

2016 UK Retail Chairmen Survey

Beyond Brexit

Uncertainty hits seven-year high for retailers with EU vote looming, consumer spending, and footfall declining. But high streets' elite still plan big investments in talent, online, and outlets.



Executive summary.

The uncertain outcome of Britain's June 23 European Union referendum has cast a shadow over Korn Ferry's 2016 survey of UK retail chairmen. Although some chairmen will vote themselves for Britain to leave the EU, an overwhelming majority believe that a British exit from the union, the so-called Brexit, would harm the economy. Indeed, some chairmen spoke with fear of a protracted disruption of trade and fracturing of supply lines that could take up to a decade to resolve. Small wonder, then, that only a quarter of the chairmen were optimistic about the economic outlook. Nearly half could not say whether they were optimistic or pessimistic, the biggest demonstration of uncertainty in the survey's seven years.

It would be wrong to describe the chairmen as gloomy. The vast majority expect the referendum to result in the UK's remaining in the EU. That leaves other uncertainties to deal with, however, including the pace of economic slowdown in China, terrorism, and international instability. Yet the survey shows surprisingly bullish investment plans, including opening new stores in the UK as well as developing online business.

Even more clearly than before, this survey has demonstrated the varied nature of UK retailing. Online retailers continue to expect significant growth over the next year, unlike their bricks and mortar colleagues, whose outlook is muted, particularly in food retail and in fashion. Retailers are feeling acutely the impact of consumers spending less of their disposable income on products and more on leisure and dining out. Some fashion retailers are bucking that trend by making the product more distinctive and desirable.

Different types of retailers produce leaders with different experiences and different views. Some online retailers relish the opportunities of Black Friday, with one respondent claiming personal credit for importing the idea to the UK. Meanwhile, the majority of chairmen responsible for more traditional stores think Black Friday is bad for business.

For some retailers, the introduction of the National Living Wage had little immediate effect because most of their staff already were paid more. But others are experiencing headaches with the pay bill and wage differentials. Most oppose hiring more staff younger than 25 to avoid paying the living wage. Many assailed Chancellor George Osborne for introducing the wage plan for political advantage without appreciating the harm to a sector already under strain.

The chairmen were divided over whether they have enough executive women in the talent pipeline. Half say they do; half don't. Women seem far better represented in fashion than in other areas of retail. Getting more women into non-executive board posts seemingly has resulted in an unintended consequence of depleting the ranks of senior women executives.

The chairmen are full of ideas for tackling this and other challenges. When the uncertainty surrounding the EU referendum lifts, they will chart a course to get on with the job.

About this study.

This survey presents the views of 50 retail chairmen, who lead boards of retail companies with a combined workforce of more than 1.5 million people and annual revenue of £276,600 million. They include¹ the chairmen of the UK's largest retailers and a cross section of all sub-sectors: grocery, fashion, general merchandise, and other specialists, as well as pure-play online retailers. Survey participants are listed at this report's end.

This is the seventh Korn Ferry UK retail chairmen survey; the first was created pre-election 2010 and it has continued regularly during the coalition government era. This survey is the first since the general election in 2015. It includes responses from a number of chairmen participating for the first time.

Fieldwork was conducted between January and April 2016. The graphs are based on online survey responses. Comments in this report come from in-person or telephone interviews with Korn Ferry. Some questions explored the chairmen's views on the outlook for the broader economy, while others focused on their specific businesses. They answered questions on the EU referendum, National Living Wage, cybercrime, gender diversity, and Black Friday, giving insights from the top on controversial topics.

As in previous years, the interviews are not attributed, allowing the chairmen to talk frankly about their own companies and for the sector. A number of respondents have agreed to be identified with some comments, reserving the right to anonymity on others. This flexibility has added greatly to this report, and we thank the chairmen for their openness.

Optimism.

Only a quarter of the nation's leading retail chairmen expressed optimism about the economic outlook for the next 12 months. This represents a significant deterioration of confidence across the sector. Two years ago, 73% of the chairmen said they were optimistic. A year ago, in a time of high political uncertainty in the general election's run-up, that number declined to 55%. Now, in the 2016 survey, the optimists have fallen to 26%. Meantime, the chairmen calling themselves pessimists rose to 28%, compared with 6% in 2015. This year, there were more pessimists than optimists for the first time since 2013.

¹ This study is based on analysis of 50 in-person or telephone interviews with retail chairmen, 39 of whom also completed an online survey. The majority of respondents are listed at the end of this report; 11 asked to remain anonymous.

However, the largest group of chairmen—46% of respondents—said they were neither optimistic nor pessimistic. More of the chairmen were uncertain about the outlook than in any previous Korn Ferry survey, with Sir Ian Cheshire, chairman of Debenhams, observing: “I believe we will see slightly more uncertainty in the next 12 months, certainly more than in the previous period. This is really for two reasons: firstly for the UK, as Brexit will inevitably introduce more noise into the system; secondly because we are now operating in a less benign world economy. This relates not just to the slowdown in China but also to the challenges across Europe and continued structural shifts in the operating model for retailers. There’s a lot to be getting on with.”

Brian McBride, chairman of ASOS and Wiggle, also had mixed views on the economy, saying: “I’ve been bullish during the past two to three years. This year, no one knows about the impact of Brexit, oil, China, or the threats from terrorism. So I am more cautious. That said, the UK economy has been very resilient in the past.”

Stefano Pessina, executive chairman of Walgreens Boots Alliance, noted: “In my opinion, the outlook is not dramatically better this year. The improvement in the economy, which was evident last year, is proving less certain today due to a number of factors which are creating uncertainty. It is always difficult to predict the emotions of people, but should Britain vote to leave the EU, I believe it would be negative both for the UK and for the EU.”

Retailers’ business circumstances affected their outlook, as noted by a chairman who asked not to be quoted by name: “The industry seems to be sitting outside of the recovery process, and food remains intensely competitive with the discounters increasing market share and general oversupply. This isn’t club tennis; this is the Olympic Games, driven by the competitiveness of the sector. Only the strong will survive.”

Each retailer faces a different outlook, said Darren Shapland, chairman of Topps Tiles, NotontheHighStreet, Poundland and Maplin: “The general mood is uncertainty about what’s coming.... Economically things are not bad, but there is a hype of people talking things down.”

Optimism still prevails for some chairmen, including Gareth Davis, chairman of Wolseley and DS Smith, who noted: “The general mood in my business is not bad—and better than last year.” Nick Wheeler, chairman of Charles Tyrwhitt, also was optimistic. He said football is down on the retail side, particularly in touristy areas, but direct sales are excellent. “The



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Sir Ian Cheshire,
chairman of
Debenhams



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Stefano Pessina,
executive chairman
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Alliance

