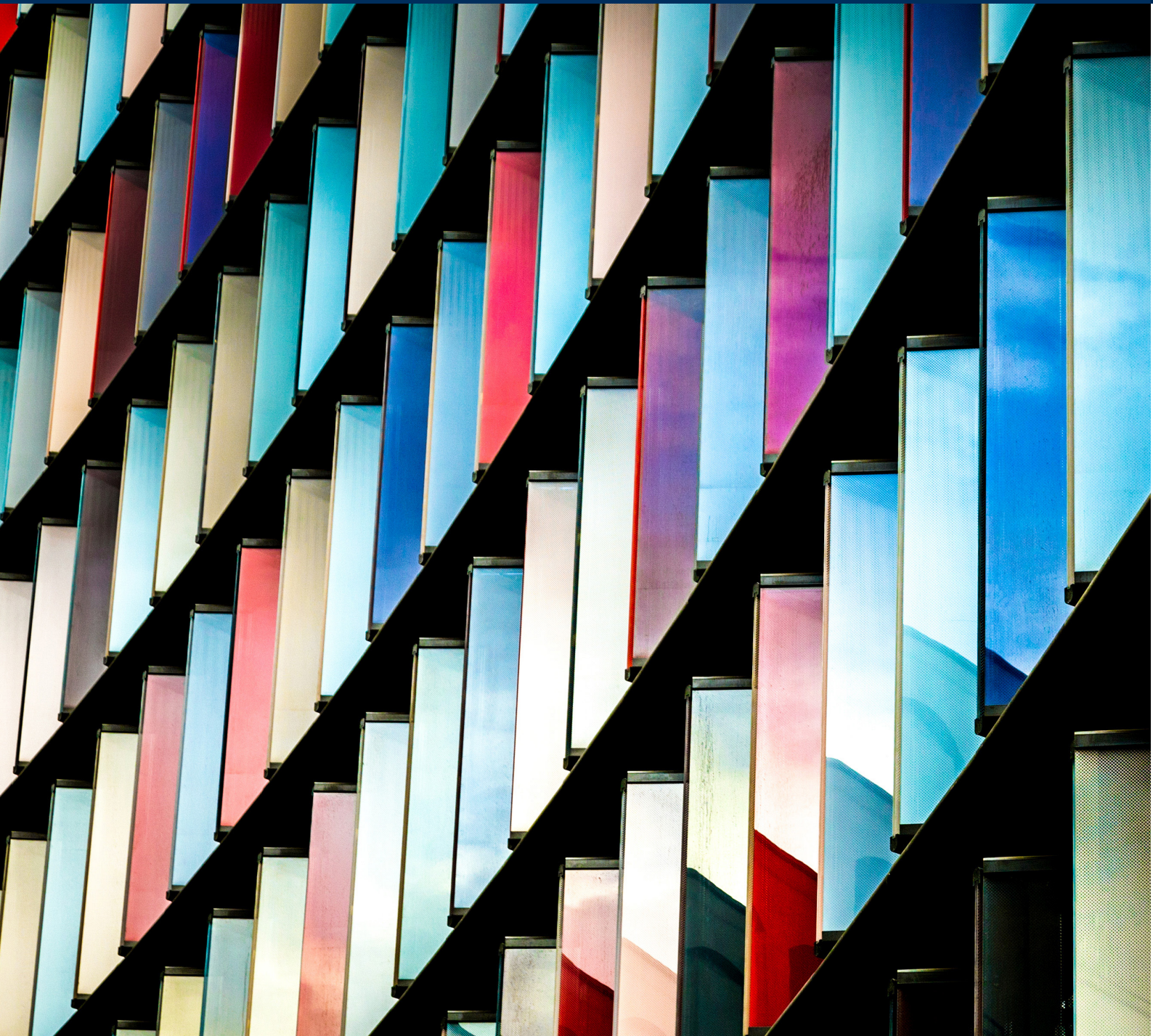


UK Retail CEO Tracker: Trends at the Top 2017

Amid industry-wide uncertainty, UK retailers are turning to finance and strategy experts for leadership.



Introduction

During the latter part of 2016 the UK economy saw a third quarter growth of 0.6 percent; an unpredicted increase.

Darren Morgan, head of GDP for the Office of National Statistics, commented to the BBC that this growth was driven by robust consumer demand, suggesting that, despite uncertainty surrounding Brexit and the rest of the UK economy, the retail sector continued to prosper.

