainable alternatives (for example, technologies to decarbonize dairy or meat).
- **A safe space for precompetitive collaboration.** Regulators could provide a safe space for retailers to work with their value-chain partners and peers to design sustainable solutions jointly without being punished for violation of antitrust regulations. This may have to include leeway for retailers and

²² <https://www.gs1.org/industries/retail>

“The sustainability transformation of the sector is a major challenge, and it will require major investment. However, it could also present an opportunity for companies to save costs, create new business models, and differentiate themselves from the competition.”

wholesalers to collaborate with energy providers to share the cost of the transition to renewable and self-generated energy.

- **Consumer education.** Public institutions could help educate consumers about sustainability, for example, regarding repair as the first choice (as opposed to purchasing a new product), or the impact of diet on their health and the environment.
- **Data transparency and traceability.** The transparency and traceability of sustainability impacts of products along the entire supply chain could be improved with the help of clear criteria and digital tools at the product and the company level.

A lot of the measures above are already happening, but not at the scale and the speed that is required. Next to a change in customer mindset, reliable data may be the most important enabler of all. Without high-quality data, it may be impossible to establish a baseline, especially for Scope 3 GHG emissions. That said, retailers and wholesalers suggest that any new standards should be built on existing ones. The sector is also seeking standards and solutions that are globally applicable and facilitate data sharing.

Company-specific enablers

Retailers and wholesalers believe public support is needed to enable and accelerate the sustainability transformation of the sector. In addition, they may have to implement certain internal, company-specific enablers to drive change, including:

- **Investment levels.** Retailers and wholesalers need to increase their investment in sustainability and link it to value creation.
- **Management attention and resources.** Top executives should put sustainability initiatives at the top of their agenda, incorporate sustainability into the corporate strategy, lead by example, and make resources available as needed.
- **Capabilities.** Companies need to make sure they have the right talent and skills in their organizations, whether through recruitment or training.
- **Key performance indicators (KPIs).** Companies should establish clearly defined internal sustainability KPIs (especially commercial ones), cascade them down to all levels, and make them part of their company performance reviews or incentive systems.
- **Central steering.** Sustainability initiatives should be managed centrally as part of a holistic transformation program, led directly

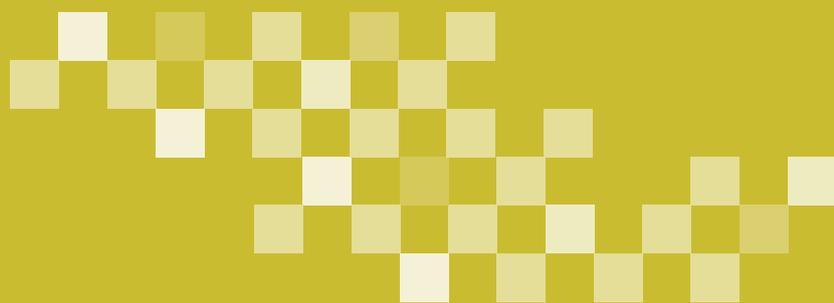
by the business, and progress should be tracked, both at the level of individual initiatives and holistically.

- **Consumer information.** Retailers and wholesalers should drive consumer awareness and empower consumers to make informed choices. For example, clear labels based on harmonized criteria and digital tools (such as the digital product passport) could capture the holistic sustainability impact of products to support consumer demand for more sustainable products. This applies primarily to private labels, as retailers and wholesalers do not control the packaging of branded products.

The sustainability transformation of the sector is a major challenge and will require major investment. However, it could also present an opportunity for companies to save costs, create new business models, and differentiate themselves from the competition. Supporting the retail and wholesale sector in its efforts to advance sustainability could help increase resource efficiency, strengthen biodiversity, improve livelihoods, promote human health, and reduce upstream and downstream (Scope 3) value-chain GHG emissions. Since Scope 3 GHG emissions represent more than 95 percent of all GHG emissions in the sector, supporting retailers and wholesalers could contribute substantially to a holistic sustainability transformation in the EU.

DIGITALIZATION

Digitalization is reshaping retail and wholesale, both at the front lines and behind the scenes.





Key takeaways

- 1. Incremental investment of up to €230 billion is required for the digital transformation.**
- 2. While digital megatrends disrupt current business models, they also present unprecedented growth opportunities.**
- 3. To take advantage of these growth opportunities and build resilience, retailers and wholesalers need to accelerate the adoption of digital channels, automation, advanced analytics, and IT modernization.**



Digitalization is reshaping retail and wholesale on the front lines and behind the scenes. The importance of digital channels for sales is increasing. The retail and wholesale sector has a key role to play in pushing the EU to the next level of digitalization. As the share of e-commerce in the EU doubles to about 30 percent of the sector's total sales by 2030, digitalization could generate more than €1 trillion in additional online sales in the B2C and B2B segments.

To earn these additional sales, the sector will likely need to invest €155 billion (conservative scenario) to €230 billion (ambitious scenario), the equivalent of 0.4 to 0.6 percent of annual revenue (€10 billion to €15 billion for SMEs and €145 billion to €215 billion for large companies) in technology and capabilities in addition to the current investment. The biggest and most challenging step will be modernizing IT, in particular, upgrading the IT architecture, setting up a high-

performing IT operating model, and strengthening cybersecurity.

While substantial investment will be necessary, the returns could be considerable—and falling short may be costly. Consumers and wholesale customers will demand even more seamless digital interactions in an increasingly global market. Pure digital players will continue to raise the bar on customer experience, assortment, and pricing. The integration of brick-and-mortar stores in the EU with the digital world will need to be enhanced to meet customers' needs, improve sustainability, keep staff employed, and stay afloat.

1. The status quo

Automation, advanced analytics, and artificial intelligence (AI) have the potential to transform almost all functions across the retail and wholesale value chain, including enabling better supply-chain management, more efficient store operations, data-driven pricing,

personalized promotions, and new ways of interacting with customers.

Digitalization has already transformed the retail and wholesale sector, especially in terms of channel mix. But the pace and magnitude of the transformation will likely accelerate up to 2030. The impact may be felt in every subsector and link in the value chain, from how goods are sourced and distributed to the ways they are marketed and brought to customers.

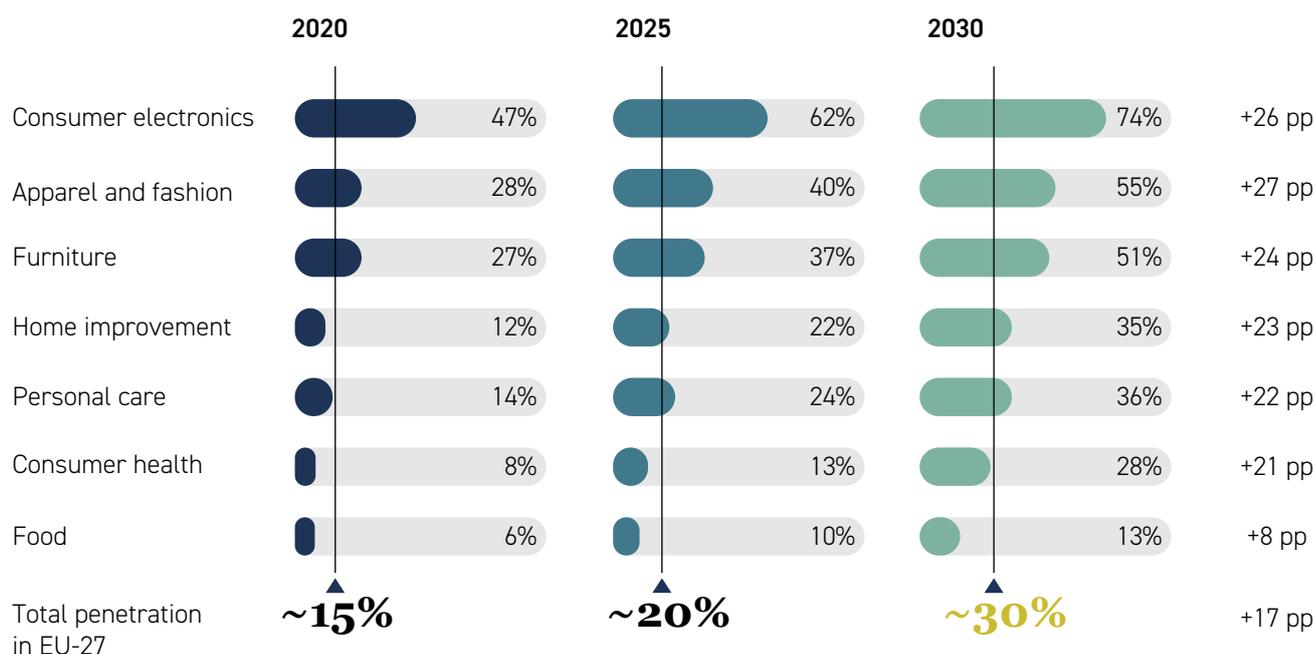
The European Commission has set digital targets for the sector. By 2030, more than 90 percent of SMEs should have reached some level of digital intensity in the use of information and communication technology and e-commerce, and 75 percent of all European companies should be using cloud computing, AI, and big data.¹

Many retailers and wholesalers are making progress but will likely need help reaching these targets and advancing the digital agenda across

¹ <https://ec.europa.eu/eurostat/web/products-eurostat-news/-/ddn-20211029-1>

Exhibit 1:

E-commerce penetration is likely to grow from 15 to 30 percent by 2030 within EU-27 countries.



Note: Figures may not sum up because of rounding.

Source: McKinsey analysis based on data from Eurostat, Forrester, and Euromonitor

all subsectors. They may need to provide employees with training, create more digital touchpoints, and make substantial efforts and investments.

2. The transformation

As digitalization transforms and reinvigorates the European economy, it can help retailers and wholesalers create new value. According to a McKinsey survey in 2021 of leaders in the consumer and retail industries, digital leaders generated 3.3 times more total returns to shareholders than digital latecomers between 2016 and 2020.² The growth of e-commerce alone represents an opportunity for more than €1 trillion of additional online sales.³ Hesitating or choosing not to digitalize could be risky. Incumbents could lose market share to international e-commerce players who can easily serve customers across borders.