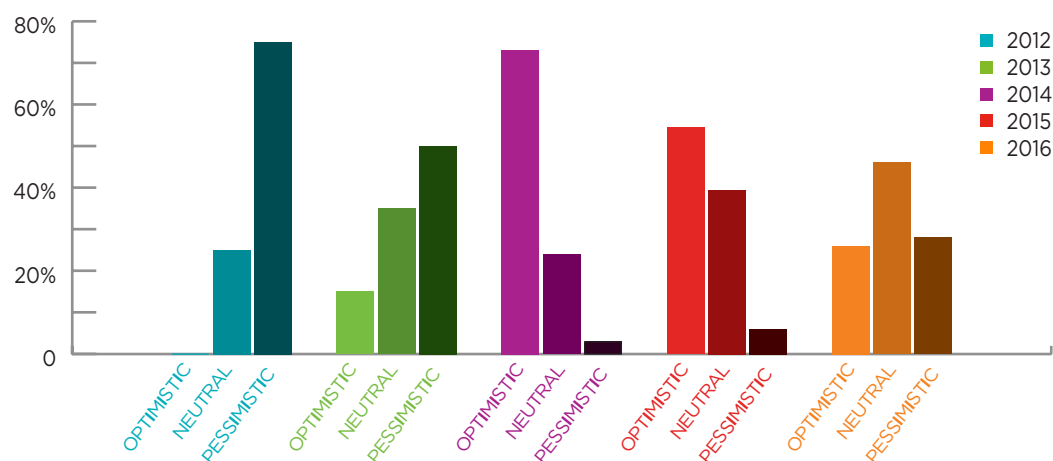
internet has forced the business to have integrity,” he said. “If you don’t, you get found out.... Social media finds you out.” Among the pessimists was the chairman of a leading Financial Times Stock Exchange (FTSE) retailer whose views were swayed by international uncertainties, not just by UK sentiment. “China,” this chairman said, “is going through reform as it transforms into a consumer economy in which services are playing a bigger part. In the US, there is uncertainty as to who their next President will be. And the Middle East also has a great deal of uncertainty. Hence my cautious view over the next 12 months.”

Derek Lovelock, chairman of Mamas and Papas, said he was slightly pessimistic “because the going would be difficult. There are few signs of people loving shopping as they used to. Even though we have better employment rates, the popular press at the moment seem to want to make us feel gloomy and unsettled about everything.”

Figure 1

Economic outlook.

How optimistic are you about the economic outlook over the next 12 months?



“There are few signs of people loving shopping as they used to. Even though we have better employment rates, the popular press at the moment seem to want to make us feel gloomy and unsettled about everything.”

Derek Lovelock,
chairman of Mamas
and Papas

Brexit

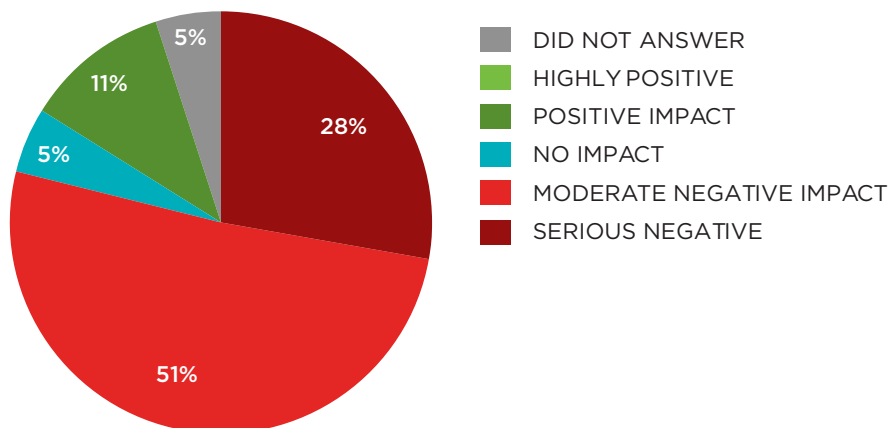
Although Brexit contributed hugely to the chairmen's uncertainty, they were clear about the referendum: 79% of them said Britain's voting to leave the EU will negatively affect the economy; 28% said it would have a serious negative impact, while 51% predicted a moderate negative impact.

Few chairmen—just 11% of them—saw Brexit with a positive impact; none thought it would be highly positive. That left 5% anticipating no impact at all and 5% who did not answer.

Figure 2

Economic impact of European Union referendum.



What do you believe the impact will be on the economy if Britain votes to leave the EU?



Voicing the majority view, one chairman said: “The uncertainty is damaging as no one has a clue over what time period this may take to resolve if we were to come out. I think it could take 10 years to resolve. As it would involve forming trade agreements with the whole world, not simply the EU, it’s hard to put a number on it. I honestly don’t know which way the vote is going to go and I wouldn’t bet against another Greek crisis. Selling the vision for Europe is much, much harder than selling a Jerusalem vision for Britain.”

Another chairman said: “If we press the exit button, there will be a lack of confidence. It will give a clear sign to the rest of the world, and then a number of other countries will want to follow suit. A lot of people are voting to leave on the basis of not wishing to accept further immigrants. But people will not invest here in the UK if we exit. They will invest inside trade barriers, not in the UK. Over 10 years, the impact on employment and investment will be huge.”

Other chairmen’s views on Brexit and the economy are shown in Table 1.

Table 1	
Retail chairmen’s views on Brexit.	
<div>Debbie Hewitt, chairman of White Stuff and Moss Bros.</div> <div></div>	<p>“The Brexit debate does make you think about the bigger issues around political uncertainty. The benefits of leaving are hard to define and quantify, but seem accompanied by huge risks. I am concerned about the likelihood of at least two years of uncertainty and no plan. It will change how our supply chains work; it will change our approach to international expansion and to doing business with Europe, and none of us can predict how our European counterparts will react. There will very likely be a backlash against Britain by other EU countries if we were to leave. We’re debating the risk/ reward options at present. My biggest fear is that not enough people will turn out to vote and my prediction is more one of hope over certainty that we will vote to stay in.”</p>
<div>Brian McBride, chairman of ASOS and Wiggle</div> <div></div>	<p>“Should we opt to come out of the EU, then I would be concerned about the potential impacts on the supply chain. With any form of border tariff friction, parcels get stopped and searched more often, so there is greater potential for impact/delay in the product journey. It may not happen, but the uncertainty for it to happen is certainly there.”</p>

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— a chairman

Vagn Sørensen,
chairman of
Center Parcs, SSP
Group and Tiger



“I have a negative view on the UK exiting the EU. Both the retail businesses I chair operate very internationally. Leaving will create uncertainty and the markets don’t like that and it is hard to know what the currency impact will be in leaving. I believe there is an over-done optimism about renegotiating trade deals with Germany and France if we were to exit—they will be reluctant to make too good a deal with the UK as it will send a signal to other countries that you can leave and still do well out of it. Investments into the UK will be held back and other countries will take a conservative view about new investments into the UK. Furthermore, our business employs a considerable number of non-British EU workers—we are dependent on them, so potential restrictions on movement of labour could be an issue for us.”

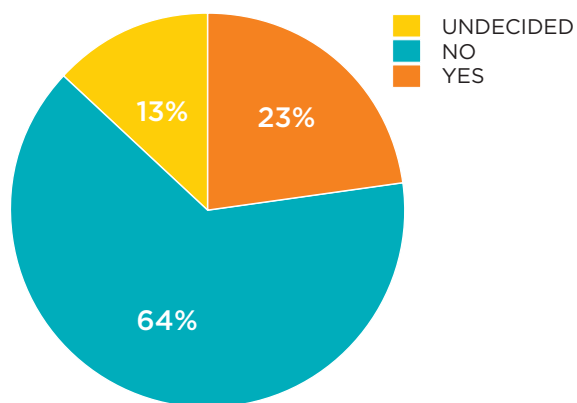


“In overall terms the macro economic effects of Brexit would be so profound that all businesses in the UK from the largest PLCs to the corner chip shop will be affected negatively.”

