

Korn Ferry's Retail Tracker

A challenging market takes its toll at the top

As economic optimism faded, retailers in 2015 replaced more CEOs.



Introduction

In its third year, the annual Korn Ferry Retail CEO Tracker analyses CEO and significant brand managing director appointments to uncover key trends affecting the industry. The research includes the full spectrum of retail categories, both private and UK-listed retailers. It tracks businesses with an online, multichannel, or store presence across grocery, fashion and luxury, health and beauty, electricals, and home and DIY sectors.

Despite the optimism of UK retail chairmen interviewed by the Korn Ferry Institute during mid-2015 (55% were optimistic about the economic outlook for the rest of that year), it proved to be a tough time for many retailers. The 2014 recovery, which saw the economy grow by 2.6%, was not sustained in 2015. Growth slipped to 2.2%, mainly because of weaker trade and construction output, and the economy lost momentum it had gained in the previous year.

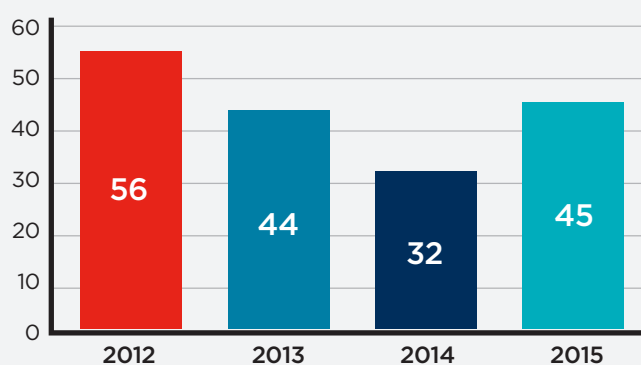
The UK retail landscape faced several challenges in 2015, with trading performance undercut by a number of factors. The crucial Christmas trading period saw a lack of footfall and fears of low sales volumes. Although some retailers reported better-than-expected sales, the quarter cast a shadow on the overall performance of many; only four in ten businesses reported sales volume increases in December, according to the Confederation of British Industry. The number and nature of CEO appointments in the last year reflects that tough retail landscape.

We anticipate that 2016 will see further significant change with fresh competition, political uncertainty around the European Union referendum, and foreign investors continuing to acquire UK retailers and brands.

More CEO changes.

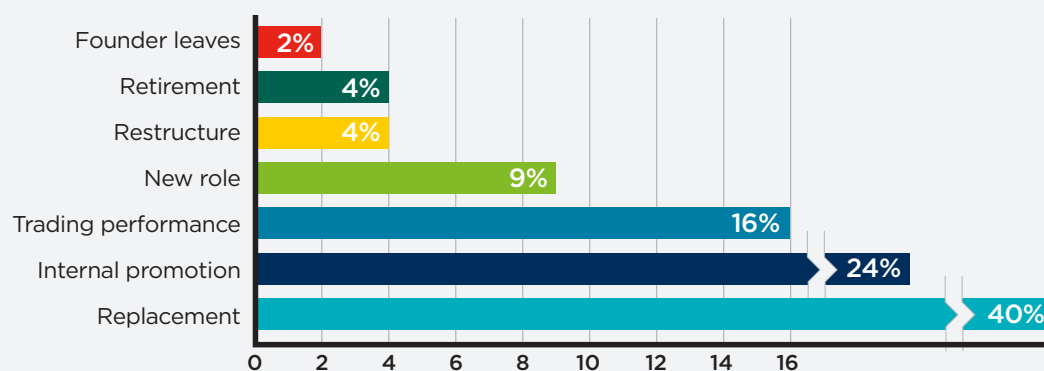
A big increase in CEO appointments was driven by reduced economic growth, increased competition, and decreasing footfall in 2015, when 45 CEO hires were made versus 32 in 2014 (see Figure 1.).

Figure 1
CEO changes by year.



We analysed the reasons for the 2015 CEO appointments and found similarities to 2014: Besides the expected cycle of retirement and new leadership in founder-led business, trading performance played a large part in 16% of the changes (see Figure 2).