To participate in digital growth and capture additional value through digitally enabled processes and operations, the sector will have to prepare for change in four areas: digital channels, automation, advanced analytics, and IT modernization.

Digital channels

The ongoing shift from physical to digital channels will likely continue for sales and service, driven mainly by an increase in consumer demand that companies will want to satisfy. Today, e-commerce represents about 15 percent of retail and wholesale sales in the EU, a share we expect to double to 30 percent by 2030, as noted in Exhibit 1.

McKinsey's scenario modeling indicates that the continued rise of e-commerce will likely drive about 90 percent of overall growth in the retail sector—with significant differences across

subsectors and countries. The share of grocery in e-commerce, for example, is likely to grow from 6 to 13 percent by 2030. In nonfood retail subsectors, such as apparel and furniture, the share is poised to grow from 25 percent today to well over 50 percent by 2030. Geographically, the Netherlands, Denmark, Finland, and Sweden are the most advanced markets in the EU in terms of e-commerce penetration.

In this decade, digital interactions between shoppers and retailers will most likely become the norm for purchases made online and offline. Almost all nonfood sales journeys will likely have at least one online touchpoint—whether it's discovery, research, or after-sales service—continuing a long and powerful trend. Between 2017 and 2020, the share of digital customer interactions in the EU tripled from 18 to 55 percent,⁴ driven

² Yoav Cosiol, Rob Levin, Roger Roberts, and Valerie Skinner, "Breaking the code: Unlocking digital and analytics at scale for consumer goods," McKinsey, October 28, 2021.

³ McKinsey analysis based on data from Eurostat, Forrester and Euromonitor.

⁴ <https://www.mckinsey.com/capabilities/strategy-and-corporate-finance/our-insights/how-covid-19-has-pushed-companies-over-the-technology-tipping-point-and-transformed-business-forever>



“The share of pure-digital players keeps growing, and more digitally savvy customers expect seamless experiences across channels.”

mostly by changing customer habits, preferences, and expectations.

The COVID-19 pandemic has accelerated this trend. The share of pure-digital players keeps growing, and more digitally savvy customers expect seamless experiences across channels. The role of brick-and-mortar stores will continue to change, and the mix of channels will continue to diversify. Some digital channels are already well established: retailers' online shops, wholesalers' shopping platforms, marketplaces, and mobile apps. Soon, new digital channels may become more important. Social commerce is on the rise, and the emerging metaverse could also bring opportunities for retailers.

While e-commerce will likely be the principal driver of top-line growth in retail and wholesale in the 2020s, it may also continue to significantly disrupt the market as customers demand better service, including faster deliveries, even as profitability declines in some subsectors. For example, EBIT margins in online grocery can range from a high of zero to a low of negative 15 percent. Omnichannel players, in particular, struggle to generate profits in e-commerce.

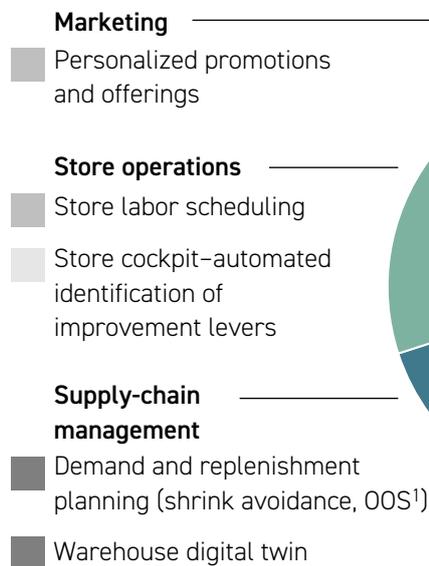
The shift to digital channels could also require companies to repurpose close to 10 million square meters of commercial real estate by 2030—about 2 percent of the total—to prevent space from becoming obsolete, mainly in nonfood subsectors. In apparel alone, space may

Exhibit 2:

Ten of the 100 advanced analytics use cases represent more than 80 percent of the value at stake.

Value of analytics by domain

Share of total EBIT impact, percent



Use cases that make up 80% of value at stake

Existing pilots and tests In use at a few players Becoming standard



1. Out of stock.

Source: McKinsey analysis

shrink by 4 to 5 million square meters by 2030—about 7 percent of today's space in the subsector. Companies are already beginning to rethink the role of physical stores, for example, by focusing on advice and haptic experiences to complement online stores. In addition, new ideas in urban development may be needed to repurpose real estate as more space becomes available.

While e-commerce may disrupt traditional channels and business models, it also brings a wealth of opportunities to create new value and strengthen the bonds between companies and their customers.

Automation

In 2021, the job vacancy rate in the retail and wholesale sector hit an all-time high of 1.8 percent, up from 1.0 percent

in 2012.⁵ Demographic changes, including the aging population, may further aggravate the labor shortage. Automating repetitive tasks can give employees more time for value-adding work. Of course, the value of automation varies across subsectors, company sizes, and countries. For example, return on investment in automation tends to be better in places with higher wages and lower unemployment.

According to McKinsey research, 40 to 50 percent of the tasks in some retail and wholesale subsectors have a high potential for automation.⁶ In the Triple Transformation Survey, 37 percent of respondents at large companies said they plan to reach a high level of automation in their warehouses (26 percentage points more than the current level) and central functions

(32 percentage points more) by 2030.⁷ As technology becomes more powerful and less expensive, automation will become more accessible for many more companies, although it could still be too expensive for some SMEs.

Advanced analytics

Incumbents in the sector will need to harness advanced analytics and AI to compete with data-driven players. Advanced analytics has the potential to generate benefits of up to one percentage point of EBIT in the next few years.⁸ As more companies grow aware of the value at stake, the use of advanced analytics could become the norm for the entire sector in the EU.

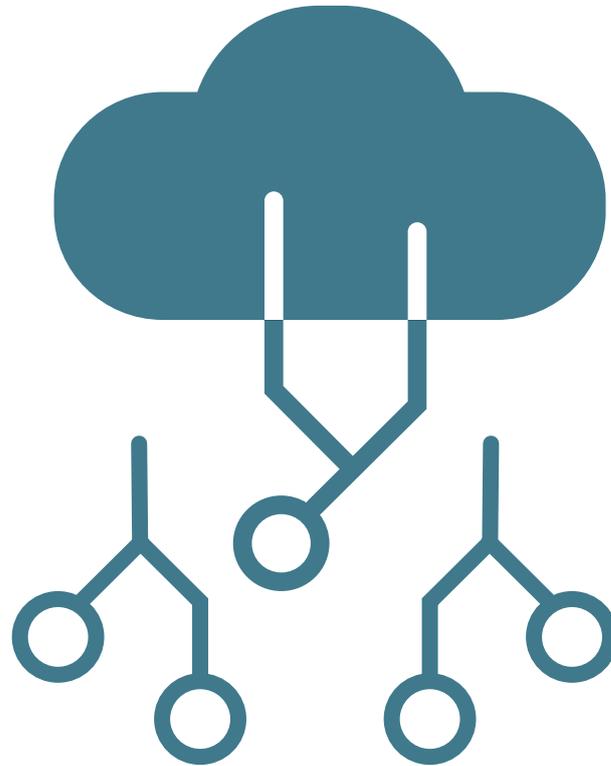
According to McKinsey estimates, just 10 of the more than 100 use cases for advanced analytics account

5 Eurostat 2019.

6 McKinsey Global Institute.

7 "Triple Transformation Survey," May 2022.

8 McKinsey.



for 80 percent of the value at stake (Exhibit 2). As technology continues to evolve, advanced analytics can help players to price better through new insights into key value indicators, to personalize promotions, and to improve product and assortment selections at the individual store level, each of which can deliver a more than 2 to 3 percent uplift in sales.

Advanced analytics will likely become increasingly valuable as more new data becomes available. Researchers at Statista expect the amount of data created, captured, copied, and consumed each year to nearly triple from about 64 zettabytes in 2020 to more than 180 in 2025.⁹ (A zettabyte is a trillion gigabytes.)

The number of data specialists with the necessary skills is growing, which will help many companies capture the value of advanced analytics, but competition for this talent will remain fierce. To attract and retain the digital talent they need, retailers and wholesalers will have to provide highly compelling value propositions or train existing employees to fill those essential roles.

In the Triple Transformation Survey, 48 percent of respondents at large

66 As more companies grow aware of the value at stake, the use of advanced analytics could become the norm for the entire sector in the EU.”

companies said they had limited advanced analytics capabilities today; 37 percent said they planned to invest significantly more in advanced analytics, especially for use cases related to marketing and e-commerce.¹⁰

IT modernization

To capture the full value of digitalization, enable the changes described above, and keep pace with digital-native companies, retailers and wholesalers will benefit from modernizing their IT architecture.

Modernized IT architecture allows retailers and wholesalers to accelerate their IT development, to enable additional analytics use cases and automation, to overcome data quality issues, and to integrate on- and offline systems into true omnichannel systems. Such integrated omnichannel systems can give customers the seamless experiences they expect across channels and platforms, as both B2C and B2B customers are increasingly using online channels in their purchasing journeys. The sector may also consider adopting new, agile ways of working to keep pace with pure-digital players and the evolving expectations of customers.

⁹ "Volume of data/information created, captured, copied, and consumed worldwide from 2010 to 2020, with forecasts from 2021 to 2025," September 8, 2022, Statista.com (<https://www.statista.com/statistics/871513/worldwide-data-created/>).

¹⁰ "Triple Transformation Survey," May 2022.

While many retailers and wholesalers are upgrading their IT, most are still in the middle of their journeys toward modern architecture and operating models.¹¹ In McKinsey's Triple Transformation Survey, 84 percent of respondents at large companies (which constitute just 1 percent of all companies but generate 50 percent of revenue in the sector) said they expected to significantly upgrade their IT systems and architecture in the coming years.