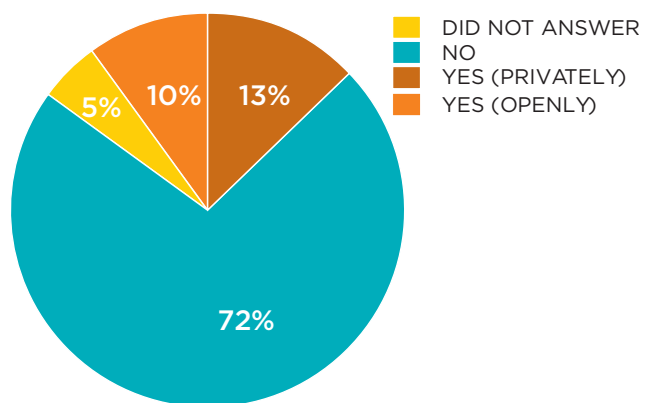
Gareth Davis,
chairman of William
Hill, Wolseley and
DS Smith

Concern about Brexit’s likely economic impact persuaded some chairmen to vote to stay in the EU, although they are disillusioned with the UK’s union membership. This may be a case of head over heart, with some “reluctant remainers” saying they might endorse Brexit if they could be

Figure 3
European Union Referendum intentions.



Will you personally back a vote to exit the EU?




Will you or any of your board agree to be a part of a campaign to stay in or exit the EU?

persuaded that its major economic disruption might last only a year or two. In their view, the UK could endure short-term pain to be master of its own destiny rather than deal with Brussels’ regulation. But Brexit isn’t a viable option to those who foresee years of disruption. When asked about their own vote, 23% of the chairmen said they back Brexit; 64% oppose it, and 13% were undecided. Many favouring Brexit are either older chairmen or entrepreneurs, who are concerned about issues of sovereignty and want Britain to control its destiny more.

One chairman said: “It’s a personal view, but I am pro-Brexit, partly for philosophical reasons and partly economic. It will be difficult, but we need to do it. The EU is going to fail. It’s on its way to failure and will implode in the next 10 to 15 years, so we need to build outside it. There is ever more centralisation within the EU, and when it fails, we need to be outside it. It will be painful, but that’s not a good enough reason not to do it.”

All the chairmen who see Brexit favourably affecting the economy say they will vote for it. But 11% of those voting to leave expect such a move would harm the economy.

Other chairman with contrasting views are quoted in Table 2

Table 2	
Pro-Brexit views from retail chairmen.	
<div>Simon Burke, chairman, Blue Diamond Garden Centres</div> <div></div>	<p>“My issue is that nobody in government takes the big decisions or shows real leadership any more. The debate on membership of the EU is a good example of that. It started out as good strategic questioning of whether it was good for the UK [to be part of the EU or not], and has ended up being a pathetic debate about the benefits system and immigration, derailed by scaremongering. This should be a strategic decision about the UK’s economic position and whether that is best served by being part of the EU or not, considering our prestige and our influence on the world stage.”</p>

As for the outcome of the June 23 referendum, 92% of responding chairmen expected Britain ultimately to remain in the EU, although the vote may be close. They said young voters likely support Britain’s EU membership but turnout runs low and apathy high in this age group. Chairmen who oppose Brexit fear the young won’t vote, while older “Daily Mail readers” will, in force, support the measure based largely over immigration-related issues.

Company forecasts.

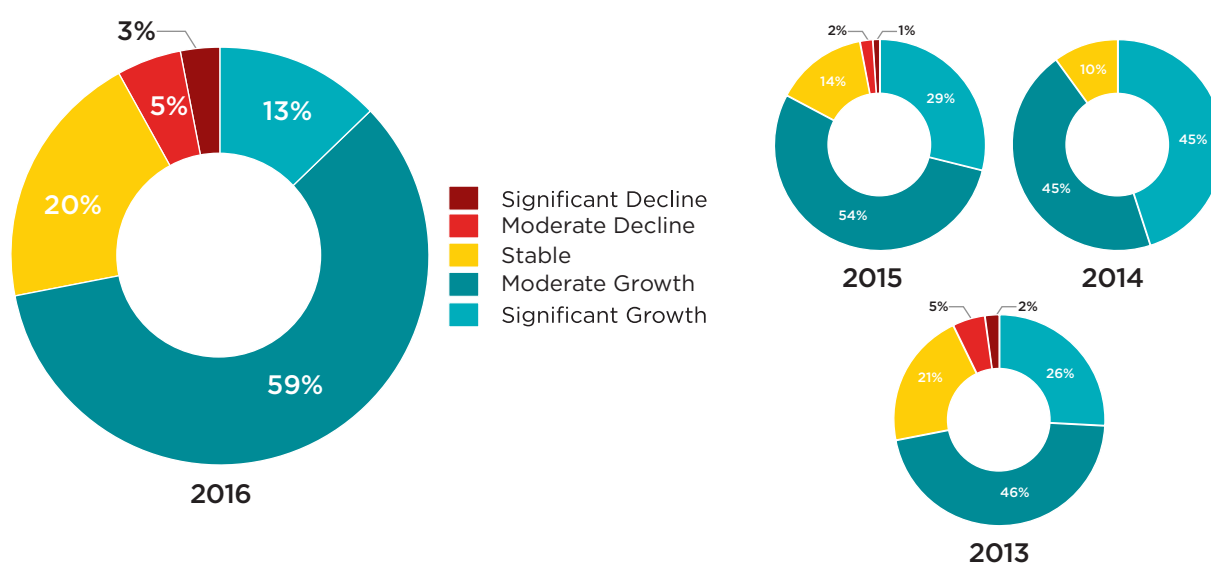
At first glance, the chairmen's predictions on how their own companies will fare over the next 12 months might seem out of kilter with their lack of optimism about the broader economy. Overall 72% of them anticipate growth, and 69% expect to invest more in their businesses than in the previous 12 months. Although the chairmen may be feeling uncertain with Brexit, their investment plans are grounded in the expectation of Britain's staying in the EU, a status quo that most chairmen would find reassuring.

Still, their corporate growth forecasts are not as strong as last year's. Fewer chairmen see their companies experiencing significant growth over the next 12 months—down to 13% this year from 29% in 2015. But there was a slight increase in the number of chairmen predicting moderate growth, 59% this year versus 54% last year.

More chairmen believe their companies will remain stable, 20% saying this will be true versus 14% last year. But the proportion expecting their businesses to contract was the highest since Korn Ferry first asked the question in 2013. Two years ago, none of the chairmen expected their companies to decline; this year 8% do so, including 3% who expect the decline to be serious.

Figure 4
Company performance.

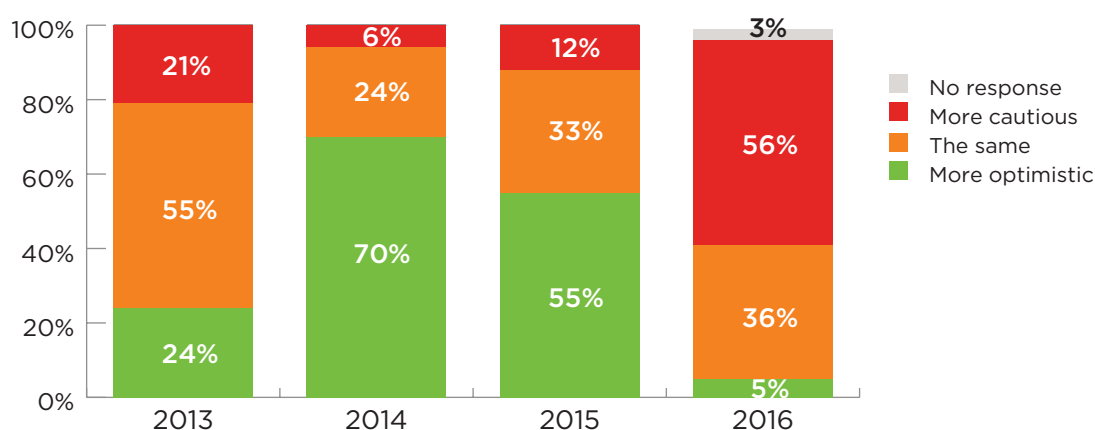
What is your prediction for your company's performance in 2015/16?