Figure 2
Why the CEO churn.



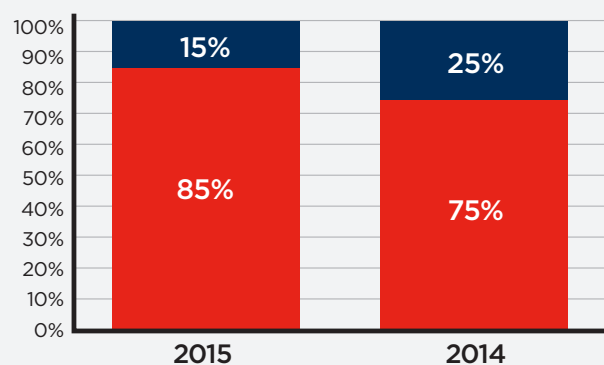
Despite a higher number of CEO changes, the broader effect of the leadership hires in 2015 arguably has not been as significant as the effect was the year before. In 2014, new CEOs were hired and restructuring occurred at some of the FTSE 350's biggest retailers including: Burberry, Dixons Carphone, Home Retail Group, Dunelm, Mothercare, Sainsbury's, Tesco, and SuperGroup; 28% of total 2014 appointments were made at FTSE 350-listed retailers versus 8% in 2015, a year in which new CEOs were installed at Morrisons, Dunelm, Halfords and Ladbroke's.

David Potts' arrival at Morrisons, among 2015 appointments, led to the most significant internal changes, including a shake-up of his management team. With grocery persisting as one of the most competitive retail sectors and with no let-up from discounters or Aldi or Lidl, we anticipate more changes this year. In other market areas, major CEO moves were driven by transactions, such as Majestic's acquisition of Naked Wines, and the biggest merger in the pure-play apparel sector, the joining of Yoox and Net-a-Porter.

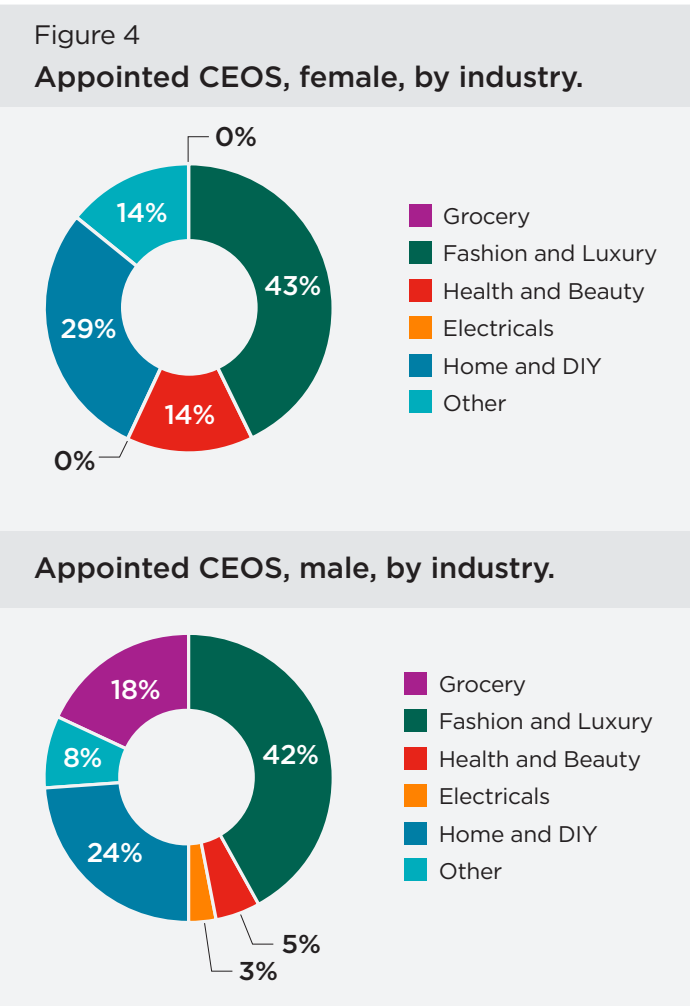
Where are the women?

