

How Specialty Retail Can Get Its Groove Back

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Traditional specialty retailers have faced an increasingly challenging market environment for several years. Mass-market and online players have aggressively expanded into specialty sectors and then continued to take share by improving their offerings and the customer experience. Amazon, for example, has more than doubled its gross merchandise value in key categories such as fashion, apparel, home, and beauty since 2019.

Store closures and bankruptcies among specialty retailers have risen as their relevance wanes and their customers learn how to shop elsewhere. Some sectors are more vulnerable than others. But the good news is that specialty retailers have viable ways to reinforce or rebuild their competitive advantages. By implementing a small number of high-impact actions, specialty retailers can stop or even reverse the downward trends.

Shifts in Consumer Behavior Are Creating Opportunities

Many consumers struggle to find the products they want. At the same time, they are demanding more personalization and often prefer immersive real-life experiences over the routines of online shopping.

Discovery. Consumers are finding it harder to discover the right products, and retailers find it increasingly challenging to get shoppers' attention. Consumers typically see 40% more advertisements a day than they did two decades ago, according to an analysis by the traffic-auditing firm Lunio. Generative AI (GenAI), meanwhile, is radically reshaping discovery and making traditional marketing feel outdated. The penetration of these tools into day-to-day life may exceed the ability of even the best retailers to keep pace. BCG's Global Consumer Radar Survey,

conducted in February 2025, showed that 22% of GenAI adopters have already used the tools to research brands and products to purchase. By November 2025, however, BCG's annual Black Friday Consumer Study, also conducted globally, revealed that 48% of consumers have used or plan to use GenAI for their holiday shopping journeys.

Personalization. Shoppers expect deeper personalization to meet their increasingly diverse needs. About 80% of consumers around the world are now comfortable with personalized experiences, and a large majority say they expect companies to provide them. Retailers are relatively mature in terms of personalization compared with other consumer sectors, based on BCG's Personalization Index. Yet too many retailers still run their marketing and promotions from a traditional mass-market playbook.

In-Store Experiences. Significant segments of consumers still seek to visit a physical store, stay longer, and spend more there. BCG's research shows that the Generation Z cohort (born between 1998 and 2012) prefers to shop in-store so that they can understand the look and feel of the items they want. This trend is consistent across product categories.

Structural Factors Are Limiting Flexibility

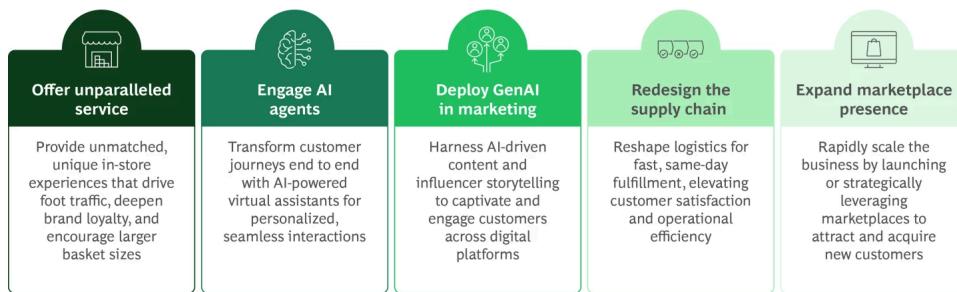
Specialty retailers face several disadvantages in a like-for-like battle with mass-market and online players. Specialty retailers usually carry a deeper in-store assortment in their category, but the downside is that their assortment is more complex, turns more slowly, and has a long tail that is difficult to stock in all physical locations. Unlike mass-market retailers, specialty retailers lack the cross-category economies of scale and ability to encourage customers to add on to their existing necessity trips. That lack of scale raises customer acquisition costs and makes it harder to drive growth by increasing basket size.

Specialty retailers also tend to have less foot traffic than mass-market retailers and, therefore, must work harder to justify their footprint and manage the associated costs. Finally, they can struggle with fulfillment in a shopping environment where large online retailers have trained shoppers to expect rapid fulfillment.

Five High-Impact Actions

To embrace the consumer shifts and overcome their structural challenges, specialty retailers must selectively and strategically invest in actions that reinforce their category differentiation. They have opportunities to reimagine their stores as immersive, service-led destinations that strengthen the brand and drive loyalty. Other strategic actions include deploying GenAI, simplifying complex shopping journeys, and rapidly increasing scale through a stronger presence in online marketplaces. (See the exhibit.)

Specialty Retailers Have Five High-Impact Actions That Can Help Them Regain Their Competitive Advantages



Source: BCG analysis.

Offer unparalleled in-store service. Online retailers can mimic but never fully replicate the sensory richness that consumers experience when they physically try something on or try something out. Mass-market retailers, meanwhile, can't match the depth of a specialty retailer's assortment. When specialty retailers augment a shopper's sensory experiences with their deep assortments and in-house expertise, they can turn in-store service into an unbeatable advantage. Unique in-store experiences drive foot traffic, increase brand loyalty, and encourage a larger basket size.