Customers will be more cautious over the next 12 months, 56% of the chairmen said, with 36% of them expecting customers' mood to stay the same; only 5% expect more optimistic customers. This is the lowest customer optimism score since the question was first asked in 2013. But the chairmen seem undaunted: three-quarters nevertheless expect their companies to experience moderate growth and a quarter expect to remain stable.

Figure 5
Consumer sentiment.

Will customers be more cautious or more optimistic over the next 12 months?

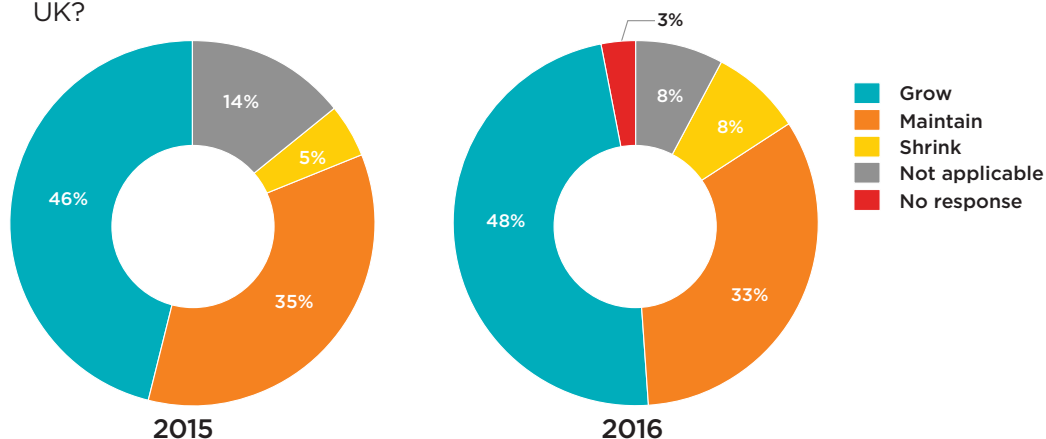


The chairmen are gearing up to invest more in the UK market. Asked if they will invest more in their business in the UK over the next versus the previous 12 months, 69% said yes and 5% said no, leaving 26% expecting to invest the same. Only 39% said they would invest more in their business outside the UK, with 28% expecting to invest less and 23% investing about the same. To some extent, these responses were skewed because some respondents have only UK stores and no international operations (and no plans to expand internationally). For retailers with an international footprint, the current political uncertainty has clearly resulted in some key investment decisions—where to open stores and in which markets—being placed on hold for a few months until Brexit is resolved. The proportion of chairmen expecting to invest more in the UK was the highest since Korn Ferry first asked this question in 2013. The key areas identified for investment include digital, IT, and people.

The chairmen were bullish about their UK store portfolios, with 48% expecting them to grow over the next 12 months, and 33% saying they would stay the same. This was surprising given the level of commentary in the sector on space over-supply. But there were significant variances in responses, based on which retail sub-sector the chairmen represented: In grocery, the chairmen were inclined to shrink the store count; in fashion, many still are considering selected new stores in right locations but carefully planned as part of a wider multichannel strategy. Only 8% see their UK store portfolios shrinking. Outside the UK, 41% expect the portfolios to grow; 16% say they will stay the same, with none foreseeing contraction.

Figure 6
Store portfolio.

a) How will your store portfolio evolve over the next 12 months, in the UK?



b) How will your store portfolio evolve over the next 12 months, outside the UK?

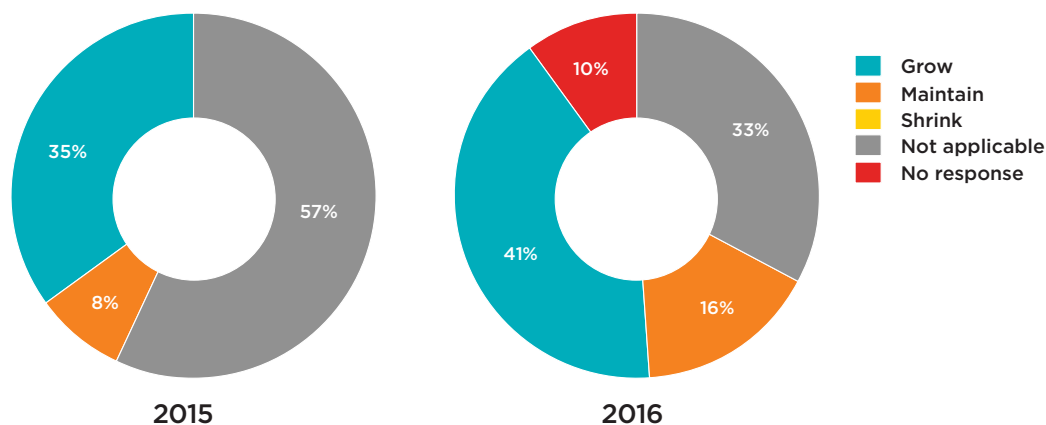
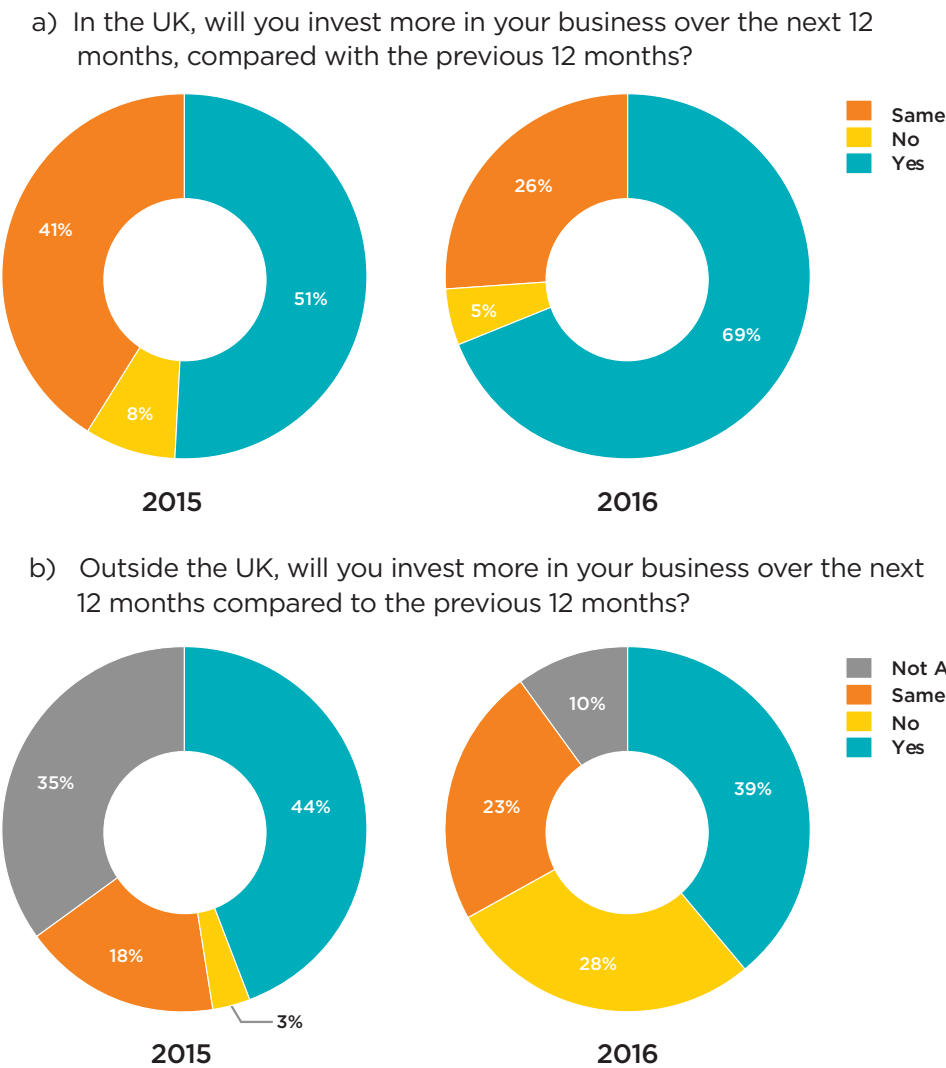