Yet many consider this to be somewhat of a false dawn, with cost inflation inevitable and the knock-on effect of price rises likely in 2017. This mood of uncertainty is well evidenced by the number of significant CEO changes made in 2016, and, importantly, the expertise many of those new bosses have. A number of them come from either CFO or strategy consulting backgrounds, indicating the industry's desire for leaders that have a track record in strong fiscal control and business transformation. The pattern of CEO selection in 2016 is, itself, an indicator of tough trading within the UK retail sector. Whilst the overall numbers of changes at the top dropped off slightly over the past year our prediction will be for an increase in 2017, as the full impact of Brexit, the new U.S. administration, and forthcoming European elections becomes clear.

Now in its 5th year, the Annual UK Retail CEO Tracker analyses CEO appointments and moves across the retail sector to uncover key trends affecting the industry. The analysis covers the full retail market, both private and UK listed retailers, tracking businesses with an online, multichannel or store presence across the sector.

Four notable findings from the latest UK Retail CEO Tracker

- There were 41 CEO changes in 2016, compared to 45 in 2015.
- A significant number of CEO appointments in the past year have finance or strategy backgrounds, reflecting sector stress.
- A number of high profile female CEO appointments were made in 2016.
- A 5-year trend in favour of appointing CEOs from within, rather than making external hires.

Increased demand for finance and strategy expertise.

There were 41 CEO changes within the retail sector in 2016.

The overall number of CEO changes was below 2015's rate (45) and below the 5-year average. But what has been notable has been the backgrounds of a number of those appointed, with many of the significant CEO seats being filled by those with a prior background in finance (as former CFOs) or strategy consulting. This trend speaks to the stress in the sector. Retail is going through digital transformation, consumers are buying in different ways, and in addition, wages are increasing as a result of legislative change to the National Living Wage. All three developments have a significant cost impact and a relative knock-on effect on bottom line profitability. Then there's the Brexit effect. Many retailers hedged currency six months out, and now a weaker pound effectively means a 30-percent increase in costs. To grow in this environment, retailers have to either raise prices or take costs out, hence the need for strong strategic or finance people. We also saw similar trends back in 2008-2009 at the time of the last global financial crisis—reinforcing our view of sector stress.

Sean Clarke at Asda, John Rogers at Home Retail Group, Shaun Wills at Jacques Vert, Nick Davis at Shoe Zone; Ian Kellett at Pets at Home, Kevin O'Byrne (who was appointed as CEO at Poundland over six months to drive the sales prior to its acquisition by Steinhoff acquisition and his subsequent move to J Sainsbury), Jonathan Miller at McColls, and Paul Allen at Monsoon Accessorize all had finance backgrounds. With the exception of Kellett at Pets at Home, all of them have been brought in to drive change in highly challenged businesses, or those going through major transformation / M&A activity.

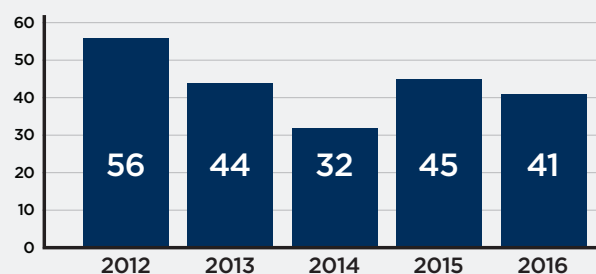
On the strategy side, Doug Gurr at Amazon (ex-McKinsey), Tracey Clements at Tesco as divisional CEO of Convenience/One Stop (ex-Cap Gemini) and Hamish Paton at Brighthouse (ex-OC&C), have all been appointed CEOs in this past year, recognising the importance of transformational change in these key businesses.

Despite the fact that the number of CEO appointments remained relatively consistent with 41 appointments across the year 2016 as a whole, it should also be noted that there are still a number of vacant positions, where organisations are yet to announce the CEO successor following the exit of a predecessor during 2016.

5-Year trend in CEO changes

In terms of a five-year trend, 2014 represented an anomalous year, with an unusually low number of changes (32) and 2012 being unusually high (56). The average across the five years is 43.6. There are approximately 300 UK-based retailers.

CEO changes by year



Interestingly, a number of CEO changes in the past year occurred due to previous incumbents leaving to pursue new opportunities outside of the retail industry, perhaps most notably Andy Street exiting John Lewis and Mark Price of Waitrose to follow political ambitions. Moves have also occurred as others left to pursue opportunities in pure-play online businesses outside of core retail, including Jonathan Brown's move to Photobox and Mark Lewis' decision to join Moneysupermarket.com.