Generally, enterprises with fewer than 50 employees lag behind larger companies in investment in IT and digitalization—and this gap has grown over the last decade.¹² In some countries, such as Greece, Poland, and Portugal, less than 40 percent of the employees of small enterprises have access to connected computers at work.

3. Actions for consideration

To ready the sector for an even more digital future, players of all types, from SMEs to large companies, can benefit from establishing digital transformation as a central element of their business strategy. To make a successful digital transformation, many companies in the sector should invest more in the four areas outlined above—digital channels, automation, advanced analytics, and IT modernization (Exhibit 3).

The EU retail and wholesale sector already invests a lot in digital transformation—an average of 1.7 to 2.4 percent of revenue is invested in IT, including operating expenditure (opex) and capital expenditure (capex)—but much less than the 4.5 to 6.0 percent invested by leading pure-digital players (Exhibit 1 on page 7).

The industry's total additional investment (cash-out) required to make the digitalization transformation by 2030 may range from €155 billion to €230 billion, the equivalent of 0.4 to 0.6 percent of annual revenue. Up to one-third of this investment may be required in the next three to five years to modernize IT.

While larger players will tend to build internal resources and capabilities to make a successful digital transformation, most smaller companies will probably outsource some functions, using skills as a service and software as a service (SaaS) to keep costs variable instead of building large, fixed-cost positions.

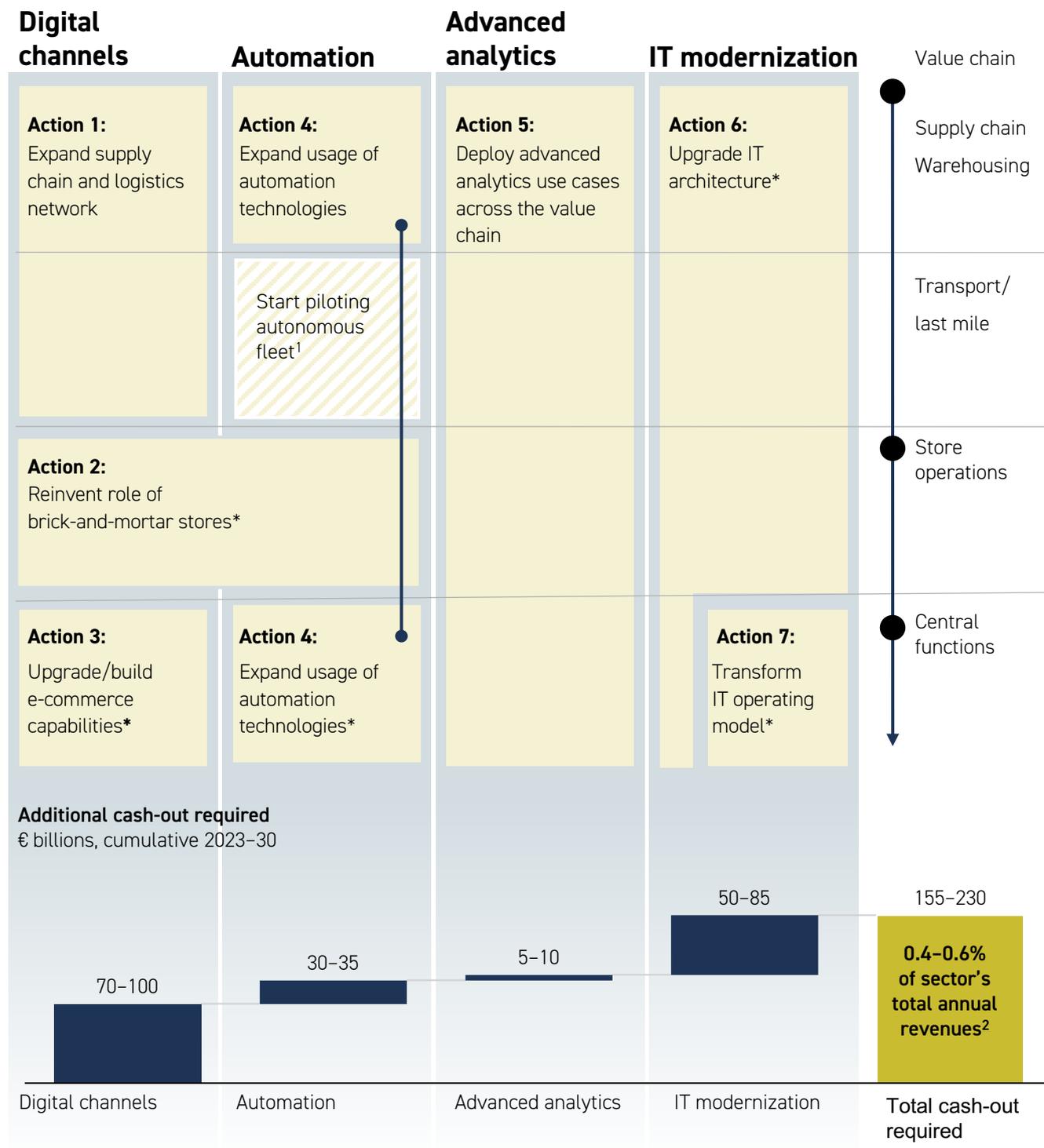


¹¹ <https://www.mckinsey.com/industries/retail/our-insights/the-tech-transformation-imperative-in-retail>

¹² Triple Transformation Survey, May 2022.

Exhibit 3:

The sector needs to take seven key actions and invest an additional €155–230 bn by 2030 to get the full benefits of the digital transformation.



* Also impacts SME segment.

1. Autonomous fleet likely not fully deployed/at scale by 2030.

2. Based on 2019 retail and wholesale market size.

Source: McKinsey analysis

Digital channels

To further expand digital sales channels, players in the sector can act along three areas: expanding the supply-chain and logistics network to prepare for further e-commerce growth, building or enhancing digital sales channels, and reinventing the role of brick-and-mortar stores.

Adapting and expanding supply-chain and logistics networks may require a total investment of €40 billion to €50 billion by 2030. Most of these funds will likely be provided by large companies, although SMEs will be able to enable their online businesses using the new infrastructure, such as fulfillment services provided by large companies.

The most important step in supply chains and logistics will likely be rethinking warehouse networks. Assuming that warehouses are now operating at or near maximum capacity, the number of warehouses and fulfillment centers will have to increase to meet the growing demands of e-commerce orders, both in terms of increased volume and service level, as customers demand faster deliveries. In some subsectors, additional or enhanced dark stores and in-store picking resources may be required. Grocers may need to set up last-mile delivery networks by investing in fleets of vehicles or partnering with existing last-mile players. In nonfood subsectors, delivery tends to be outsourced to logistic players, so most retailers and wholesalers will not have to make any investments of their own.

As the share of e-commerce keeps growing, retailers and wholesalers will likely need to do more than just ramp

up logistics networks and reinvent the role of physical stores. In addition to improving or building their online shops on their own websites, they will also benefit from: leveraging other online platforms, such as social media; partnering with existing marketplaces; or a combination of these approaches.

The investment required to build digital sales channels will likely total €1 billion to €3 billion, mostly from SMEs, as most large companies in the sector have already built web shops. Initially, SMEs can rely on SaaS solutions to set up online shops for €5,000 to €20,000, but they may have ongoing operating costs, including digital advertising and product assortment costs.¹³ While this might be feasible for some SMEs, these costs might still be too high for others.

Retailers and wholesalers may also consider building in-house e-commerce and digital marketing capabilities. This could include commercial and category-management skills for product selection and pricing strategies,¹⁴ digital marketing capabilities to drive online traffic and increase conversion rates along purchase funnels,¹⁵ and technical IT skills to build and maintain e-commerce websites.¹⁶

The growth of e-commerce may not only increase the need for additional logistics capacity but also have a major impact on traditional stores. As the share of online orders grows, offline retail in many subsectors, especially nonfood, will likely see transactions decline, and many retailers may need to reduce their physical footprints. Some may continue to thrive by finding opportunities with new formats and concepts and by digitally enabling stores.

Reinventing brick-and-mortar stores could require investment totaling €30 billion to €50 billion through 2030. For example, some brick-and-mortar stores could take on new functions as showrooms that provide shoppers with sensory experiences not available online, along with in-person advice and customer support. In-store digital technology may help some retailers increase productivity and continue to attract customers to stores.

While there is no shortage of in-store technology, not all solutions will be equally relevant in the reinvention of brick-and-mortar retail. Technology related to checking out, replenishment, and stock management could see the largest increase in adoption at scale in the coming years. Self-checkout solutions may become increasingly popular to increase convenience and drive productivity, a development accelerated by hygiene concerns during the pandemic.¹⁷

Adoption could increase for smart carts, traffic sensors, and radio-frequency identification (RFID) tags to enable fully automated checkout solutions. In addition to accelerating the checkout process, RFID technology can help optimize inventory management—in the nonfood sector, RFID is already increasing goods availability by 5 percent.¹⁸

Ultimately, physical stores may become more comprehensively digitalized as more retailers and wholesalers enhance the shopping experience by making it easier for consumers to find products, obtain information, make purchases, and access services.

¹³ Investment is not sized as cost for day-to-day operations.

¹⁴ The personnel-related costs for this are part of the investment need that is outlined in the chapter on skills and talent.

¹⁵ The respective personnel-related costs are part of the investment outlined in the chapter on skills and talent, while costs associated with digital marketing are considered to be nontransformational ("business as usual").

¹⁶ The costs associated with this are part of the investment need outlined in the section on IT modernization.

¹⁷ <https://www.mckinsey.com/industries/retail/our-insights/adapting-to-the-next-normal-in-retail-the-customer-experience-imperative>

¹⁸ Based on a test run performed by Decathlon in one of its branches.



“Customers expect a seamless experience; for example, they may want to use their online shopping cart as the basis for a discussion with sales personnel in a physical store.”