Figure 7
Business investment.



On talent, 51% said they will invest more in jobs, skills, and training in the next 12 months, while 43% will invest the same, with only 3% investing less. In last year's survey, 68% expected to invest more in this area, and 29% were planning to invest the same. Although chairmen plan to invest more in jobs, skills, and training, they also believe their customers will be more cautious over the next 12 months. When selling gets tougher, the workforce needs to be smarter. Nick Wheeler, founder and chairman of Charles Tyrwhitt, said: "We're investing more in our people as the business grows. You soon learn that investing in people is a good return on investment. Likewise, if you pay more, you get better people. Yes, we are affected by the introduction of the National Living Wage, but we're going to tackle it earlier and ensure we get better people and a productivity increase."



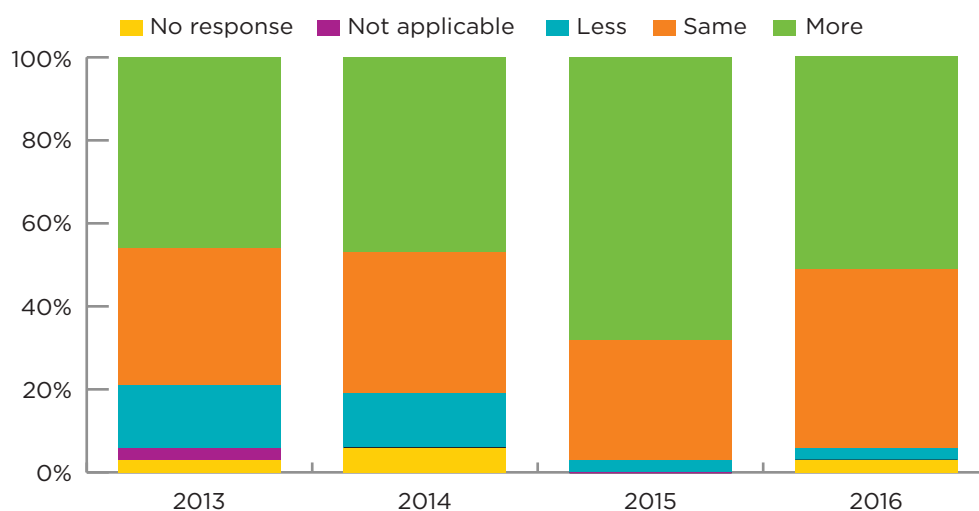
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Nick Wheeler,
founder and
chairman of
Charles Tyrwhitt

Figure 8

Leadership and talent investment.

How will your investment in jobs, skills and training in the next 12 months compare to the previous 12 months?



National Living Wage.

Chancellor George Osborne announced in his 2015 post-election budget that Britain, starting April 1, 2016, would require employers to pay workers older than 25 a National Living Wage (NLW). This year the minimum was set at £7.20 per hour and will rise to at least £9 over the next four years.

Most, but not all, retailers had employed some affected staff at less than the new minimum. But median hourly wages paid across the sector already were slightly higher than the minimum. Still, the wage policy is bound to have an economic impact. Retailers face cost pressures to increase wages not only for the low-paid but also for other staff, if they seek to maintain pay differentials or feel obliged to do so. Companies that used their higher hourly rates as a brand differentiator in their recruitment strategies also are more acutely affected.

UK retail chairmen widely dislike the living wage, many believing it will lead to price increases. These may be introduced quickly, for example, in fast food outlets and coffee shops, where most customers would pay extra. The increases are inappropriate in food retailing given the high levels of competition.

Many chairmen assailed the Chancellor for championing the living wage, primarily for political advantage, without recognising how it would harm retailers just as their margins are being squeezed by so many other factors.

One chairman said: “The issue with the NLW is that it is too much, too far, too soon. The issue is not just the base increase, but the ripple effect up the pay grades. So it will lead to wage-led inflation across the economy, interest rates that are higher than necessary and everything associated with that, and in 2019-2020 we will get a recession.”

But another chairman took a more relaxed view, noting: “This [law] has little impact as most of our staff are already paid at more than [the minimum]. There may perhaps be some in our warehouses, although these are mainly outsourced, so it would first come through to us as a cost increase through the contract with the third party provider [rather] than in our own wages/hourly rates.”

The chairmen were asked how their companies would deal with the required wages and given multiple possible responses, of which they could pick all that applied: 23% said they would increase prices, 23% would reduce the number of staff hours, 15% would reduce the number of workers, 10% would scale back recruitment, 5% would close stores, and 3% would replace employees older than 25 with younger staff not covered

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— chairman of a FTSE listed retailer

by the wage law. The chairmen overwhelmingly said they would seek to increase worker productivity, an option chosen by 69%. (The response options did not appeal to all the chairmen, with 26% choosing none of the previous.)

The chairmen said they hoped to boost productivity with technology to automate processes (e.g. self-service checkouts) and better shop floor workforce planning. A FTSE retail chairman said: “I’m broadly in favour of [the wage law]. We will have to go through a process of streamlining the various employment conditions we have.... In addition, we will look at standardisation and the use of technology to take costs out, e.g. labelling on shelf edges could provide us with quite substantial savings, if you think about 20,000 labels on shelf edges and the reduction in manual labour time that is achievable if this could be done electronically.”

Another chairman said: “There will be productivity gains through automation and labour-saving machinery. We will have to look at changes to our systems of employment so we won’t pay for privileges such as tea breaks—the differentials that companies have used in the past, e.g. the cafeteria-style system, will go. Overall, workers will be paid more, but not as much more as it says on the tin.”

The views of other chairmen are shown in Table 3.

Table 3	
Retail chairmen’s view on National Living Wage increase.	
<div>Darren Shapland, chairman of Topps Tiles, Notonthehighstreet, Poundland and Maplin</div> <div></div>	<p>None of the businesses I am involved with are over rich on resources. We will need to look at what to change, like managing our efficiency across both payroll costs as well as other areas to offset the increases. In Poundland our productivity is good, but we are not as efficient as a grocery businesses in some of our processes. Maplin has an efficient proposition for what it does, which is more about one to one customer service. The sheer scale of the increase though—from less than £7 per hour to more than £9 per hour over 5 years—is around 40% increase to what is your second biggest cost after property. We will need to be creative and look at how to be more efficient.”</p>

Debbie Hewitt,
chairman of White
Stuff and Moss Bros.