Trading performance was a major catalyst for change in 2016, with 17% of all changes attributed to poor trading performance last year, compared to 16% in 2015. This is further evidence that the retail industry is continuing to feel pressure and the need for businesses to focus on better financial performance.

Female representation at the top.

The percentage of female CEO appointments in the past year has rebounded, from 15% in 2015 to 19.5% in 2016. Furthermore, some of the highest profile appointments across the retail industry were female, namely the appointment of Paula Nickolds at John Lewis as their first female Managing Director, and both retail giants Boots and Tesco Convenience appointing female CEOs (Elizabeth Fagan and Tracey Clements, respectively). All three were internal appointments.

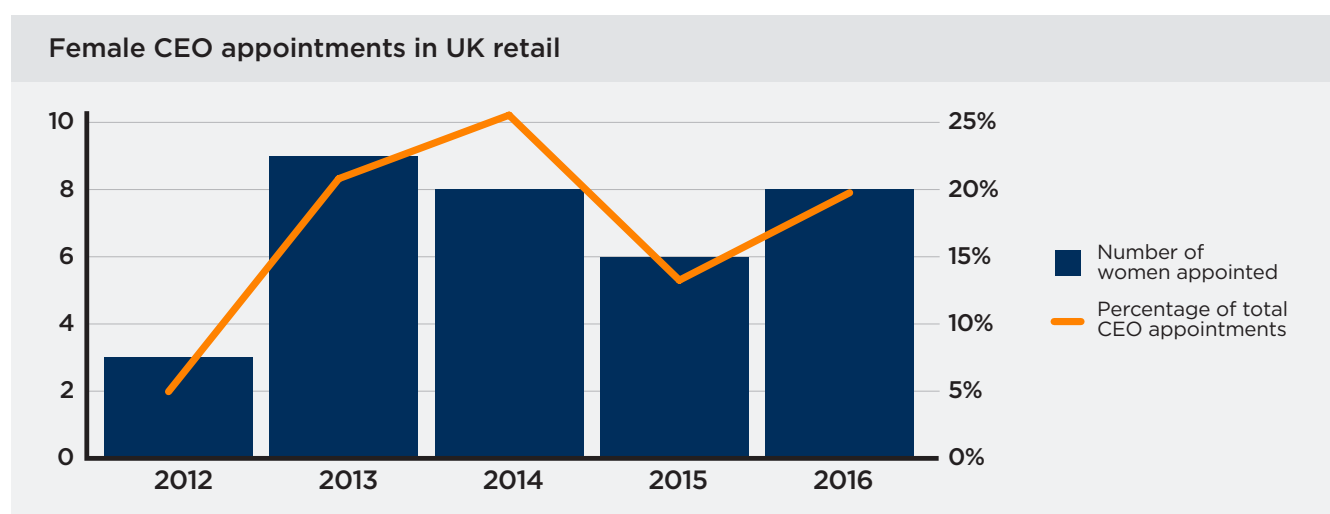
On external appointments, Karen Hubbard at Card Factory was the only appointed female CEO of a publicly-listed business.

In 2016 two thirds of the female CEO appointments were external hires. Whilst this continues the trend seen in previous years that it may be easier generally

for women to move externally to a CEO role than be promoted into such a role from within, it is less marked (75% in 2015). Perhaps this may suggest that this trend will be reversed in future years, as more women come through the ranks at senior executive level.

5-Year trend in female CEO appointments

If we exclude 2012, when the number of women CEOs appointed was at a five-year low (only 7%), we have seen little change in the appointment of new female CEOs, averaging 7.75 each year (2013-2016). Whilst 2015 saw a disappointing dip with only 15% of all CEOs appointed being women, 2016 saw a return to 19.5% of the total number of incoming leaders being female, and within this, and encouragingly, some key appointments within some of the leading retailers within the industry.

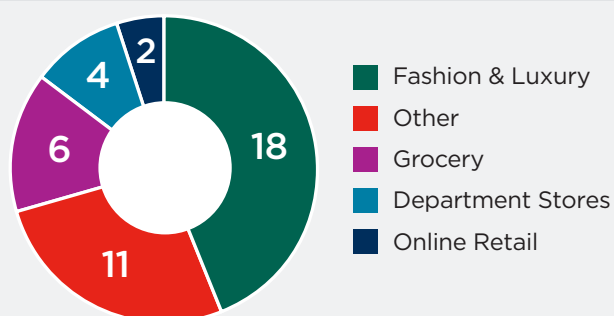


Retail sub-sector changes.

