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Retail Credit Outlook 2026

Corporates juggle shifting consumer spending, tight margins, hefty investment demands

Analyst
Claudia Aquino
+49 30 27891-599
c.aquino@scoperatings.com

Editorial/Press
Matthew Curtin
+33 7 88 89 78 09
m.curtin@scopegroup.com

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The European retail sector, particularly in food and electronics, continues to face a challenging operating environment shaped by shifting consumer behaviour, rising cost pressures and investment-heavy structural transformation.

Persistent inflation and weak consumer confidence have accelerated the trend towards discount shopping. Consumer preference for cheaper goods is eroding retailers' pricing power and pinches margins amid sluggish sales growth. Against this backdrop, we expect revenue to grow only in the low- to mid-single-digit range in 2026.

At the same time, companies are increasingly likely to boost supply-chain efficiency and expand omnichannel distribution and marketing to maintain competitiveness. While these initiatives promise long-term efficiency gains, they require significant upfront capital expenditure which could strain near-term cashflow.

Rising competitive pressures and growing need for investment related to the circular economy and digitalisation may further drive consolidation in the sector, while smaller retailers could be forced to exit the market if they are unable to adapt to these structural shifts. Our surveys of publicly available bankruptcy information point to an improvement in default rates among larger retail chains but a deterioration among corporates with less than EUR 20m in annual revenue, notably in the fashion and apparel segment.

At this stage, credit pressure in the sector results less from balance-sheet stress – such as rising leverage, weakening liquidity, and shrinking headroom under covenants – than from the unavoidable increase in cash costs required to remain competitive. Similarly, the capacity of individual retailers or retailing sub-sectors to absorb these costs and generate returns will determine near-term credit dynamics, including potential balance-sheet pressure stemming from higher borrowing or reduced financial flexibility.

1. Discretionary, non-discretionary retailers' margin squeeze set to ease

Retailers' profit margins are likely to stabilise next year after several years of compression amid the drift of consumers toward lower-priced goods across both food and non-food segments.

In recent years, many companies' pricing power had declined as management pursued aggressive promotional strategies to retain market share. This trend was particularly pronounced as inflation returned in 2022, with value-oriented shopping becoming the dominant consumer behaviour.

Among major grocers, Ahold Delhaize, Carrefour, Tesco and Metro have all experienced this margin compression. In the non-grocery segment, Ceconomy (BBB-/Stable) and HORNBACH (BBB-/Stable) have also struggled with margin declines and are unlikely to restore them in the medium term. Part of this pressure reflects the current inflation-driven shift towards discount formats but also normalisation after Covid, when margins were temporarily inflated by exceptional demand patterns, supply-chain disruptions, and unusually strong pricing power. Retailers such as Jerónimo Martins, Coop, or Migros—which also benefited from these Covid-related tailwinds—are now adjusting to a more competitive environment with higher operating costs and less ability to pass them on to consumers through higher prices.

For issuers in our coverage, average EBITDA margin has steadied at around 6.8% for non-discretionary retailers in 2025, unchanged from the year before, and will remain relatively stable in 2026. For discretionary retailers, average EBITDA margin has fallen to around 7.5% in 2025 from 8.3% in 2024 but will remain stable for 2026.

Competition continues to limit margin improvement

However, to succeed in shoring up profit margins next year, retailers will need to act on several fronts.