For example, Dick's Sporting Goods has launched Dick's House of Sport at select locations to provide shoppers with interactive spaces, including rock climbing walls, turf fields, batting cages, golf simulators, and ice rinks. Shoppers can use these spaces as testing and practice grounds for gear while qualified staff members offer expert advice on sport-specific fit, sizing, and product selection. These spaces can also evolve into community hubs where organizations can host events. Other sectors are also seizing opportunities to combine hands-on experiences with deep assortments and expert advice. The home improvement chain The Home Depot engages with its local communities by offering Kids Workshops, where children and parents make small projects together.

Engage AI agents that support shoppers. Over the next months and years, agentic AI will increasingly become a cornerstone of consumer interactions, fundamentally altering how products

are discovered and purchased. The winning approaches to agentic commerce rest on three pillars: third-party agents, a retailer's own agents, and agentic foundations.

Maximizing the relevance of third-party agents is essential for specialty retailers—regardless of the current state of their own customer experience—because of the growing influence of these tools and the growing eagerness of consumers to use them. Shoppers are engaging in deep exploratory conversations with trusted AI agents that learn their tendencies, preferences, and behaviors over time. These agents can guide online discovery with real-time personalization, using the same intuition and expertise as a human salesperson. The key for specialty retailers to stay relevant is to optimize the content that the agent's underlying large language models (LLMs) ingest. In other words, retailers now need to optimize content for answer engines instead of search engines.

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Some retailers can also benefit from developing their own agents. The home improvement chain Lowe's developed its Mylow tool in partnership with OpenAI. Mylow is available on Lowe's website and via its mobile app for customers and associates in-store. The tool guides users through do-it-yourself projects, providing step-by-step help, recommending tools and materials, and answering product questions in real time. In other sectors, these AI agents can complement the in-store service by allowing shoppers to try on products virtually or connect to someone in a physical store through a seamless handoff that retains the necessary information about the shoppers' wishes, preferences, and purchase history.

Internally, a network of behind-the-scenes agents can support these efforts. They can take care of the burdensome work that a consumer would normally do manually through an app or a website, and they can also transform the customer experience by providing a variety of personalized features. Specialty retailers can integrate AI-driven tools into product sourcing, search experiences, and personalized recommendations to streamline purchasing and enhance consumer engagement.

Deploy GenAI to make marketing more effective and efficient. Specialty retailers can harness AI-driven content and influencer storytelling to captivate and engage consumers across digital platforms. Existing tools already allow retailers to generate high-quality content at near-zero marginal cost. This enables a marketing organization to deliver on the promise of truly personalized, proactive, and conversational experiences at scale.

GenAI tools can enable faster content creation by drastically reducing the time to create and review an advertising campaign. The deep consumer insights it can generate allow for

hyperpersonalization that reinforces the retailer's relevance. The tools also allow a retailer to use trusted influencers on social media to create authentic and genuine interactions with shoppers. For example, the boutique health-and-beauty retailer Glossier builds its business around community-driven storytelling across TikTok, Instagram, and YouTube. That storytelling preserves their high audience engagement with consistent seeding, real voices, and behind-the-scenes moments.

Redesign the supply chain. Specialty retailers can elevate customer satisfaction and operational efficiency by reshaping their logistics for fast, same-day fulfillment. This can include localized hubs and predictive replenishing.

The consumer electronics retailer Best Buy has built a fulfillment network that supports rapid replenishment and same-day availability across most major US markets. It offers same-day delivery of eligible items, often within one to two hours, through partners such as Shipt, DoorDash, and Roadie.

The network includes about 20 delivery distribution centers, a set of metro e-commerce centers, and more than 900 retail storefronts in the US. Its data platform enables it to choose the most efficient location to fulfill more than 70% of online orders, leading to faster delivery times, better on-time delivery, and lower costs.

Expand marketplace presence. Marketplaces account for about two-thirds of global e-commerce sales, up from roughly 40% in 2014. A BCG survey of more than 1,500 consumers in five countries revealed that marketplaces outperform traditional e-commerce sites in several aspects, including competitive pricing, a wide variety of products, user experience, and attractive delivery options.

Specialty retailers have an opportunity to scale their business by attracting and acquiring new customers through existing marketplaces or by building their own. If a retailer establishes and operates its own marketplace, it should strive to become a destination within its category and host third-party sellers that enhance its standard offerings. Such a marketplace allows a retailer to serve a more diverse shopping mission, deepen consumer relationships, and generate high-value data that they can monetize.

The UK home improvement retailer B&Q, for example, significantly expanded its product range after it implemented a marketplace model in 2022. In the 2023 fiscal year, 50% of customers who bought marketplace products from B&Q were first-time buyers.

The rise of agentic commerce, however, adds an element of caution as specialty retailers rethink their role within marketplaces. As more shoppers initiate and eventually complete their journeys with AI agents, the nature and extent of the consequences for marketplaces are hard to foresee.

Specialty retailers still have a vital role to play for consumers as their shopping journeys evolve in the age of agentic commerce. The challenge for these retailers is to turn their unique combination

of sensory richness, deep assortment, and in-house expertise into a powerful competitive advantage. Few specialty retailers have the resources to invest sufficiently in all five high-impact actions. Each retailer needs to determine which actions have the greatest impact and then implement them quickly.

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