Automation

The most promising areas for investment in automation are warehouses and processes in finance, payroll, and other support functions, although their size will vary across subsectors and countries.¹⁹ For example, the potential for automation is limited in furniture, home improvement, and DIY warehousing because of product characteristics in these subsectors. And countries with low labor costs generally have lower automation potential because the cost savings may be too small to justify investment.

Based on the maturity of technology today, by 2030 investment in automation for warehouses and support functions could total €30 billion to €35 billion. More storage activities could be automated in existing warehouses, such as case and pallet storage, with autonomous vehicles and robots. Robots could also do more picking and depalletizing in existing warehouses. Robotic process automation could increase the pace and productivity of many activities, especially in support functions and back-office processes, such as data extraction and form filling in financial controlling, promotions, and marketing. The sector will likely start piloting autonomous fleet solutions, although few are likely to be deployed at scale before 2030.

Advanced analytics

Retailers and wholesalers can explore opportunities to deploy advanced analytics across the value chain, including in central functions, such as assortment management; pricing and promotions optimization; supply-chain management, including demand forecasting and planning; and store operations, from inventory management to labor scheduling. Analysis shows that the investment required to establish the necessary resources—including people, tools, and licenses—may total €5 billion to €10 billion through 2030.

To take full advantage of advanced analytics, large retailers and wholesalers may consider setting up cross-functional centers of excellence that can help orchestrate deployment and oversee the execution of use cases throughout the organization. Companies that embrace advanced analytics will be able to make more informed decisions more quickly, tailor their offerings more closely to customers' changing needs—for example, by automatically optimizing assortments at the individual store level—and reduce costs through more accurate sales forecasting and ordering.

Modernization of legacy IT

Today, the IT systems many retailers and wholesalers rely on have a number of drawbacks. First, online and offline channels are often not integrated. Second, data is often kept in silos. Third, making changes to existing systems is

often difficult and takes a lot of time. In effect, many retailers and wholesalers struggle to implement and roll out digital innovations, and they are frequently outpaced by purely digital competitors.

To reap the benefits of digitalization, retailers and wholesalers should consider doing three things: upgrade their IT architecture, set up a high-performing IT operating model, and strengthen cybersecurity. The required cash-out for all three elements amounts to €50 billion to €85 billion. The bulk of this investment will likely be dedicated to modernizing IT systems and applications. Currently, retailers and wholesalers invest between 1.7 percent and 2.4 percent of their revenue in IT, split into about 55 percent in opex and 45 percent in capex.²⁰ This number varies between subsectors and business models.

IT architecture upgrade

Architecture can enable true visibility across channels. Customers expect a seamless experience; for example, they may want to be able to use their online shopping cart as the basis for a discussion with sales personnel in a physical store. To support omnichannel shopper journeys, retailers may need to introduce a layer to their IT systems that integrates different front ends and systems for supply management, merchandising, customer relationship management, and enterprise administration.

¹⁹ McKinsey Global Institute.

²⁰ McKinsey.



Data can be liberated from the silos in which they reside, and a single source of data for all applications can be established. Investing in robust data technology—from data ingestion and storage to data analytics tools—often allows retailers and wholesalers to enrich the customer experience (by personalizing what customers see on the website based on their recent in-store purchases) and increase operational efficiency (through better demand forecasting and stock refurbishment). Finally, systems can be modularized so that each can evolve without impacting the rest of the technology landscape. This step is often beneficial, as the intensity and pace of change will increase, and companies will want to decrease the ripple effect of each change.

An IT architecture upgrade can be made in two steps. First, legacy IT can be upgraded—for example, by improving data access with APIs, upgrading to the latest versions of existing software packages, and implementing a 360-degree view of the customer to enable omnichannel customer relationship management. In a second step, companies can move to flexible

IT solutions, such as SaaS, cloud computing, and integrated business planning.

High-performing operating model

While the IT operating model transformation may not require major investment, it is indispensable to ensure the speed and agility needed to create value. Retailers and wholesalers can reengineer their business processes and ways of working, paying special attention to the integration of business and IT teams. Companies that transform their IT operating model effectively can reduce IT running costs by as much as 20 percent.²¹ These funds can be reallocated to building new tools and capabilities, or they can be used to improve profitability. Specific levers to transform the IT operating model include new, agile ways of working and investment in sufficient internal technological expertise. Relevant roles include data scientists, digital marketing specialists, and user experience experts. As technology increasingly becomes a differentiating factor, the development of an internal pool of highly skilled data engineers can be beneficial. An in-house team can improve performance and substantially

SCENARIOS

Two different scenarios were assessed to estimate the potential cost of the digitalization transformation required for the EU retail and wholesale sector. In the first, more conservative scenario, a more moderate digital disruption across the main transformation levers was assumed, namely within IT upgrade, store digitalization, and adoption of automation technologies. In the second, more ambitious scenario, the EU retail and wholesale sector embarks on a larger transformation requiring higher incremental investments in digitalization across the entire value chain. Specifically, the scenarios are based on the following assumptions:

- **Conservative.** Incremental investments of up to double current IT spend in IT upgrades by 2030; digitalization of brick-and-mortar stores by up to 40 percent and 10 percent of existing footprint within food and nonfood sectors, respectively; automation to represent 80 to 90 percent of annual warehousing costs.
- **Ambitious.** Incremental investments of between double and triple current IT spend in IT upgrades by 2030; digitalization of brick-and-mortar stores by up to 60 percent and 20 percent of existing footprint within food and nonfood sectors, respectively; automation to represent up to 110 percent of annual warehousing costs.

reduce time to market, as well as help protect a company's intellectual property. For details, see the chapter on skills and talent.

Stronger cybersecurity

Finally, companies can strengthen their cybersecurity capabilities to protect customer and enterprise data—for example, by implementing multifactor authentication, upgrading to a new generation of systems for consumer identity and access management, adopting zero-trust architecture, and setting up extended managed detection and response protocols.

Cybersecurity is relevant both for large companies and SMEs. Beyond the options listed above, retailers and wholesalers of all sizes can consider embedding cybersecurity into all new applications from the start. Microsoft research shows that more than 50 percent of data breaches happen at the application level, yet on average over 70 percent of IT security budgets is spent on infrastructure.²²

Investing in IT architecture, IT operating models, and cybersecurity is relevant for all aspects of a company's digital transformation, and so IT modernization can unlock substantial value across the full value chain. Modern IT can drive digital sales, automation, and advanced analytics deployment, all of which can help to increase speed and flexibility, drive growth, and improve profitability.



4. Roadblocks and potential solutions

The retail and wholesale sector has been digitalizing for years, and most companies plan to incorporate new digital tools into their ways of doing business. Accelerating their digital transformations will help them to satisfy evolving customer needs, remain competitive in an increasingly dynamic market, and keep pace with international players. But this journey will not be easy. Significant roadblocks and obstacles, as articulated by retailers and wholesalers in working group discussions and interviews, may keep many players from digitalizing quickly and effectively.

Roadblocks and obstacles

A cost-driven mindset is one obstacle to digitalization. Many senior leaders see digitalization as a cost rather than an opportunity for long-term value creation, and they often consider each transformation independently rather than as interlinked parts of a necessary whole. Concerns about short-term profitability prevent many leaders

²² <https://www.imperva.com/resources/resource-library/white-papers/lessons-learned-from-analyzing-100-data-breaches/>



“As the evolution of the market accelerates, the message is clear: adapt or fall behind.”

from developing a long-term strategic vision and taking steps to set up their business for digital growth. In the Triple Transformation Survey, 53 percent of respondents at large companies said digitalization would not be an investment priority for their companies before 2030.

This focus on cost often coincides with a lack of scale. For most incumbents, the substantial investment required for digitalization would come on top of the costs of running daily operations, including networks of brick-and-mortar stores. Many smaller players find it particularly difficult to take on this double burden, especially since returns on investment in digitalization may not materialize for several years. In fact, among the respondents who said digitalization was not an investment priority, about one-third highlighted the high up-front investment as the main funding obstacle.

Many retailers and wholesalers also lack the talent to drive digitalization, as the competition for data scientists, engineers, and other tech talent is rising across sectors. Meanwhile, complex rules, such as local tax requirements, may deter companies from expanding their cross-border presence through e-commerce. These factors, along with the risk of data breaches, scare many retailers and wholesalers away from embracing digitalization and leveraging data to its full potential.

Potential solutions

To address these challenges and accelerate the digital transformation,

public and private stakeholders can work together. Key cross-sector enablers include financing, education and awareness, and consistent rules and accounting principles.

Stakeholders could demonstrate the value of digitalization by setting up learning programs to help motivate companies—including SMEs—to invest in and move toward digital platforms and solutions. Such programs could also help companies build an online presence, either with their own web shops or in external marketplaces.

Some retailers and wholesalers may also benefit from access to capital for investment in digitalization, especially for the initial IT upgrades required to enable a holistic digital transformation. In the Triple Transformation Survey, about 25 percent of respondents pointed out the limited availability of public and government support as a potential constraint in funding digitalization initiatives. In some cases, it may be possible to find cost savings to fund the digital transformation. If this does not work, alternative sources of financing may be required. This is primarily relevant for SMEs, as most lack the scale to support large up-front investments.

According to the executives interviewed for this report, cross-sector and regulatory efforts may be needed to simplify and align regulation and accounting principles, including trade simplification and VAT harmonization to foster cross-border trading and capex and opex guidelines that apply across countries and sectors. This will



help reduce administrative burdens, promote trade among European countries, and help protect the digital sovereignty of the European economy.

Not all potential solutions require external stakeholder collaboration—some issues can be addressed by retailers and wholesalers individually. For example, every company can build commitment throughout their organization to drive digitalization with a view to long-term value creation.

Top managers should allocate sufficient resources for digitalization and help teams adapt their ways of working. About 54 percent of the respondents at large companies said the main reason for their lack of investment in the digital transformation is that funds are being spent in other areas. Human resource departments can make sure employees receive the necessary training, from basic digital literacy to function-specific skills; see the chapter on skills and talent for details. Generally, the link between IT and business operations can be strengthened to promote mutual understanding, ensure that IT architecture supports all relevant business needs, and make business leaders aware of IT opportunities, requirements, and constraints.