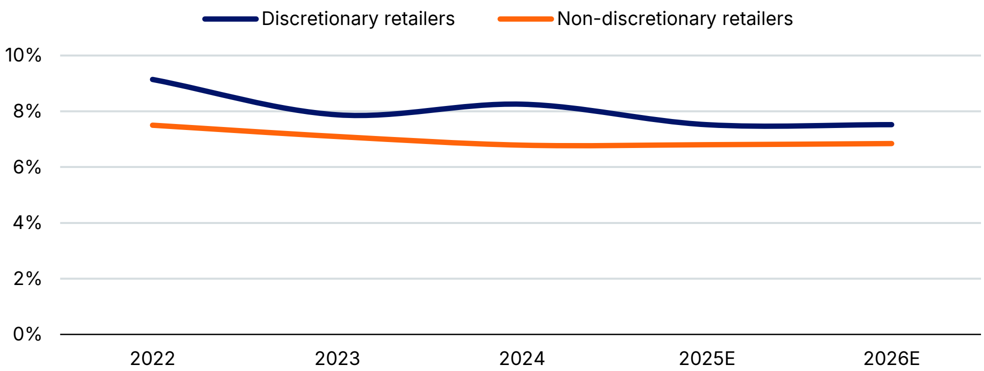
Management will have to maintain strict cost discipline and focus more on value-added services, such as aftersales support, notably in segments such as auto parts and electronics, while in the food segment, growing the share of private-label brands remains a priority. Companies with a diversified goods portfolio also look relatively well placed.

With consumer confidence still weak, and competition intensifying from low-cost brands and discounters, retailers cannot count on any significant improvement in pricing power.

In this context, M&A will likely increase in the next two years. In the discretionary and non-discretionary segments, gaining in scale will offer opportunities for cost efficiencies and better pricing power.

We expect smaller retailers to be increasingly absorbed by larger ones. This is already a pronounced trend in Europe, particularly in the grocery and fashion and home-improvement sectors. Carrefour's acquisition of Cora and Match in France, Ahold Delhaize's expansion in Central and Eastern Europe, and Coop Danmark's takeover of smaller regional firms all reflect the consolidation in food retailing. Similar moves are occurring in other segment, with acquisitions by Kingfisher in home improvement and JD Sports in fashion and apparel.

Figure 1: Europe's retailers feel the squeeze
Average Scope-adjusted EBITDA margin in Scope-covered retailing corporates



Source: Scope estimates

2. Optimising omnichannel presents capex challenge, exit risk

Capex will remain high to fuel the omnichannel transition

We expect capex as a percentage of revenue to increase slightly over the coming years, as many European retailers continue to invest in the transition to more hybrid distribution and marketing models, mixing physical and digital assets—commonly referred to as omnichannel. For example, Carrefour and Ahold Delhaize have both announced multi-year programmes to upgrade digital ordering, last-mile fulfilment and store automation.

This pressure is particularly acute in non-discretionary segments, where digital and fulfilment upgrades have lagged those of discretionary peers and now require sustained investment to remain competitive. Grocery retailers such as Tesco and Rewe are expanding click-and-collect capacity and modernising in-store technology, reflecting the need to close the gap with more digitally advanced segments.

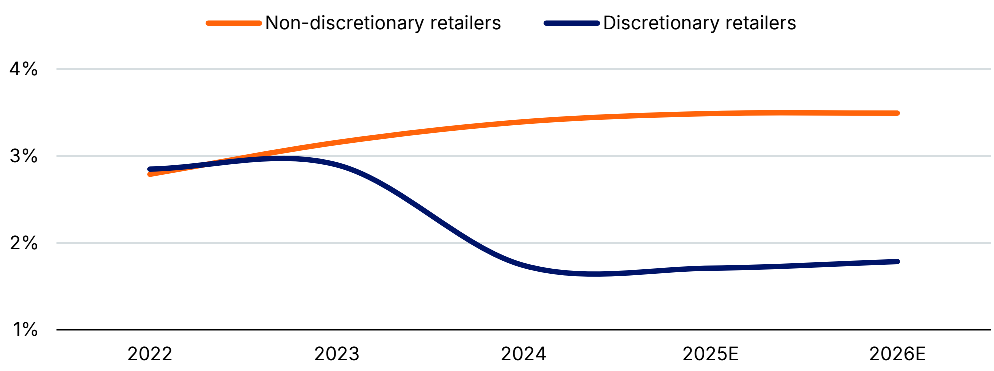
The rise in capex is likely to occur in tandem with our expectation of low- to mid-single-digit revenue growth next year, which may limit retailers' ability to fully fund investment through operating cashflow. Rising capex could lead to weaker free cashflow generation, modest pressure on leverage metrics, and slower deleveraging. However, over the longer term, successful execution of omnichannel investment should enhance competitiveness and support operating resilience.

