

UK Retail CEO Tracker Trends at the Top 2018

UK Retail sees a 22% increase in CEO change in 12 months amidst ongoing sector pressure

Introduction

The UK economy has been described as “‘steadied’ by static inflation and rising exports as a result of Brexit”¹ but the uncertainty predicted at the end of 2017 is well reflected by the UK Retail Industry. As predicted in our UK Retail CEO Tracker this time last year, the past 12 months has seen a significant increase in the number of CEO changes in UK Retail, up from 41 changes in CEO during 2016 to 50 by the end of 2017.

According to the Office of National Statistics², during the latter part of 2017, the UK’s GDP grew 0.4% in the quarter, unchanged from the previous estimate, and down from the 0.6% growth this time last year. With the weak pound continuing to fuel inflation, and increasing pressures on margin at a time where the sector is continuing to go through significant digital transformation, it is unsurprising that so many retailers have looked to change CEOs in the past year.

Interestingly, whilst during the past 12 months there has been a notable continuation of the trend to appoint a significant number of CEOs from backgrounds in Finance, this year we saw Operators taking the top spot, with marginally more CEOs appointed from longstanding backgrounds in operations and general management.

Nine female CEOs were appointed in the past 12 months; up from eight in the previous year, but percentage wise, dropping from 19.5% to 18% overall.

2017 HIGHLIGHTS:

Four notable findings from this year’s UK Retail CEO Tracker:

- There were 50 changes in CEO in 2017, compared to 41 in 2016 – up 22% from the previous year.
- The number of female CEOs appointed increased slightly from eight to nine – but represented an overall decline percentage-wise, on the year before.
- More CEOs were appointed from backgrounds in Operations this year, with Finance a close second.
- Listed retailers have shown restraint in awarding salary increases as a result of public scrutiny on pay.

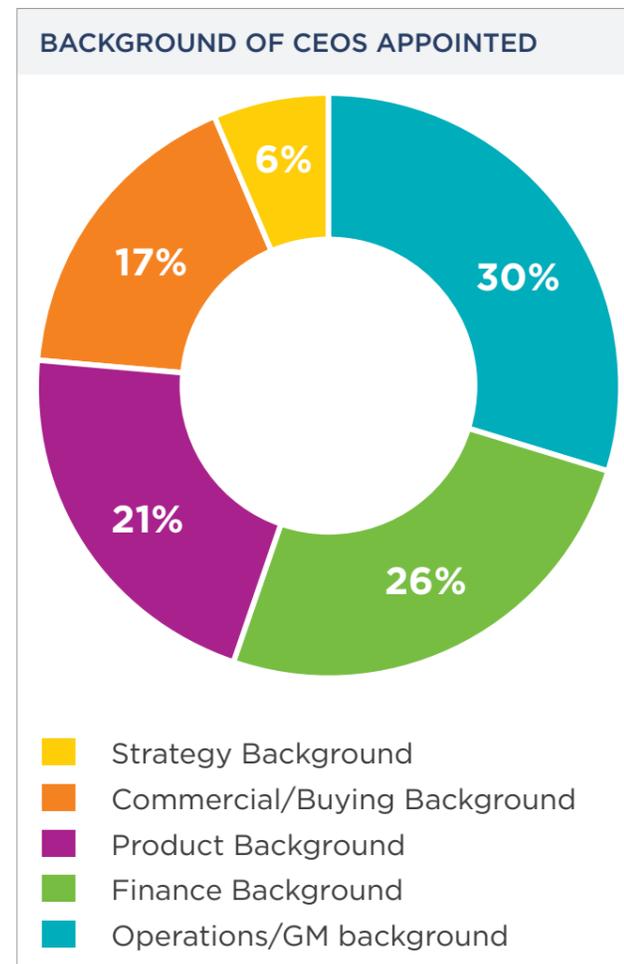


¹ Richard Partington, “The Brexit economy: is the worst of the 2017 slowdown over?”, The Guardian, 28 November 2017.

² “UK incomes see sluggish growth”, BBC News, 22 December 2017

Overall changes

Compared to last year's 41 changes, 2017 saw a significant uplift with 50 changes across the Retail sector. 14 of those appointed came from strong Operator backgrounds; closely followed by 12 from Finance backgrounds.