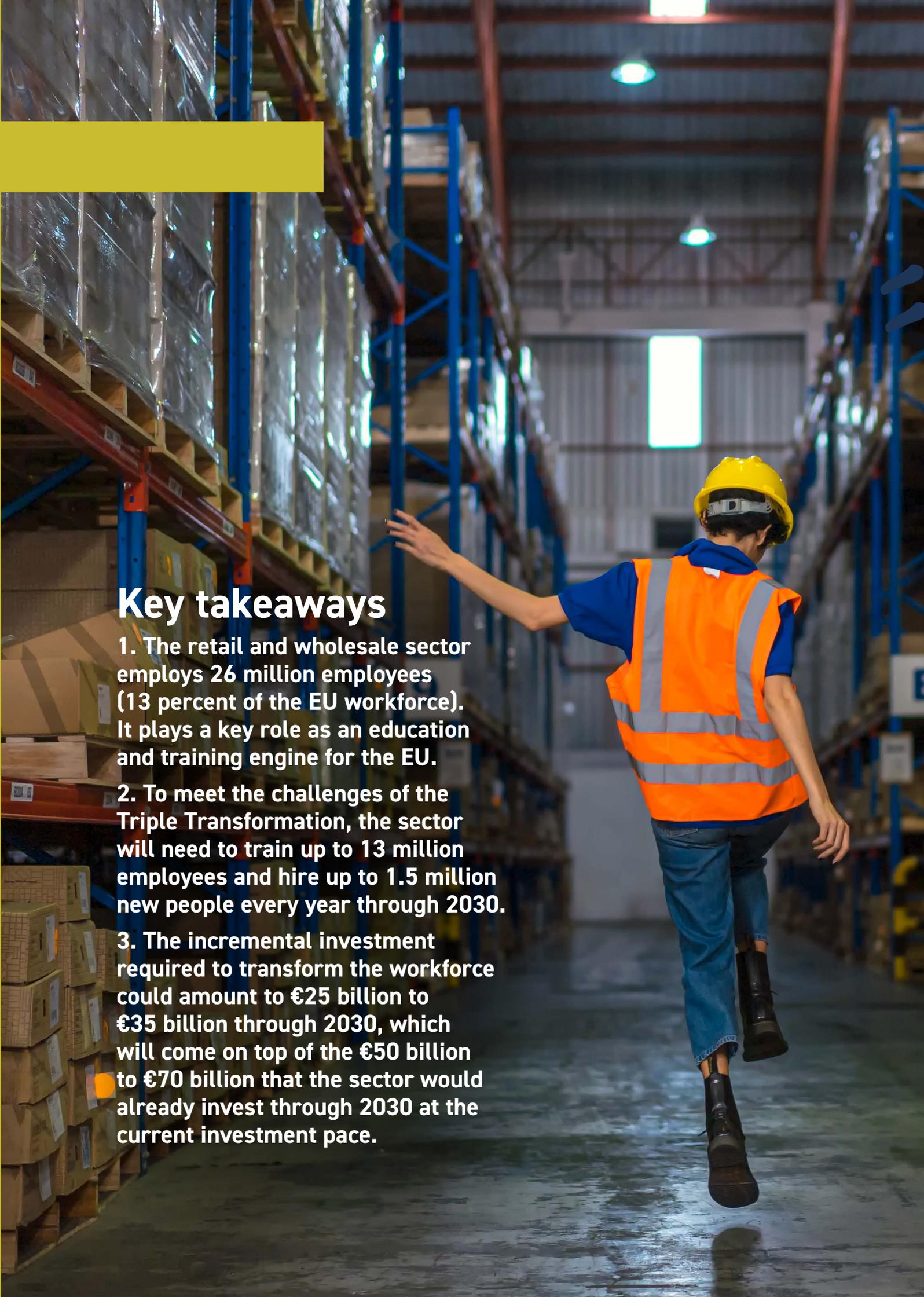
Retailers and wholesalers can also acquire or build the IT skills and capabilities to drive digitalization. The number of job postings for data scientists now exceeds the number of candidates by a factor of three,²³ and many data scientists and other digital specialists prefer to work in sectors other than retail and wholesale. Many companies, especially smaller ones, may have to work with external partners to get the resources they need.

The challenges are many, to be sure, and some are daunting, especially for smaller companies. But customers' needs and expectations will likely continue to rise—along with competitors' capabilities—with each passing year. As the evolution of the market accelerates, the message is clear: adapt or fall behind.

SKILLS AND TALENT

In the coming years, retailers and wholesalers have to accelerate a comprehensive skill and talent transformation to contribute to the lifelong learning of their employees and to stay competitive.



A worker wearing a yellow hard hat, a blue shirt, and an orange high-visibility vest is walking away from the camera down a long aisle in a warehouse. The aisle is lined with tall blue metal shelving units filled with cardboard boxes. The floor is polished and reflects the overhead lights. The worker's right arm is extended towards the shelves. The background shows the structural beams and lights of the warehouse.

Key takeaways

1. The retail and wholesale sector employs 26 million employees (13 percent of the EU workforce). It plays a key role as an education and training engine for the EU.
2. To meet the challenges of the Triple Transformation, the sector will need to train up to 13 million employees and hire up to 1.5 million new people every year through 2030.
3. The incremental investment required to transform the workforce could amount to €25 billion to €35 billion through 2030, which will come on top of the €50 billion to €70 billion that the sector would already invest through 2030 at the current investment pace.



The retail and wholesale industry is the largest private-sector employer in the EU, providing jobs for close to 26 million people, about 13 percent of the total workforce.¹ In the coming years, retailers and wholesalers will have to accelerate a comprehensive skill and talent transformation to contribute to the lifelong learning of their employees and to stay competitive.

Meeting rising customer expectations will likely require harnessing data and digitalization, strengthening sustainability efforts, adapting to demographic change, and keeping pace with peers and evolving business dynamics—all of which will likely require new skills and create entirely

new roles. According to our Triple Transformation Survey, only half of the workforce in the sector is ready for this transformation.

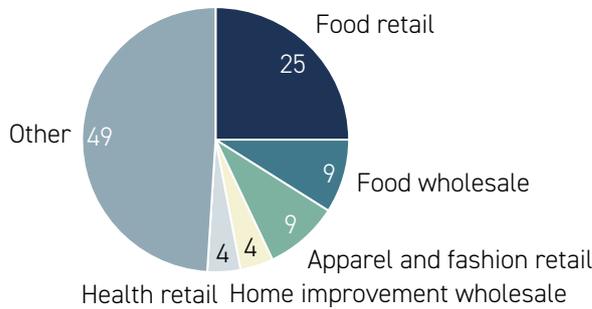
Our research indicates that European retailers and wholesalers may need to hire as many as 800,000 to 1.5 million new people every year until 2030, and 10 to 13 million employees will need to acquire new skills. To meet this challenge, retailers and wholesalers will have to invest more in people development. This challenge is particularly acute for SMEs. While SMEs employ almost two-thirds of the sector's workforce, SME investment in training has room to grow, mainly because of time and budget constraints (for example, opportunity costs of employees' time spent in training).

¹ Eurostat 2019.

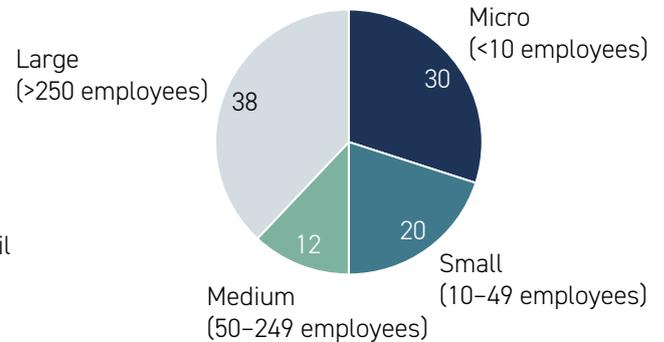
Exhibit 1:

Food retail, SMEs, and store operations account for the largest share of employees by subsector, company size, and function respectively.

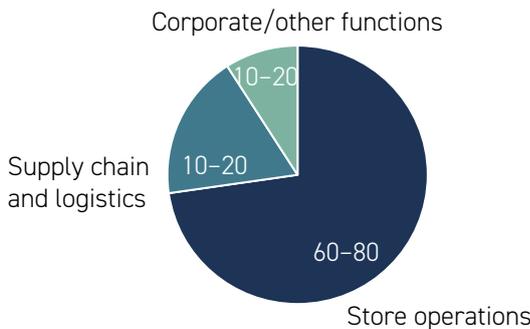
Employees by subsector
Percent



Employees by company size
Percent



Employees by function
Percent



The size of the workforce will likely remain stable in grocery retail and in wholesale until 2030. In apparel retail, the number of people employed (full-time equivalents or FTEs) is likely to drop by about 2 percent every year through 2030. In other subsectors, the annual reduction of FTEs through 2030 could be about 1 percent.²

1. The status quo

The sector has a key role in the EU as a vital education and training engine. While the retail and wholesale workforce makes up around 13 percent of the total EU workforce, it plays an even more important role in some markets. In Greece, the sector accounts

for 18 percent of the total workforce and in the Netherlands, it makes up 16 percent. For many Europeans, a job in retail and wholesale is a way to gain work experience that can help them transition to other sectors; it employs one in seven young Europeans.

In addition to being the EU's biggest private employer, the sector has a highly diverse workforce and offers career opportunities to people from a wide range of backgrounds, including members of minority groups, residents of rural areas, and those looking for part-time work. About 50 percent of retail and wholesale employees are women, compared to 45 percent across industries in the EU, and more than 10 percent are under

24 years old, compared to just 8 percent across sectors in the EU.^{3,4}

To keep playing its role as an education and training engine for the EU, the sector will need to embark on a skill and talent transformation, aided by public infrastructure that facilitates continued investment in education.

² McKinsey analysis.

³ Eurostat, Employment by sex, age and economic activity (from 2008 onwards, NACE Rev. 2) updated September 2022.