Department Stores

Perhaps one of the most notable aspects of CEO change areas during the past year has been within the department store sub-sector, with new leadership at John Lewis, Marks & Spencer and Debenhams, and a new CEO to be appointed at House of Fraser after the resignation of Nigel Oddy. Selfridges and Harrods's leadership has remained the same, although the latter only being the case due to it taking longer to find a long-term replacement for Michael Ward. This evidences the highly competitive nature of department store retailing; under threat from new competitors—online through specialist retailers such as Yoox Net A Porter, MatchesFashion.com and others—and from other monobrand & multibrand bricks and mortar retailers. The appointment of Sergio Bucher at Debenhams (formerly from Amazon) is indicative of the industry's need for change both in terms of the offer itself and its ability to be more agile in an omnichannel world.

2016 CEO appointments by retail sub-sector



Total number of CEO appointments: 41

Other sectors have seen similar levels of change to previous years, with the exception of pure-play online retail which has continued to grow exponentially. And whilst pure-play online retailers have grown that hasn't stopped changes in their executive suites. Major players Amazon UK and eBay's UK division both announced changes at the top with Amazon promoting Doug Gurr to the top spot in the UK, and eBay announcing the appointment of Rob Hattrell, a former rising star at Tesco, following the exit of Tanya Lawler.

Grocery

In 2015 we saw major changes in the grocery sector with new CEO's appointed at Morrison's, Sainsbury's, and Tesco. Although perhaps not as significant, 2016 has continued this trend with new leadership at Lidl, Asda, and Waitrose. Arguably one could include the CEO change at M&S too, given that half of M&S revenues are derived from food. Further, Tesco appointed a new divisional CEO, Tracey Clements, for its Convenience / One Stop Division, a business contributing a significant proportion of the group's total revenue of £54.433 billion. This reflects the continuing extreme challenges for the sector, as a result of intense competition, cost, and legislative pressures.

5-Year trend in retail sub-sector changes

Throughout the five years of recording, we have noticed that each year the most change in leadership is evidential across the Fashion & Luxury sub-sector. In 2014, as many as 50% of CEO changes were counted in this category. This trend continued into 2015 with 42% of appointments occurring within the sub-sector. In 2016, 17 of the 41 appointments (41%) were within Fashion & Luxury.

Succession planning and international backgrounds.

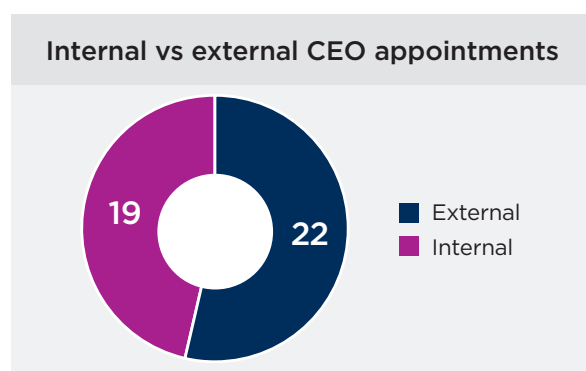
Last year saw 47% of organisations choose an internal successor for their new CEO rather than hiring from outside.

We believe the growing preference toward internal hires is a reflection of the uncertainty and caution across the retail landscape.

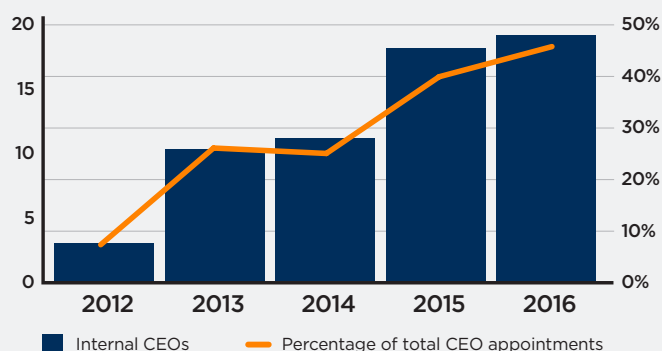
Perhaps this also reflects boards' desire to mitigate the risk associated with external CEO appointments and a greater focus on internal CEO succession planning/hiring. This has been evidenced in some of the higher profile appointments of the past year, with Sean Clarke at Asda, Doug Gurr at Amazon UK, Steve Rowe at M&S, Paula Nickolds at John Lewis, Elizabeth Fagan at Boots, Rob Collins at Waitrose, Jonathan Miller at McColls and Ian Kellett at Pets at Home.

5-Year trend in internal versus external CEO hiring

Five years ago we reported that only 7% of CEO hires were made internally. Since then, we have seen the number of internal CEO appointments rising: 26% in 2013, 28% in 2014, 40% in 2015, and 47% in 2016.