[On the subject of hiring under 25s instead of over 25s to mitigate the cost burden] “I think you’ve lost the plot if you do that! You need to recruit the best people to do a job, irrespective of age. There is no question that young people can add skills and experiences that we don’t already have [e.g. digital], but recruiting purely for cost reasons would feel misguided. Overall I do think that the introduction of NLW will result in the loss of jobs and, unless it spurs genuine productivity improvements, it could make UK PLC less competitive.”

Gareth Davis,
chairman of William
Hill and Wolseley



“I am against the plan for discriminating against part of the workforce based on age—I am a big supporter in believing all should be treated equally. I do think that we should try to get some goodwill out of it, as well as use it as a catalyst for restructuring. By that, I mean not entering into this grudgingly, but to be ahead of the curve, introduce it for everyone a couple of months early to instil goodwill but also to ensure people know there will have to be some consequences in order to restructure costs. Longer term it will mean a greater scrutiny on the performance of individuals. What is dangerous with the introduction of NLW will be in environments where there could be the call for increasing wages at the next levels up—in order to maintain the wage differential between grades. That is a particularly dangerous issue, which will cost infinitely more than the NLW move in itself.”

Cybercrime

The retail chairmen disagreed on the extent to which cybercrime threatens their companies, with 28% saying it was extremely important, 28% calling it very important, 31% finding it moderately important, 10% deeming it of little importance, and 3% dismissing it as insignificant.

The differences seemed to be related to the type of retail businesses. It was a top risk for chairmen of online retailers or other businesses holding lots of customer credit card data. But it was less so for chairmen of companies, especially fashion retailers, with lower exposure to customers' financial details.

To some chairmen, however, this denial of significant risk seemed naïve. Companies are vulnerable to internal hacking as well as to external attack. They can be damaged by loss of customer trust, even if the cybercrime has little material effect. One chairman noted that most cybercrime in his experience was committed by employees who had “gone rogue”—deliberately accessing and corrupting customer data.

The gambling sector, where online gaming has become ever more sophisticated, seems to be leading the way in responding to cybercrime, as are some of the other online players. These companies ensure that their teams are fully trained and know how to spot the risks. Many retailers now ask staff members to become “in-house hackers” to test attack their companies' systems; many also hire professional hackers to probe for weaknesses.

Robert Walker, chairman of Travis Perkins and Enterprise Inns, said: “I’ve been astonished to learn recently that many well-known FTSE100 companies are still relying on legacy IT systems that are 20 or 30 years old. Not only does this raise the risks of cyber terrorism, but it also challenges the longer-term viability of their business models.”


Sir John Peace, chairman of Burberry, said: “The increased risk of cybercrime should be a major concern for all retailers. Reputation risk and potential loss of customer trust following such an attack could far outweigh the immediate financial impact. At Burberry, we have established a team of specialists, recruited from outside the industry and reporting directly to the COO, to focus on this increasingly important issue.” Another chairman of a large retail chain said this was a crucial issue on which tens of thousands of staff should be educated. “It’s going to be an ongoing soak of cost, inevitably, but it’s crucial.”

There are varying views on where the chief responsibility for combating cybercrime should sit: in finance, information technology (IT) or operations. Some chairmen vehemently opposed to placing it in IT. Other views on this topic are given in Table 4.



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Sir John Peace,
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Burberry

Table 4	
Retail chairmen's views on cyber risk.	
<div>Brian McBride, chairman of ASOS and Wiggle</div> <div></div>	<p>“This is extremely important and is probably number two or three on the risk register for us as an online retailer. It’s not so much what the material impact would be, more the impact on customer trust. The negative publicity that would be created—just as we saw with TalkTalk last year—would be a major hit. As an online retailer, we’re more aware than most. We receive several thousand cyber attacks per week; some robotically driven. Those big retailers that are saying they are only getting a few hits a week are probably not measuring the right stuff. We have a heavyweight team on the inside, with a Chief Information Security Officer (CISO), and we actively use outsiders to try and attack us so we prove the integrity of our systems against hacking. You have to have good password discipline for everyone across the whole business and be strict on practical things like not allowing staff members to plug USBs into an office PC. Remember a lot of hacking is created by rogue insiders. Our Top 100 in the company are always on high alert and very aware of the potential consequences.”</p>

Chairman of a
privately owned
fashion retailer

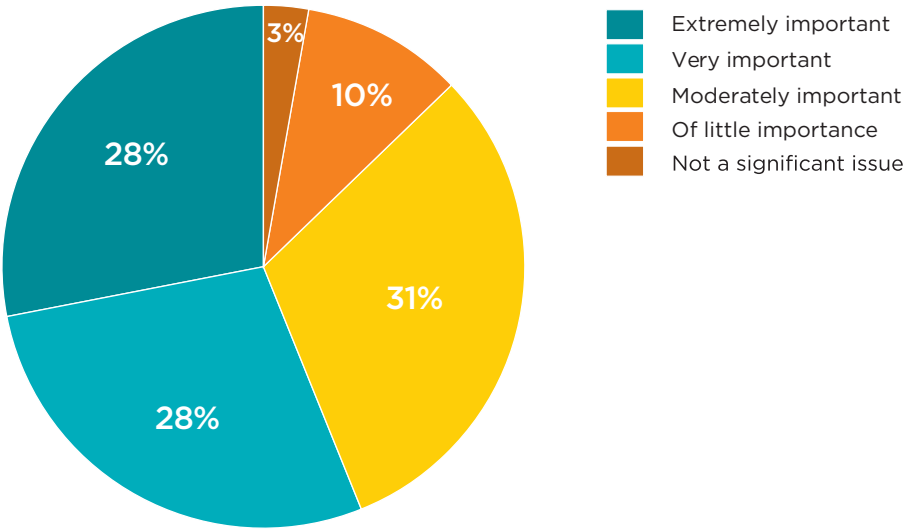
“On one of my other boards ([non-retail]) we deal with 75% of the FT350 and we see the aftermath of cybercrime, so I therefore know the lessons learnt. This is not simply an issue for retailers who hold a lot of credit card or wider customer data. A company is equally at risk from internal hacking from disenfranchised staff, as it is from serial/professional hackers. For instance in a business where your commitment to delivery dates is absolutely critical, imagine if someone goes in and changes all of those dates, leading to significant numbers of customers being let down. The reputational risk of that is considerable. Likewise on lead time dates in the supply chain in a fashion business; if these are deliberately sabotaged it can have a serious material impact on the season and profitability. This is a critical business issue affecting all retailers, not simply online players, or those with retail financial services. The responsibility for cyber risk should never sit under the CIO; it should reside under the CFO or COO.”

Chairman of larger
listed retail PLC

“Many people are simply unaware of the risks of hacking and cybercrime in their everyday lives and are far too free with giving out personal information, which can put them at risk of cyber attack or hacking. Lawyers call it ‘The Truth Serum.’ Take the example of social media and Facebook posts. There was the case recently where a woman posted to her friends on her Facebook page about the purchase of a £10,000 ring in the Dubai Duty Free. Hackers spotted this, then hacked into the Duty Free systems in order to retrieve the customer data, recognising this was likely to be a high net worth family and therefore a prime target for account hacking.”