⁴ Eurostat, Employment by NACE Rev. 2 activity, age and European socio-economic group updated September 2022.



2. The transformation

Evolving consumer expectations and market dynamics are accelerating change in the retail and wholesale sector. The sector faces three main challenges: increasing productivity, driving the evolution of skills and roles, and becoming a magnet for talent.

Increasing productivity is imperative.

This imperative is driven by the need to accelerate decision making and time to market to meet customer needs, cope with increased competition, find funding for digital and sustainability transformations, identify alternative growth avenues, and deal with pressures on revenue growth—now being amplified by inflation and consumers' rising price sensitivity.

Average productivity in the sector could rise by about 2.1 to 2.6 percent annually as it adopts more digital tools, implements more advanced analytics use cases, and upskills talent across all functions.⁵ In certain subsectors,

such as apparel, the ongoing shift to e-commerce will likely accelerate and further drive productivity. The associated decline in selling space may lead to a slight reduction in demand for shop floor roles. Demand is expected to rise for other roles, such as roles in last-mile delivery and logistics.

The evolution of skills and roles is being driven by new commerce.

Relevant forces include the accelerating growth of omnichannel, which refers to using all available channels as part of a customer journey;⁶ the evolving role of stores as points of contact for consumers with different needs and expectations; the need for more data-driven decision-making in all areas of organizations; and a shift to value-adding tasks and business intelligence as more administrative tasks are automated.

In many roles, new skills may be required, such as skills in digital and analytics. New roles could emerge and become more important,

including roles for data scientists, digital marketing specialists, and user experience experts. These roles can help many companies capture the value of digital channels, advanced analytics, and automation. The race for talent will likely remain competitive. Many retailers and wholesalers may need to build internal expertise and capabilities across the organization and increase employee attraction and retention. SMEs may have to outsource some skills and leverage pay-as-you-go services, thereby benefiting from the investments made by larger players.

In total, the sector may need to upskill 10 to 13 million employees (equal to 40 to 50 percent of the sector's total workforce) and hire 800,000 to 1.5 million new people every year through 2030. Across functions and roles, the share of employees with higher qualifications will likely increase. The magnitude of change may differ across companies, depending on their business models, channel mixes, and other factors.

⁵ McKinsey analysis.

⁶ <https://www.mckinsey.com/business-functions/growth-marketing-and-sales/our-insights/the-survival-guide-to-omnichannel-and-the-path-to-value>

HOW FUNCTIONS AND ROLES COULD CHANGE

STORE OPERATIONS

- **Cashier.** The increased use of self-checkout and seamless checkout, which uses a combination of sensors and cameras, could reduce the time cashiers spend at the register by up to 50 percent by 2030,⁷ shifting staffing needs to free up time for new tasks. This could include customer support at self-checkout stations and picking products for online orders. Today's cashiers may need to acquire new skills and deepen existing capabilities, such as customer-assistance skills and basic knowledge of how to use digital tools, including self-checkout stations, digital price scanners, and smartphone apps.
- **Sales (replenishment).** The productivity of stock care and replenishment on the sales floor could rise as stores adopt robotic shelf replenishment, digital price tags, and smart fridges that check inventory and expiration dates. Staff may have more time to specialize to improve customer service and revenue—by optimizing offerings, for example—but they may also need new technical and basic analytical skills for product and revenue analysis and additional role-specific knowledge.

SUPPLY CHAIN AND LOGISTICS

- **Warehouse roles.** Even in countries in the EU where automation readiness is high, only

half of new warehouses are even semiautomated,⁸ suggesting high potential for productivity gains via automation, such as by using automated order picking. But even as productivity improves, the number of warehouse jobs is expected to rise as e-commerce growth increases the need to fill orders and handle returns. People in warehouse roles may need new capabilities to make data-driven decisions; use advanced analytics, for example, for demand forecasting; and manage the transition from offline to omnichannel operations, including stock and flow management for online stores.

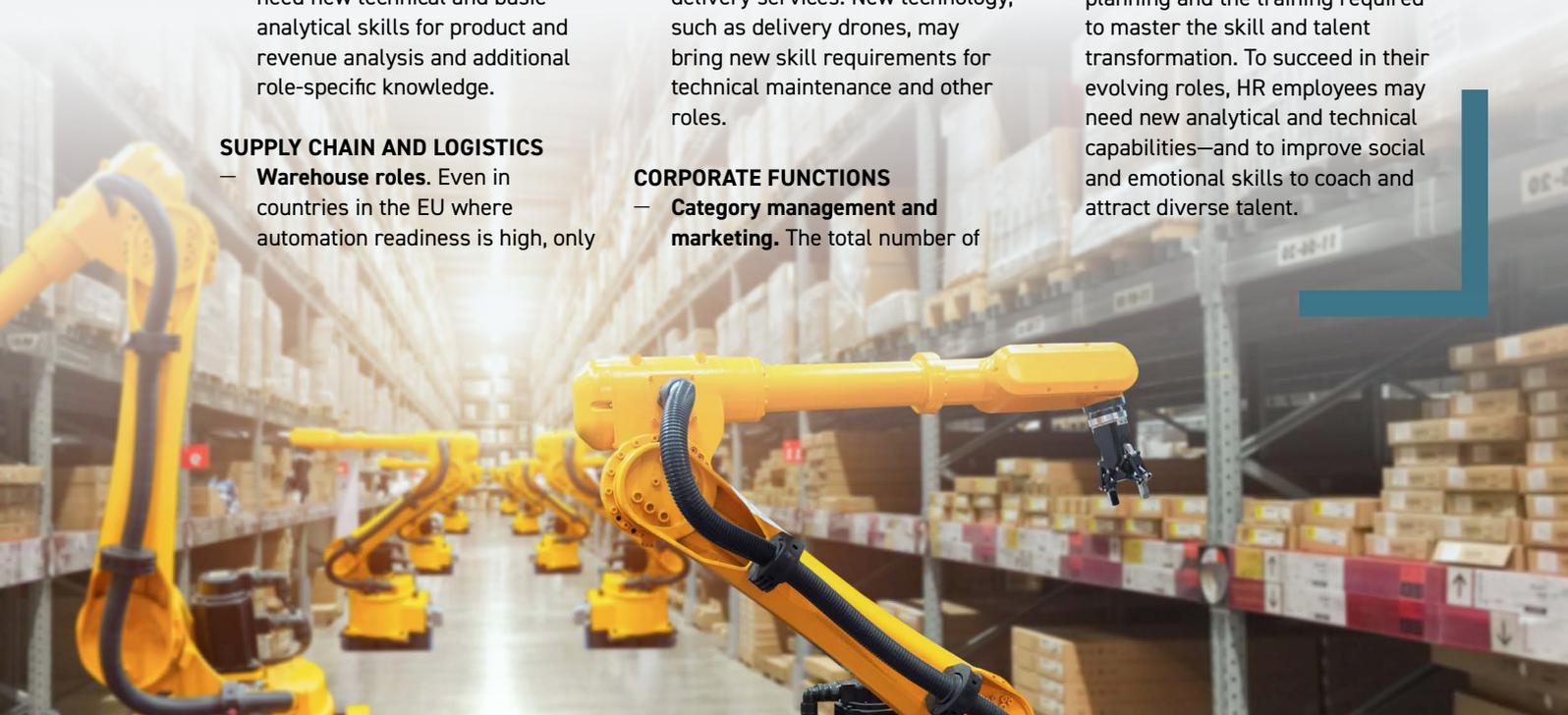
- **Transport roles.** Productivity may grow as more transportation companies use analytics, automate depalletizing, and adopt autonomous guided vehicles for loading and unloading. However, the number of transport roles is rising due to the growth of e-commerce and the increasing importance of seamless omnichannel operations. New jobs related to last-mile delivery are expected to emerge, partly in the ranks of retailers and partly on the payrolls of third-party service providers, such as postal and delivery services. New technology, such as delivery drones, may bring new skill requirements for technical maintenance and other roles.

CORPORATE FUNCTIONS

- **Category management and marketing.** The total number of

people in these roles is likely to grow, mainly because of the growth of the sector itself. Many skill profiles could change substantially—for example, more category managers may have to adopt an omnichannel perspective—and analytical skills may become more important in pricing recommendations, store-specific stock keeping unit (SKU) selection, vendor negotiation support, mass promotion optimization, personalized promotions, and other areas. Employees may need analytical and technical skills to understand, pressure test, and apply system-based outputs, such as for dynamic pricing, management of online traffic and conversion rates along the purchase funnel, and for e-commerce website maintenance.

- **HR roles.** While automation and analytics will likely help speed up or reduce the number of administrative tasks in HR, from uploading CVs to conducting online tests of candidates instead of in-person first-round interviews, the number of HR jobs in retail and wholesale is likely to increase until 2030. Potential driving factors include the need for professional strategic workforce and talent planning and the training required to master the skill and talent transformation. To succeed in their evolving roles, HR employees may need new analytical and technical capabilities—and to improve social and emotional skills to coach and attract diverse talent.



⁷ McKinsey analysis.

⁸ McKinsey analysis based on data from Eurostat.

Becoming a magnet for talent has become critical. Many industries are also looking for new talent to fill new roles, particularly in digital and analytics, and retail and wholesale companies will need to compete. The job vacancy rate in the retail and wholesale sector reached an all-time high of 1.8 percent in 2021, up from 1.3 percent in 2020 and 1.0 percent in 2012, reflecting the current difficulty of filling job openings across all sectors of the economy.⁹

To stay competitive, retailers and wholesalers can define clear plans for people and talent evolution to support business strategies. These plans could include migration schemes for roles and skills (which are plans for employees to transition into new roles) and a narrative description of the company’s employee value proposition (EVP). An EVP encompasses the full set of financial and nonfinancial benefits and rewards an employee receives, such as development and growth opportunities. It should be anchored by clear, concise, and compelling answers to the key questions a prospective employee might ask: Why should I work for this company? What opportunities for growth will I have? How does this company support the causes I care about?