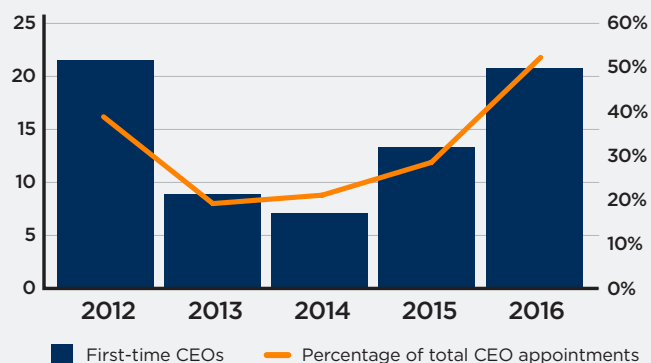


Internal CEO hires in UK retail



Along with an increase in internal hires, there's been a renewed focus on hiring first-time CEOs. There was an unprecedented number of promotional hires in 2016, both internally and externally, with more than half of new CEOs taking on the top spot for the first time.

First-time CEO hires in UK retail



International CEO appointments

It is interesting to note that whilst the percentage of non-British CEOs appointed fell in 2016, (from 22% in 2015 to 17% in 2016), a number of CEOs appointed in the past year were as a result of internal international moves. Chris North at Amazon UK was replaced by Doug Gurr, who previously ran Amazon's China business. Similarly, Sean Clarke, who previously ran Walmart's operation in China prior to his appointment at Asda. The experience gained within the Chinese market may not have been the deciding factor in these appointments, per se. However, it is likely that the agility of both Clarke and Gurr to grow or turnaround businesses in new/emerging markets led to their identification as the strongest contenders to lead UK businesses. Similarly, Christian Hartnagel at Lidl and PJ Davis at Bunnings further evidences the value that these international retailers place on international moves and a preference for internal succession over external appointment for these key hires.

Unsurprisingly, high-end fashion and luxury saw the continuation of a theme for appointing those with prior experience in the Luxury sub-sector, which is found largely in France or Italy. The appointments of Marco Gobetti at Burberry, Fabrizio Malverdi at Agent Provocateur, and Emmanuel Gintzburger at Alexander McQueen were testimony to this.

Outlook for 2017.

Increasing competition, combined with political and economic uncertainty, made 2016 another challenging year for UK Retail.

These pressures are likely to continue for some time to come, along with continuing legislative pressures and likely increases in inflation. As a result, the industry is going to need to see bold & visionary leadership to steer the course from its CEO community, and we envisage an increase in the rate of CEO changes over the next 12 months as a result. As shareholders increase their demands for better return, the industry is going to need to think more radically, both about the acceleration in development of its top CEO talent, and the injection of fresh CEO talent from outside the industry, if it is to compete and win in the landscape of change over the next 2-3 years. taking on the top spot for the first time.

Contributor



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2016 UK Retail CEO appointments.

Company	New CEO
Agent Provocateur	Fabrizio Malverdi
Alexander McQueen	Emmanuel Gintzburger
Amazon UK	Doug Gurr
Aquascutum	Philip Brassington
Asda	Sean Clarke
Blue Inc	Peter Girt
Bonmarche	Helen Connolly
Boots	Elizabeth Fagan
Brighthouse	Hamish Paton
Bunnings UK	PJ Davis
Burberry	Marco Gobetti
Card Factory	Karen Hubbard
Christopher Kane	Nikolas Talonpoika
CJ Clarks	Mike Shearwood
Debenhams	Sergio Bucher
Dobbie's	John Cleland
Evans Cycles	Andy King
Home Retail Group	John Rogers
Hotter	Sara Prowse
Hunter	Vincent Wauters
Jacques Vert	Shaun Wills
Jaeger	Chris Horobin
John Lewis	Paula Nickolds
Jones Bootmaker & Brantano	David Riddeford
Karen Millen	Beth Butterwick
Lacoste UK	Peter Lawley
Lakeland	Catherine Nunn
Lidl UK	Christian Hartnagel
LK Bennett	Darren Topp
Mamas and Papas	Jonathon Fitzgerald
Marks & Spencer	Steve Rowe
McColls	Jonathan Miller
Monsoon Accessorize	Paul Allen
Pets at Home	Ian Kellett
Poundland	Kevin O'Byrne
Poundland	Andy Bond
Poundworld	Gerry Gray
Shoe Zone	Nick Davis
Tesco Convenience	Tracey Clements
Waitrose	Rob Collins
Wyevale	Roger McLaughlan

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