Figure 10
Threat of cyber crime.

To what extent does cyber crime represent an important threat to your company?



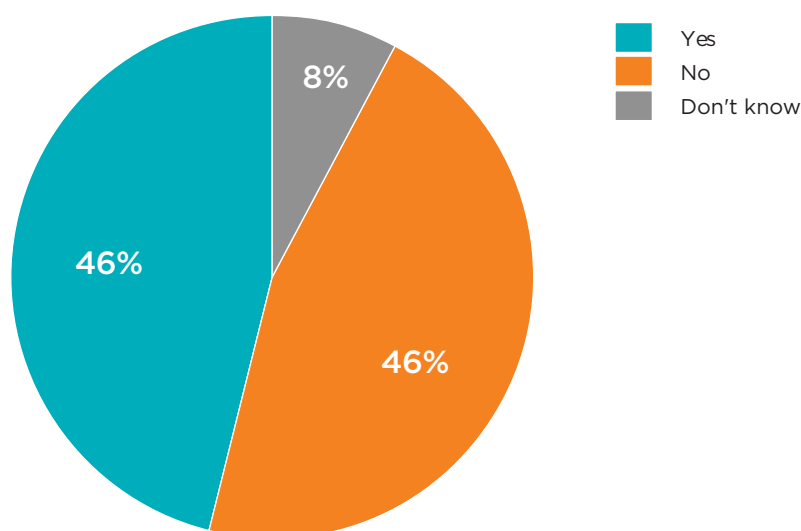
Women leaders.

The chairmen were evenly divided about whether they have enough executive women in their companies' talent pipelines to ensure diverse leadership over the next five years: 46% said they do, 46% said they do not, and 8% were undecided.

Figure 11

Female pipeline.

Do you have enough executive women in the talent pipeline to ensure diverse leadership over the course of the next five years?



This split masked important differences in retail sectors. In fashion, the issue is not entirely about women rising to executive director roles, although still too few make the leap to CEO. In private or private-equity-backed fashion, women seem better represented. Indeed, in some of these companies the complaint was that there were insufficient men in senior leadership. In publicly quoted fashion retailers and those with wider general merchandise (fashion and food offerings), the number of women reaching senior executive drops off. One chairman attributed this to the considerable changes in the CEO's role in listed companies. It's a job focused on managing shareholders, investors, and financiers, a role he suggested might be less appealing to some women.


In non-fashion, the picture is far less rosy, with a dearth of senior women on the executive committee. This is partly because of self-selection; fewer women, for example, want to work in builders merchants than in fashion. But culture and working practices of certain companies also may deter women's advancement.

The chairmen said they believe that gender bias needed to be addressed with leadership from the top, with organisations offering more flexible working conditions and improving their corporate culture so it is less aggressive and a turn-off to women.

Chairmen noted that publicly quoted companies are meeting their quotas for women on their boards. In 2011, the government accepted a recommendation from an independent review by Lord Davies that there should be a minimum of 25% female representation on boards of UK-listed companies in the FTSE 100 by 2015. Other companies were asked to set their own challenging targets. But progress at board level also may have perversely contributed to a reduction of females in the executive ranks.

The flip side of the response to the Davies report is that boards have spent five years recruiting women into non-executive roles to hit gender targets. This has had a negative net effect on the small number of very senior women in executive committee roles. They have opted to “go plural” as advisors, thereby taking themselves out of the day-to-day running of some of these businesses.

It may not have escaped readers’ attention that nearly all the chairmen in this survey are men. That reflects a continuing gender imbalance in the sector’s leadership. The chairmen’s views on this controversial topic are included in Table 5.

Table 5	
Retail chairmen’s views on female talent pipeline.	
<div>Andy Higginson, chairman of Wm Morrison and N Brown</div> <div></div>	<p>“The Davies Report has had an impact in holding people to account in FTSE-listed companies and there is an improvement, but companies have tried to deal with the challenge of a lack of senior women by appointing women on to boards as non-executive directors. Looking at the wider Executive Committee would be a better measure, and is where we should be focusing to address the issue. We equally have to recognise this is not simply a gender issue; there is still a lot of ignorance around the subject.”</p>

Debbie Hewitt,
chairman of White
Stuff and Moss
Bros.



“For the industry I agree gender balance is a problem but I am not so supportive of some of the solutions and I dislike the idea of female only groups—it’s not representative of real life. The ownership structure of retailers can also be one of self-selection, i.e. for publicly quoted retailers, the CEO needs to spend a significant amount of his/her time talking to the City and if you have come through the product route you are less likely to be attracted by the notion of spending a lot more of your time in the City limelight and less on those product decisions.”

Chairman of major
listed retail PLC

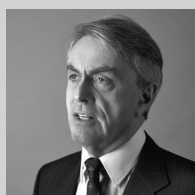
“In some industries it is incredibly difficult to get women to come in—for example in packaging, or engineering or construction. It starts at entry level and is an issue at every level. At the other end of the spectrum we have a real issue with female executives getting to the penultimate stage of their executive career and then leaving it in favour of a few board seats and a less demanding life. There has been such a focus on filling boards with women that there are an increasing number of female HRDs, CIOs, CFOs who get to 50-52 years and then decide to get out to take on a couple of NXD roles, a Chair and an SID, making the calculation they can achieve a reasonable annual compensation, say £300k a year without the stress of the executive role.”

Vagn Sørensen,
chairman of
Center Parcs, SSP
PLC and Tiger



“We are very fortunate to have an extremely successful female CEO leading our business (Kate Swann, SSP) whom shareholders follow as she is known for delivery. Other countries are more advanced when it comes to the development of women into very senior leadership roles. I don’t necessarily agree with the quota system as in Norway, but in Denmark, publicly quoted companies need to publish a goal of where they want to be and in what timeframe. It’s stated in the Annual Report and so companies not only feel they have to live up to their own targets, but also experience a level of peer pressure, which has an overall positive cumulative effect.”

Robert Walker,
chairman of Travis
Perkins



“We need more innovative solutions. For example, over 30 years ago, at PepsiCo, we formed an alliance with IBM and Citigroup; if an executive of one of the three companies was relocated, then the other two companies would endeavour to find an appropriate opportunity for the displaced partner and vice versa. It worked. Why don’t 20 or 30 of our FTSE100 companies co-operate in this way?”

Stephen
Robertson,
chairman of Retail
Economics and
Timpson Group



“Yes there is a widespread recognition in the industry that we haven’t got the balance right yet. Business isn’t female unfriendly, but I think we should have a quota system with a sunset clause for five years to fundamentally drive change through more quickly. Italy has had a quota system for few years now and perhaps the same here would jolt our thinking on, and our behaviours.”

Bernard Lewis,
chairman of River
Island



“For us it isn’t a problem; we have very many good senior level women in our business; if anything we find it harder to find capable senior level men; the majority of our top execs are women. It isn’t a subject for discussion. A number of our senior female executives are incredibly highly valued, and we are flexible—perhaps with part-time working or other means in order to accommodate them.”

Black Friday.

An overwhelming majority of the chairmen think Black Friday is bad for UK retail, but some online enterprises beg to differ. For them, this promotional sales event at November's end provides a welcome trading boost; for everyone else, selling merchandise cheaply before the start of the prime trading period in the run up to Christmas is of questionable benefit. Whatever their views about Black Friday, all the chairman agreed that it is here to stay, and many are reconciled to dealing with it as part of the promotional calendar.