Potential developments by 2030

By 2030, retailers and wholesalers may need to upskill 10 to 13 million employees, equal to 40 to 50 percent of the total workforce, to help them thrive in new and evolving roles while improving talent attraction and retention and raising productivity. Many companies in the sector will need to hire more highly-skilled employees than before—or have to find the capabilities they need through partnerships, outsourcing, and other means.

Given that 99 percent of retailers and wholesalers in the EU are SMEs,¹⁰ smaller firms will need support to gain access to information, practical know-how, and dedicated support to help upskill their workforces. To navigate

these potential challenges, SMEs may need to find and use expertise from the market, for example, by outsourcing certain IT functions to external providers.

Overall, the sector will likely need to invest even more in people. On its current path, the sector would likely invest an estimated €50 billion to €70 billion by 2030 to develop its workforce, or 1.0 to 1.5 percent of total labor costs.¹¹ Large companies may need to invest approximately 30 percent more, and SMEs, on average, may need to more than double their budgets.

Incremental investment in workforce development totaling €25 billion to €35 billion through 2030 will likely be required (€15 billion to €20 billion for SMEs and €10 billion to €15 billion for large companies), or about 0.1 percent of sector revenue. Total investment, both current and incremental, could amount to €75 billion to €105 billion over eight years—on top of the time and other resources already invested in on-the-job training and other informal learning, which have not been quantified.



⁹ Eurostat 2019.

¹⁰ Eurostat 2019.

¹¹ Triple Transformation Survey, market research.

66 The sector as a whole may need to invest a total of €25 billion to €35 billion in upskilling initiatives by 2030, which is 40 to 60 percent more than it does today.”

3. Actions for consideration

Potential steps can be grouped into the following four action areas:

- **Skilling.** Providing more apprenticeships through professional vocational and educational training (VET) to prepare people for careers in the sector.
- **Upskilling.** Offering on- and off-the-job training to give employees the new skills required for evolving roles.
- **Reskilling.** Providing training to give employees the skills they need to transition to new jobs within or outside the sector.
- **Attraction and retention.** Enhancing the appeal of the sector as a whole and the appeal of individual companies with sharper EVPs.

Skilling

In some countries, VET is a distinct professional pathway, set up separately from college or university education. In these countries, such as in Austria and Germany, VET combines on-the-job training with classroom learning (“dual education”), providing promising career and income opportunities, particularly in commerce. This type of system is normally built on a strong social partnership between public and private players and a mutual commitment to invest in the skills of young people. VET requires substantial investment

by the companies that provide on-the-job training, while classroom training is provided by public professional schools. This dual concept is based on the shared conviction that investing in the skills of young people is worthwhile to ensure the workforce is future ready. Like any skilling program, VET requires continuous improvement and adaptation to new skill requirements. For instance, HDE and BGA, retail and wholesale associations in Germany, have developed a new e-commerce profile in close cooperation with trade unions. This is an example of how educational innovation can help meet the evolving skills needs in a very dynamic sector.

Decathlon’s training center for apprentices provides another example of an educational program that aims to prepare people to enter a role in retail or wholesale. The center, set up in partnership with the French national agency for professional training for adults (AFPA), provides apprentices with the qualifications necessary for the sale and repair of sports products.¹²

Upskilling

As roles evolve, employees may require new, cross-cutting skills, such as social and emotional competence, including empathy and coordination with others, learning agility, and the ability to deal with change. Function-specific skills could also be necessary, such as advanced analytics for pricing specialists, and customer servicing and technical expertise for consumer electronics sales personnel. Internal

training programs can play key roles on and off the job, as can collaboration with public or private education providers; for details, please see the box “Examples of existing upskilling programs.”

Upskilling training programs will likely include a combination of remote and in-person learning. According to our Triple Transformation Survey, 68 percent of large retailers and wholesalers use multiple upskilling methods today—internal and external, in person and digital. More than three-quarters of respondents use internal online or digital platforms. The need for training providers, digital training tools, and certification will likely grow—and retailers and wholesalers may need to make recurring investments in lifelong learning. The sector as a whole may need to invest a total of €25 billion to €35 billion in upskilling initiatives by 2030, which is 40 to 60 percent more than it does today.

¹² <http://rebondir.fr/reconversion-formation/decathlon-ouvre-son-centre-de-formation-pour-apprentis-16062022>; <https://recrutement.decathlon.fr/cfa/>

EXAMPLES OF EXISTING UPSKILLING PROGRAMS

Upskilling can take many forms. A few examples of the most common types include the following:

- **Government-driven programs.** Skillnet Ireland, a business support agency, is tasked with developing the workforce to enhance the competitiveness, productivity, and innovation of Irish businesses.¹³
- **Sector-driven VET.** Such programs, typically part of a country's public education system, provide young people

with qualifications for work in the retail and wholesale sector, including in SMEs. VETs can be a form of upskilling as well as skilling (as is the case with the e-commerce apprenticeship programs of the retail and wholesale associations HDE and BGA).¹⁴

- **Company training.** REWE Group offers employees a range of development options, including a program that prepares store employees for manager and district manager roles.¹⁵
- **Cooperation with educational institutions.** Carrefour Romania

and the Bucharest University of Economic Studies formed a strategic partnership to help employees develop skills for managerial positions, with courses in leadership, communication, digital strategy, and more.¹⁶

- **Scholarships or tuition support.** Amazon Europe's Career Choice program provides up to €8,000 per worker for professional training and tuition, helping employees acquire skills to pursue their careers at Amazon or elsewhere.¹⁷

Reskilling

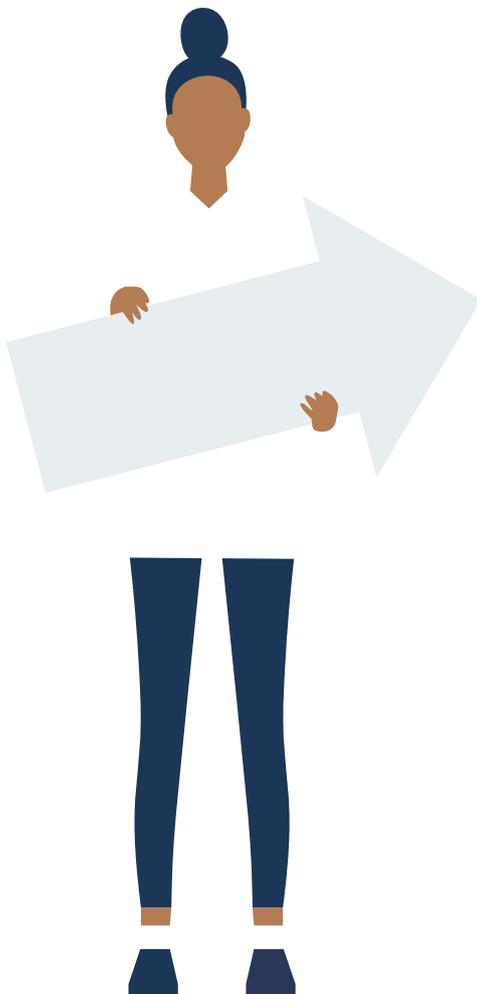
Training will likely be key in helping employees transition to new and different roles internally, at other companies, or outside the sector. Most reskilling programs today resemble those created for upskilling in terms of setup, structure, and stakeholders involved. Employers can help workers assess their prospects and help them acquire the skills they need to succeed in new opportunities.

According to McKinsey scenario modeling, the sector may need to invest €500 million to €3 billion in reskilling initiatives through 2030. Because the challenge is substantial and a successful transformation is crucial to provide the European workforce with rewarding employment and development opportunities, retailers and wholesalers may want to cooperate with public institutions, seek public funding, and consider partnering with other sectors and public or private educational institutions.

Attraction and retention

For some vital roles, such as data scientist roles, retailers and wholesalers are competing for talent not only with each other but also with companies in other sectors. The number of job postings for data scientists now exceeds the number of candidates by a factor of three.¹⁸ To fill gaps in these areas and retain top talent, businesses in the sector may need to sharpen or renew their EVPs.

Retailers and wholesalers can distinguish themselves with flexible work models, function-specific perks, and diversity and inclusion programs, for example, for employees with disabilities. One European apparel retailer offers flexible working policies for its digital talent, allows them to choose their own devices, and sponsors their attendance at global digital forums and conferences.



¹³ <https://www.skillnetireland.ie/>

¹⁴ <https://einzelhandel.de/themeninhalte/bildung/1068-karriereimhandel/3278-ausbildung-weiterbildung-und-karriere-im-einzelhandel:https://bga.de/unsere-themen/berufsbildung/>

¹⁵ <https://rewe-group.jobs/einstieg-und-perspektiven/lehre/>

¹⁶ https://www.carrefour.com/sites/default/files/2021-10/carrefour_romania_school_leaders_0.pdf

¹⁷ <https://www.amazoncareerchoice.com/home>

¹⁸ QuantHub



“As European retailers and wholesalers seek to optimize people development models and attract top talent, many encounter roadblocks, including limited workforce readiness and difficulties in finding, recruiting, and retaining talent.”



4. Roadblocks and potential solutions

As European retailers and wholesalers seek to optimize people development models and attract top talent, many encounter roadblocks, including limited workforce readiness and difficulties in finding, recruiting, and retaining talent. These challenges could persist for years to come, and the difficulties may be even greater for the many SMEs without the time or budget to provide off-the-job training, meaning these challenges may require a dedicated approach.

Examples of roadblocks, as articulated by retailers and wholesalers in working group discussions and interviews include:

- **High attrition rate.** Across the sector, the average attrition rate is 25 percent, with variation across subsectors and regions. The rate exceeds 27 percent in Central and Northern Europe, but is under 20 percent in Southern and Eastern Europe.