Although the proportion of newly appointed female CEOs, at 25%, increased year over year in 2014, this number dropped to only 15% in 2015, even less than the 18% in 2013 (see Figure 3). The Davies Report has had dramatic impact on improving gender diversity on non-executive boards, and the debate has moved on to driving executive level diversity. In grocery retail, the issue is pronounced, with no females holding CEO seats in this sector, despite the many recent changes at the top. Because female customers control the vast majority of spending with these companies, we anticipate that addressing this imbalance, with effective succession planning and development, will become higher priority. The positive effect on the upper echelons of a female CEO's appointment would be big.

Figure 3
Appointed female CEOs.



Outside of grocery, women were appointed in 2014 to a more diverse range of sectors than before; historically they took top seats in only the fashion and luxury goods sectors (with rare exceptions). In 2015, only half of new female CEO appointments were in luxury and fashion, with half in other retail categories, particularly home and DIY (see Figure 4).

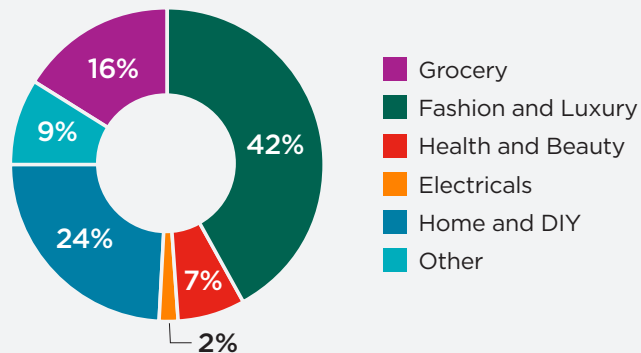


Fashion and Luxury: most leadership change.

Last year, as in previous years, the UK retail CEO churn was dominated by changes in the fashion and luxury industry (see Figure 5). This sector was responsible for 42% of CEO moves at brands including Asos, Jack Wills, Mulberry, Smythson, and Jacques Vert. This was a smaller proportion, however, than occurred in 2014, when more than half of CEO changes were in this area.

All other sectors saw similar levels of change. Home and DIY stayed steady at 24% in 2014 and 2015. Health and Beauty was low at 6% in 2014 and 7% in 2015. We now are seeing many more pure, online retail CEO appointments. In 2015, these included Alibaba.com, Sofa.com, NotOnTheHighStreet.com, ChemistDirect.co.uk, Yoox Net-a-Porter, MatchesFashion, and Asos. As pure play businesses continue to grow and mature, we expect these companies to reach the natural inflection point between founder-led and scaled leadership, often at the point of private equity investment and/or IPO.

Figure 5
2015 CEO appointments by industry sector.



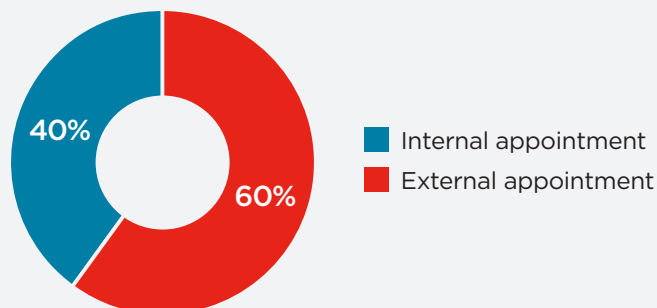
Higher priority for CEO succession planning.

There is growing evidence¹ demonstrating the financial benefit of internally appointed CEOs compared with external hires. Being forced into turnovers instead of planning them has recently cost each company in that structure an average of \$1.8B in foregone shareholder value. This is causing boards to pay more attention to effective succession management, giving rise to more internal “CEO-ready” candidates (see Figure 7).