The survey found that 72% of chairmen think Black Friday is bad for UK retail, compared with 5% who think it is good, and 23% who are neutral. Some retailers, including betting shops and garden centres, are unaffected and do not participate. Some leisure retailers said it harms trade as shoppers stay at home and shop online on Black Friday, reducing the footfall in cafes-food to go on that day. One leading FTSE retail chairman said: "Black Friday is a terrible thing. It's a total distortion, and it's very difficult to stand aside when others are doing it. I think it may dwindle a bit. In general there is a trend toward everyday low pricing. The public has begun to question 2-for-1 and other promotions. We'll see more consistent pricing—a lot more simplicity. The downside is that the shops will become a bit more boring; you still need to have some excitement in stores!"

Edwin Booth, chairman of EH Booth & Co. and Symington's, said of Black Friday: "It's ridiculous. Why would you virtually give your stuff away? I think it's counter-productive in the long term." And Nicky Dulieu, chairman of Notcutts, said: "We don't get involved at all, but I feel it is bad for the industry.... Retail is dreadful at coming together and agreeing to stop something. One or two will back the idea and the rest have no choice but to follow."

Some chairmen thought Black Friday would simply be factored into the promotional calendar as Halloween or Mother's Day were. Others said retailers must respond to it in a more considered way, i.e. not discounting on everything and destroying the prime trading period in the run up to Christmas, and using it, instead, as a chance to discount excess goods or last season's stock.

Another chairman said: "I'm fairly neutral. I think it will depend on how you plan to trade through it. Those who throw a lot of volume at it and then don't make a profit are the ones who suffer most."



"It's ridiculous. Why would you virtually give your stuff away? I think it's counter-productive in the long term."



Edwin Booth,
chairman of EH
Booth & Co. and
Symington's



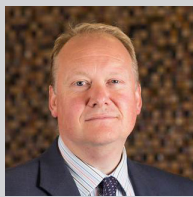
"We don't get involved at all, but I feel it is bad for the industry.... Retail is dreadful at coming together and agreeing to stop something. One or two will back the idea and the rest have no choice but to follow."

Nicky Dulieu,
chairman of
Notcutts

There is growing recognition that managing customers’ expectations is critical. A number of retailers now state that any products purchased in Black Friday promotions will not be delivered for 10 days, thereby alleviating customer dissatisfaction when items cannot be delivered quickly and smoothing delivery schedules. Other chairmen’s views are included in Table 6.

Table 6	
Retail chairmen’s views on Black Friday.	
<div><div>Brian McBride, chairman of ASOS and Wiggle</div><div></div></div>	<p>“I take the credit for introducing Black Friday to the UK, on Jeff Bezos’ recommendation, during my days at Amazon. Yes, Black Friday is here to stay and different businesses are responding to it in a variety of different ways. 2014 was the nadir; at AO.com [where he is SID] we lost delivery capacity for a month after the event as we weren’t well enough prepared for it; 2015 was a much better year and today it is a really important part of our mix. Black Friday is a good thing. I don’t think it’s going to be the time where you’re going to see killer deals, but it is a great opportunity; it’s a noise and an event around which retailers can position themselves to take advantage; just like any other point on the promotional calendar.”</p>
<div><div>Daniel Rubin, chairman & founder of Dune Shoes</div><div></div></div>	<p>“We do participate in Black Friday. We have our own stores, but are also heavily committed to department stores. There have always been the promotional mega days with our partners, so it wasn’t a huge change—simply a question of incorporating it into our overall plan, albeit in a more measured way. We very much want to trade full price, so we limit promotions as much as possible and try to promote on sub brands rather than main brand—it’s all about your overall pricing and promotional strategy. It is something we need to be cautious about but we plan strategically for it, as we believe Black Friday is here to stay.”</p>

Darren Shapland,
chairman of
Topps Tiles,
NotontheHighStreet,
Poundland and
Maplin

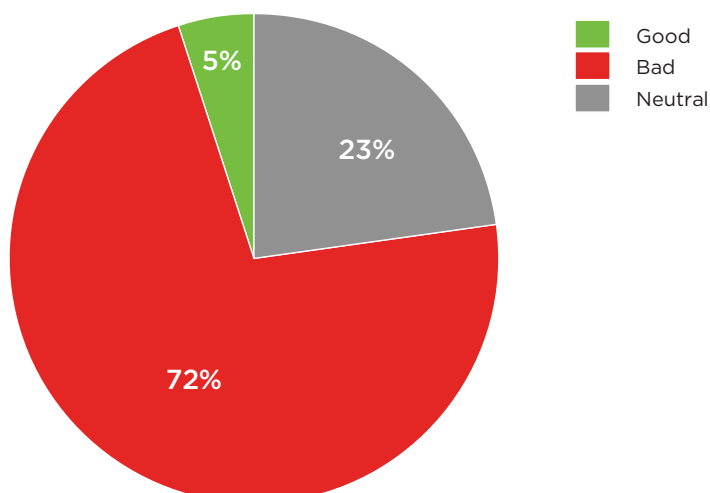


“Unfortunately, yes, Black Friday is now enshrined in the annual retail calendar. Last year was the most disruptive. The year before was a minority sport but last year was more popular and changed the discounting window to pre-Christmas rather than traditional January sales. Not all of our businesses participated; Topps Tiles and Poundland didn’t really although they saw an increase in high street foot fall over the Black Friday weekend. Maplin participated in-store and online. I hope it will become more of an online event although Cyber Monday is now defunct, as delivery cycles are now so much better so there’s not as much pressure causing pre-Christmas delivery problems. NotontheHighStreet participated fully and it was helpful to them, as it brought higher sales forward to November. I’m not sure how many of the approximately 5,000 partners participated, but it’s a good chance for them to increase sales and understand demand for key items. Overall the summation of Christmas sales wasn’t too different. Consumers had it good on Black Friday last year.”

Figure 12

Black Friday.

Do you think Black Friday is a good thing for UK retail?



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Domestic & General

Andy Higginson

Wm Morrison

N Brown

Woolworths

James Hodgkinson

Furniture Village

Colin Holmes

Go Outdoors

Admiral Group

Bob Ivell

Carpetrigh

DS Smith

Mitchells & Butler

Charles Wells

Bernard Lewis

River Island

Derek Lovelock

Mamas and Papas

Paul Mason

Dr Martens

Cath Kidston

Mayborn Group

Sir Charlie Mayfield

British Retail Consortium

John Lewis Partnership

Brian McBride

ASOS

Wiggle

AO World

Neil McCausland

Karen Millen

Joules

Skin

Create Health

Snow + Rock

Alan Parker CBE

Mothercare

Darty

Park Resorts

Sir John Peace

Burberry

Richard Pennycook

The Hut Group

Howdens

Stefano Pessina

Walgreens Boots Alliance

Stephen Robertson

Retail Economics

Timpson Group

Daniel Rubin

Dune Shoes

Darren Shapland

Maplin

NotontheHighStreet

Poundland

Topps Tiles

Wolseley

Vagn Ove Sørensen

SSP Group
Tiger
Center Parcs

Henry Staunton

Brighthouse
Phoenix Group
WHSmith

David Sugden

Findel

Robert Swannell

Marks & Spencer

Rob Templeman

Gala Coral
RAC

David Tyler

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Robert Walker

Travis Perkins
Enterprise Inns

Nick Wheeler

Charles Tyrwhitt

Peter Williams

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