- **Limited workforce readiness.** According to the Triple Transformation Survey, only 50 percent of the current workforce in the sector is ready for the skill and talent transformation that lies ahead.
- **Low investment in training at SMEs.** While large companies invest 1.0 to 1.5 percent of their labor costs in upskilling and reskilling, SMEs invest much less in formal training, mainly because of time and budget constraints. Entrepreneurs and employees alike may find that continuous learning is key to staying competitive in a changing marketplace.
- **Talent scarcity.** In the Triple Transformation Survey, more than 40 percent of companies cite difficulty with finding talent with the right skills as the top barrier to successful transformations.
- **Increasing share of employees with higher qualification levels.** Many of the new roles emerging in retail and wholesale require higher qualifications than current roles. Retail and wholesale companies can sharpen their EVPs to attract and retain the highly qualified talent they need. Labor costs are likely to increase, putting additional pressure on subsectors that already operate with low margins. For example, the average EBITDA margins in grocery are just 4 to 6 percent.

Enabling sector-specific and company-specific measures will likely be required to help the sector continue to prosper and keep providing promising opportunities for employees.



4.1 Cross-sector enablers

The sector will likely need to enhance or put in place the following four cross-sector enablers to clear roadblocks and ready the sector for the skill and talent transformation that lies ahead:

- **Professional education and training systems.** Professional education that prepares people for careers in retail and wholesale will likely be key to the success of the sector. VET varies across countries. In Spain and Portugal, education for positions in retail is much less formal than for positions in hospitality, where undergraduate degrees are available. Other countries have developed more formal VET systems for retail and wholesale. In Germany, the apprenticeship model known as Ausbildung includes about 70 percent on-the-job training and 30 percent classroom education, helping more than 80,000 young people enter the retail and wholesale sector every year.¹⁹

SCENARIOS

Two different scenarios were assessed to estimate the potential cost of the skills and talent transformation for the EU retail and wholesale sector. In the first, more conservative scenario, the change in roles and skills (and therefore the impact in additional investments for up-/reskilling) is more moderate, resulting in the conservative scenario for sustainability and digital transformations. In the second, significantly more ambitious scenario, EU retail and wholesale will experience a more disruptive change in required roles and skills, and therefore will require higher incremental investments for up-/reskilling, resulting in the more ambitious scenarios for sustainability and

digitalization transformations. Specifically, the scenarios are based on the following assumptions:

- **Conservative:** Incremental investments in people development for approximately 40 percent of employees, and 800,000 new jobs need to be filled yearly across the sector until 2030
- **Ambitious:** Incremental investments in people development for approximately 50 percent of employees, and 1,500,000 new jobs need to be filled yearly across the sector until 2030

¹⁹ <https://www.destatis.de/DE/Themen/Gesellschaft-Umwelt/Bildung-Forschung-Kultur/Berufliche-Bildung/Tabellen/liste-azubi-rangliste.html>; value for 2020.

“The sector could benefit from funding for internal training to support workers’ transitions to new roles.”

In addition to VET, higher or tertiary education may become more important for the retail and wholesale ecosystem as demand for highly skilled personnel rises. Roles that require higher education include data scientists with advanced digital skills, pricing specialists with retail- and wholesale-specific skills, and cybersecurity experts. In the Netherlands, retailers cooperate closely with educational institutions to help employees earn associate and bachelor’s degrees. The universities of applied sciences Stenden and Avans specialize in retail undergraduate programs, creating curriculums in close collaboration with retail and wholesale companies and associations.

- **Joint effort to make the sector more appealing to employees.** To attract and retain employees, retailers and wholesalers can

coordinate and cooperate with their peers. HDE, for example, runs sector-wide image campaigns to attract more young people. The advantages of working in the sector could include diversity, inclusion, flexibility, attractive tasks such as interaction with customers, and a variety of opportunities for all profiles regardless of skills or experience, such as advanced digital training and apprenticeship for students and those at the beginning of their professional lives.

- **Institutional and funding support.**

The sector could benefit from funding for internal training to support workers’ transitions to new roles. According to our Triple Transformation Survey, 55 percent of large companies and 78 percent of SMEs say they do not have the funds to improve their employees’ skills or talent. Support for SMEs could come from public sources—the French government, for example, provides dedicated funding for skill development to SMEs with fewer than 50 employees.

- **Partnerships.** Not all skills need to be built internally. Some companies with less resources can acquire capabilities as a service from third parties, which could help them maintain more flexible operating models. This could include digital marketing, accounting, customer relationship management, advanced IT tasks, and cybersecurity. The skills-as-a-service concept is particularly relevant for SMEs who may seek to outsource functions, but they might also need to consider the costs and potential issues, such as data privacy and security.



Since the transition may be particularly challenging for many SMEs, they could benefit from local learning platforms for digital commerce, training, and technical support, developed in partnership with national associations or larger companies. Amazon, for example, offers SMEs free access to online training, expert advice, live events, and services through its Small Business Accelerator.²⁰

4.2 Company-specific enablers

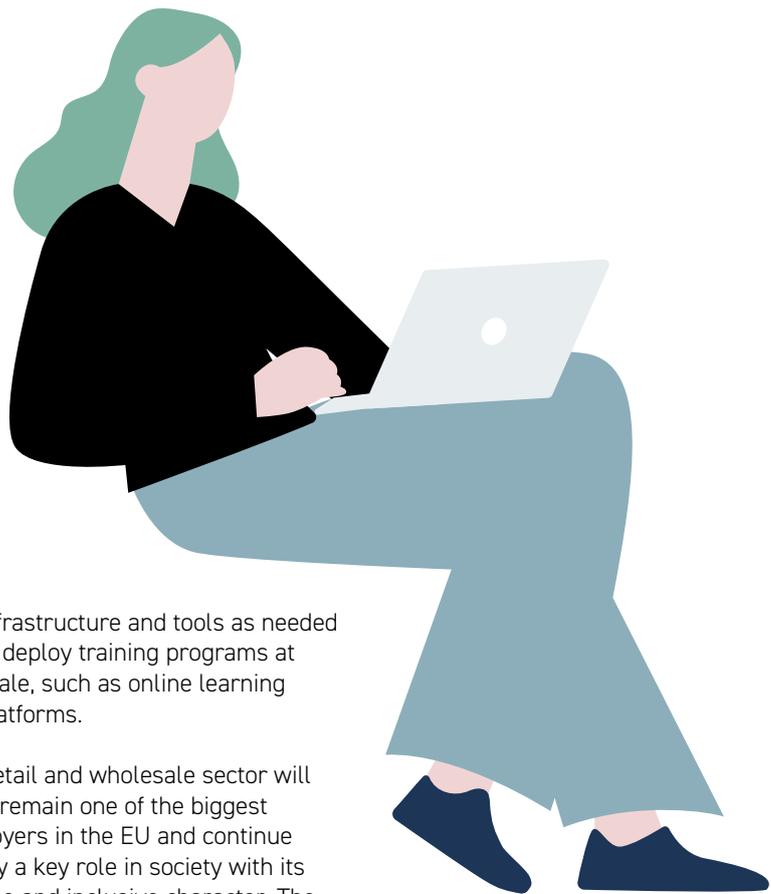
In addition to cross-sector enablers, retailers and wholesalers may consider ramping up internal capabilities to ready their organizations for the transformation, including the following:

- **HR resources and capabilities.** Many companies still rely on short-term approaches to workforce management, typically based on headcount. They look for new hires only when the headcount drops below a predefined level, or when a concrete position becomes vacant. In the future, retailers and wholesalers may want to take a more proactive approach to training and recruitment. Potential considerations include whether the HR department has the right resources and capabilities, such as strategic workforce planning. Companies can also clarify their EVPs and plan to acquire the training resources they need. New capabilities in HR can be built internally or provided by external partners, which may be particularly relevant for SMEs.
- Technological infrastructure and tools. Retailers and wholesalers, especially larger firms, can also build or enhance technological

infrastructure and tools as needed to deploy training programs at scale, such as online learning platforms.

The retail and wholesale sector will likely remain one of the biggest employers in the EU and continue to play a key role in society with its diverse and inclusive character. The sector will stay relevant because it is where millions of Europeans start careers and lifelong learning journeys.

While retailers and wholesalers are already investing heavily in workforce development, they may have to invest an additional €25 billion to €35 billion in upskilling and reskilling through 2030 to transform the workforce and seize the opportunities that lie ahead. They may also need to forge new partnerships with their peers, trade associations, public stakeholders, and training providers.



²⁰ <https://www.aboutamazon.co.uk/news/small-businesses/launching-the-amazon-small-business-accelerator-a-boost-for-small-businesses-in-the-uk>

A large, stylized white number '15' is centered on a solid yellow background. The number is composed of thick, rounded strokes. The digit '1' is a simple vertical bar with a flat top. The digit '5' has a curved bottom and a circular cutout in the middle. The word 'GLOSSARY' is printed in bold, black, uppercase letters across the circular cutout of the '5'.

GLOSSARY



From introduction

EBITDA: earnings before interest, taxes, depreciation, and amortization

GHG: greenhouse gases

SME: small- or medium-sized enterprise (i.e., fewer than 250 employees)

From sustainability chapter

CAPEX: capital expenditure

CPG: consumer packaged goods

ESG: environmental, social, and governance

EV: electric vehicle

KPI: key performance indicator

MACC: marginal abatement cost curve

NGO: nongovernmental organization

NPV: net present value

PET: polyethylene terephthalate

RA: regenerative agriculture

Scope 1: Direct emissions from owned and controlled resources

Scope 2: Indirect emissions from the generation of purchased energy

Scope 3: All indirect emissions (not included in scope 2) that occur in the value chain of the reporting company, including both upstream and downstream emissions

SDGs: Sustainable Development Goals

From digitalization chapter

AI: artificial intelligence

API: application programming interface—software that allows applications to communicate with each other

EBIT: earnings before interest and taxes

Opex: operational expenditures

RFID: radio-frequency identification

SaaS: software as a service

SKU: stock keeping unit

From skills and talent chapter

AFPA: French national agency for adult vocational training

EVP: employer value proposition

FTE: full-time equivalent

VET: vocational and educational training

Sustainability • Digitalization • Skills

TRANSFORMING THE EU RETAIL & WHOLESALE SECTOR

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