With larger companies being advantaged

Large retailers, with stronger balance sheets and easier access to funding, are better positioned to maintain or increase capex as they upgrade systems, enhance logistics, and scale up digital capabilities.

By contrast, smaller retailers face shallower and more costly access to capital, which may constrain investment despite the strategic necessity to keep pace with new technologies. Yet remaining competitive increasingly requires advanced inventory optimisation, resilient logistics networks, and seamless consumer experiences. From a credit perspective, this divergence means that smaller or more leveraged companies are more exposed to execution risk, margin pressure, and potential erosion of market share.

Figure 2: Capex diversion: non-discretionary retailers to outspend discretionary retailers
Capex/revenue (%) for Scope-covered retailing corporates



Source: Scope Ratings

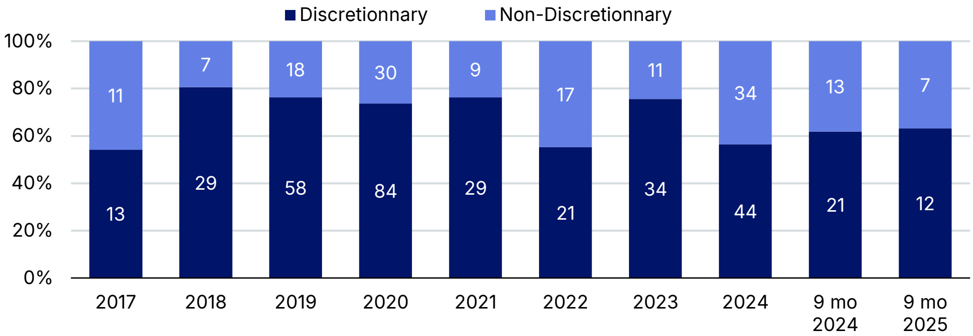
3. Default rates for large firms decline; risk remains for smaller players

Our analysis of European retail companies with annual revenues above EUR 20m shows that bankruptcies through to end-Q3 2025 have fallen compared with the same period in 2024.

While this suggests improving financial resilience among larger retailers, the underlying dynamics remain uneven across segments.

Rising competition from global e-commerce leaders is likely to push the European sector toward more consolidation and alliances. Retailers that lack digital capabilities or investment capacity may see weakening credit quality or be forced out of the market.

Figure 3: European retailing defaults clustered in discretionary-goods segment
Number of bankruptcies (% of total: LHS) in discretionary, non-discretionary sectors



Note: Data is for 2017-24 (FY) and 2025 (nine months) with equivalent 2024 data shown for comparison. Source: publicly available data, Scope Ratings

3.1 Sector composition of bankruptcies shows non-discretionary vulnerabilities

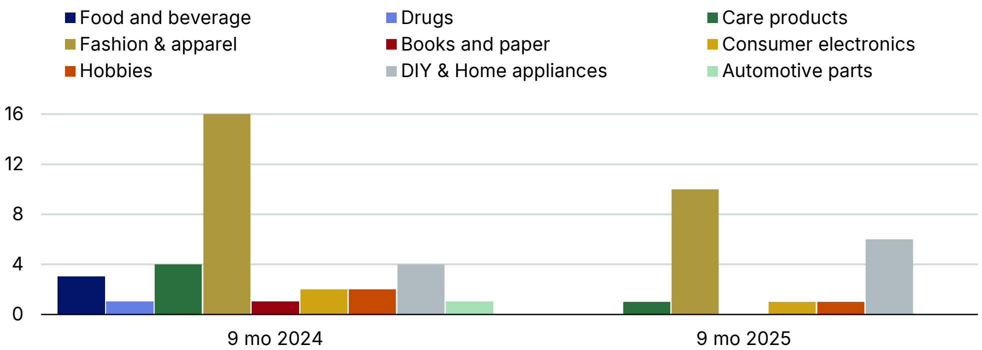
Bankruptcies rates vary across sectors

Despite the overall decline in default rates, most bankruptcies continue to occur among non-discretionary retailers, particularly in the fashion and apparel segment.