In keeping with the growing acceptance of the importance of effective CEO succession management, 2015 saw an increase in internal CEO appointments: 40% compared to 28% in 2014 (see Figure 6).

Figure 6

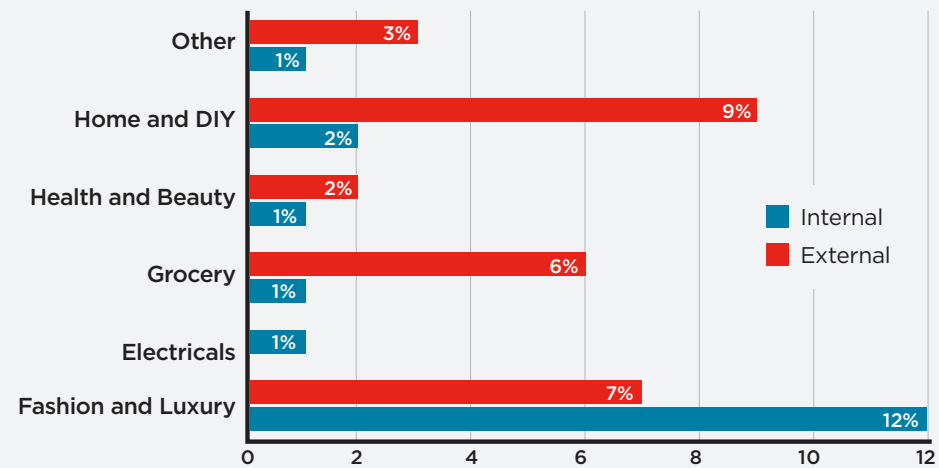
Internal versus external CEO appointments.



The fashion and luxury sector is leading the way in developing “ready-now” CEO candidates, with 12 organizations promoting CEOs from within in 2015. The grocery and home and DIY sectors relied more heavily on external CEO hires; it will be interesting to monitor the success of these businesses and the tenure and impact of the CEOs appointed in subsequent years.

¹ Favaro, K., Per Ola Karlsson, Gary L. Neilson. *2014 Study of CEOs, Governance, and Success: The Value of Getting CEO Succession Right*. 2014. Washington, D.C.: PriceWaterhouseCooper, strategy&

Figure 7
Succession planning by industry.



Almost 75% of female CEO appointments were external hires, compared to 58% for men. This suggests that it is easier for women to reach the top by joining a new organization, rather than by rising in the ranks. If retailers seek to promote more female CEOs from within, more focus needs to be put on retention and development at middle- to senior-director levels to support talent in its journey to leadership pinnacles.

First-time CEOs – slightly more from within.

Thirteen first-time CEOs were appointed in 2015, 29% of the total CEO group (see Figure 8) and a slight increase from the two years before (22% in 2014, 21% in 2013); 69% of 2015's first-time CEOs were internal appointments, 46% of them in the fashion and luxury sector (see Figure 9).

This suggests that the limited pool of experienced CEOs is forcing more companies to consider candidates who haven't been CEOs.

Figure 8

Proportion of first-time CEOs.

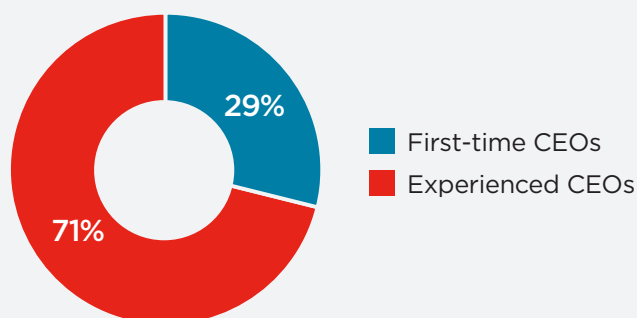
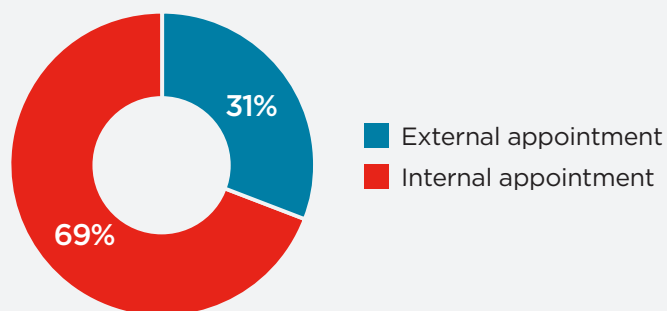