This concentration reflects several structural and cyclical pressures:

- Persistent margin compression: Fashion and apparel remain highly exposed to discounting cycles, elevated logistics costs, and the need for continuous refresh of their product line-ups. Cost pressures in materials, returns management, and last-mile distribution remain above pre-2020 levels even if inflation has stabilised.
- Intense competition and overcapacity: The European fashion landscape is saturated, with strong pressure from fast-fashion players and digitally native brands. Many mid-market chains struggle to maintain pricing power and brand differentiation, making them more vulnerable during periods of weak demand.

Figure 4: Fashion failure: European retailer bankruptcies by sub-segment
Nine months to end-Sept, 2024 vs 2025



Source: publicly available data, Scope Ratings

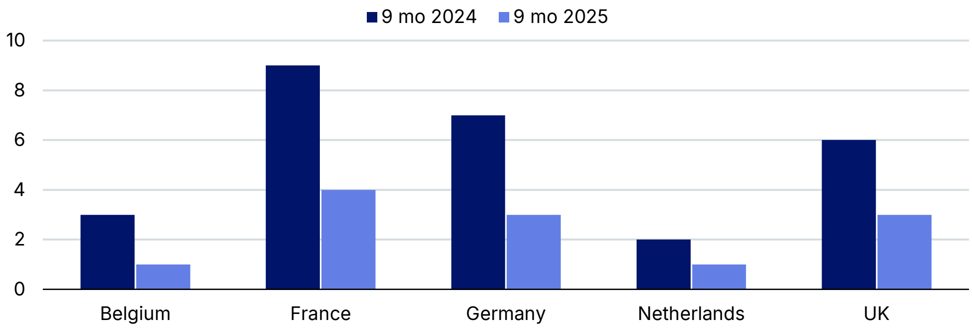
Shoppers hunt increasingly for on-line bargains

- Shifts in consumer behaviour: Consumers continue to prioritise essential purchase and value-for-money, delaying purchases of discretionary apparel. This shift has disproportionately affected retailers that rely on footfall-driven seasonal collections or sales from bricks-and-mortar stores.
- E-commerce transition costs: Retailers still in transition to an omnichannel model face high capital requirements and operational complexity, which adds financial strain when revenue growth and cashflow are weak.

3.2 Default rates in biggest economies show declines among larger companies

In countries where, based on our sample of Scope-covered corporates, most bankruptcies occurred in 2024, the number of bankruptcies among large companies has fallen significantly this year.

Figure 5: Retail-sector bankruptices in selected major European economies



Source: publicly available data, Scope Ratings

Data for large companies overstates health of broader sector

Our data set focuses on larger retailers that typically have better access to financing, more diversified revenue streams, and greater operational flexibility. As a result, the decline in bankruptcies within this cohort likely overstates the health of the broader retail market. Small and micro retailers continue to experience elevated insolvency rates, driven by high competition, elevated leasing costs and limited capacity to modernize their operations.

Secular trends across all segments of European retail continue to point to cashflow pressure, and therefore a sustained level of credit risk. In line with what we observe for European corporate default risk as a whole, credit pressure is not monolithic and will likely remain more acute for smaller players. As such, relief from credit pressure among larger firms may continue to mask overall cashflow pressure across the sector.

Cost pressures rather than leverage explain sector credit strains

Credit risk today mostly stems from cost pressure, not over-levered balance sheets. After all, these costs are largely unavoidable and are the necessary response to changes in consumer preferences and confidence, and increasingly steep technological demands. The retailing sector's capacity to absorb or pass on these costs to customers varies from company to company and sub--sector and to sub-sector – as does issuers' capacity to weather the resulting credit pressure.

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Scope Ratings GmbH

Lennéstraße 5, D-10785 Berlin
Phone: +49 30 27891-0
Fax: +49 30 27891-100
info@scoperatings.com

Scope Ratings UK Limited

52 Grosvenor Gardens
London SW1W 0AU
Phone: +44 20 7824 5180
info@scoperatings.com

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Bloomberg: RESP SCOP
Scope contacts
scoperatings.com

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