Figure 9

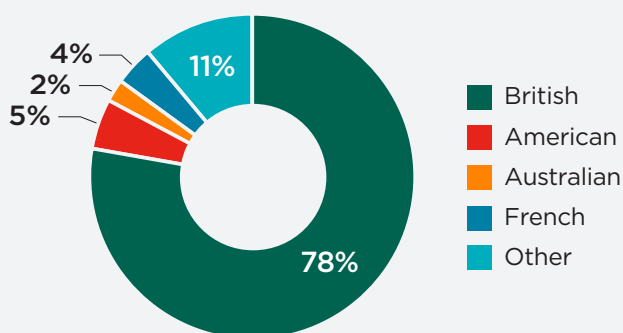
For first-time CEOs, the route to the top.



A more international retail leadership.

In 2015, 22% of CEOs hired into UK retail businesses were foreign nationals in comparison to only 9% in 2014. This might suggest a trend toward greater international diversity in an increasingly international retail market.

Figure 10
Nationality of appointed CEOs.



2016 outlook.

Almost two-thirds of 2015's CEO appointments occurred in year's first half, with a concentration in the first quarter. Although changes often are announced after poor Christmas results, in reality most of these departures resulted from strategic boardroom decisions. Consistent with the growing importance organizations put on carefully managed succession planning, we now see longer transitions between CEOs. In 2016, we see the planned advancement of Rob Collins at Waitrose and January's advancement of Steve Rowe at Marks & Spencer, both resulting from internal succession management processes. Several CEO seats remain empty as we enter the new trading year. We expect that tough conditions in 2016 will lead to another year of major change.

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Melissa Reed, principal, and **Barbora Minarovicova**, senior associate.

Appendix

The Korn Ferry Retail Practice based its 2015 Retail CEO tracker on the following moves:

Company	Executive
Alibaba UK	Ameé Chande
Anya Hindmarch	Helen Wright
Arnotts	Donald McDonald
Asos	Nick Beighton
B&Q	Michael Loeve
BHS	Darren Topp
Booths	Chris Dee
ChemistDirect.co.uk	Mark Livingstone
Coast	Andrew Skinner
Conran Retail	Hugh Wahla
Crabtree & Evelyn	Emilio Foa
Crawshaw	Noel Collett
Dunelm	John Browett
Foyles	Paul Currie
George @ Asda	Nick Jones
Halfords	Jill McDonald
Heal's	Hamish Mansbridge
Homebase	Echo Lu
House of Fraser	Nigel Oddy
Jack Wills	Peter Williams
Jacques Vert	Tim Davies
Joules	Colin Porter
L'Occitane UK	Sabrina Herlory Rouget

Company	Executive
La Redoute UK	Richard Burke
Ladbrokes	Jim Mullen
M&Co	Andy McGeoch
Majestic Wine	Rowan Gormley
Mamas & Papas	Derek Lovelock
Maplin	Oliver Meakin
MatchesFashion	Ulrik Jerome
Monsoon Accessorize	Paul Allen
Mulberry	Thierry Andretta
My Local	Mike Greene
Nisa	Nick Read
Notcutts	Nick Burrows
NotOnTheHighStreet.com	Simon Belsham
Pep&Co	Andy Bond
Pure Gym	Humphrey Cobbold
Radley	Justin Stead
Smythson	Mark Daley
Sofa.com	Vince Gunn
Tesco UK	Matt Davies
Urban Outfitters	Emma Wisden
Wm Morrisons	David Potts
Yoox Net-a-Porter	Alison Loehnis

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