Across both publicly-quoted and privately-owned businesses, 2017 was a year of significant change, with announcements within the sector continuing even into the final week

of the year (Dunelm's appointment of Nick Wilkinson as its new Chief Executive, replacing John Browett who left earlier in the year).

Whilst in the previous year's survey (2016) we noted the significant rise in the number of CEOs appointed from Finance and Strategy backgrounds, it is notable that over the past 12 months, retailers have appointed more CEOs with strong Operator / broad General Management backgrounds, representing 28% of the total.

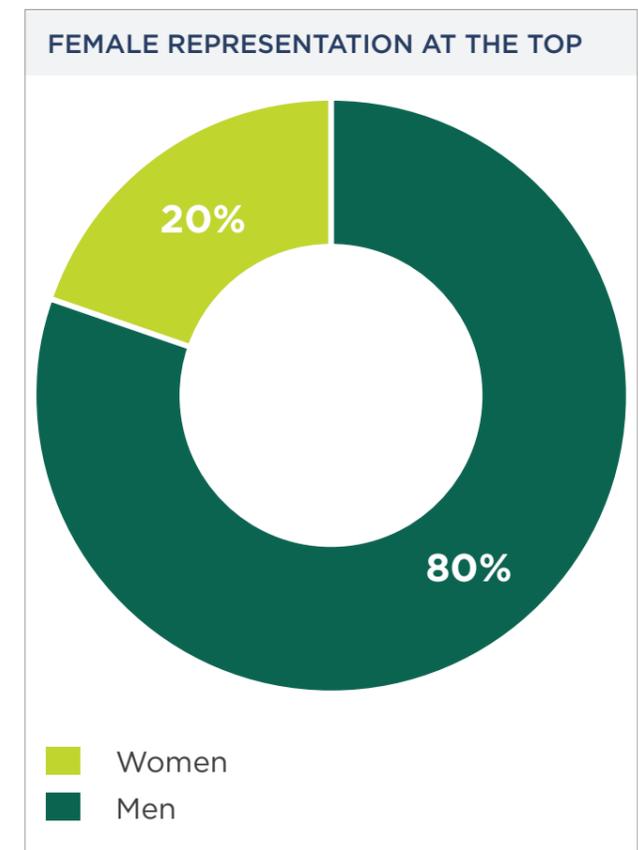
Despite this, those from a Finance background did continue to represent a significant percentage in close second, representing 24% of the total, followed by Product at 20%, Commercial/Buying at 16% and Strategy at 6%.

A significant number of the hires throughout 2017 have involved the appointment of individuals with strong commercial experience to help businesses develop their processes and steer them through the uncertain economy. This highlights the difficult trading conditions and the need for companies to be more lateral and creative in their approach. Notable examples include Emma Fox at The Original Factory Shop, Robbie Feather at Fenwick, Graham Stapleton at Halfords and David Haydon at Bunnings, and in both of the Poundshop operators at Poundland and Poundstretcher with the appointments of Barry Williams and Chris Woods respectively.

Unsurprisingly, those in Fashion and Apparel have tended to hire more CEOs with a product background, with Aspinall, Dunhill, Reiss, White Company, White Stuff and Top Shop all being good examples; reflecting the need to drive differentiation and newness in the sector.

Changes in company ownership triggered some of the shake ups in the past year, notably the sale of Jaeger and Style Group Brands (formerly Jacques Vert), Go Outdoors, Nisa and The Body Shop.

At the close of 2017, five CEO seats remained vacant, at New Look, Poundworld, Dr Marten, Nisa and Charles Tyrwhitt, with Nisa appointing Arnu Misra as interim CEO, pending deal approval by the CMA in March 2018. In all other cases, either investors or retail industry veterans have been appointed as either interim CEO or interim Executive Chairman until a permanent appointment is made.



One of the core topics of debate over the last few years has been how to get more women into the top jobs. This year, nine of the CEOs appointed (18%) were female. Seven of these take on the CEO role for the first time Claire Webb (Go Outdoors), Jill Easterbrook (Boden), Jo Whitfield (Co-Op Food Retail), Emma Fox

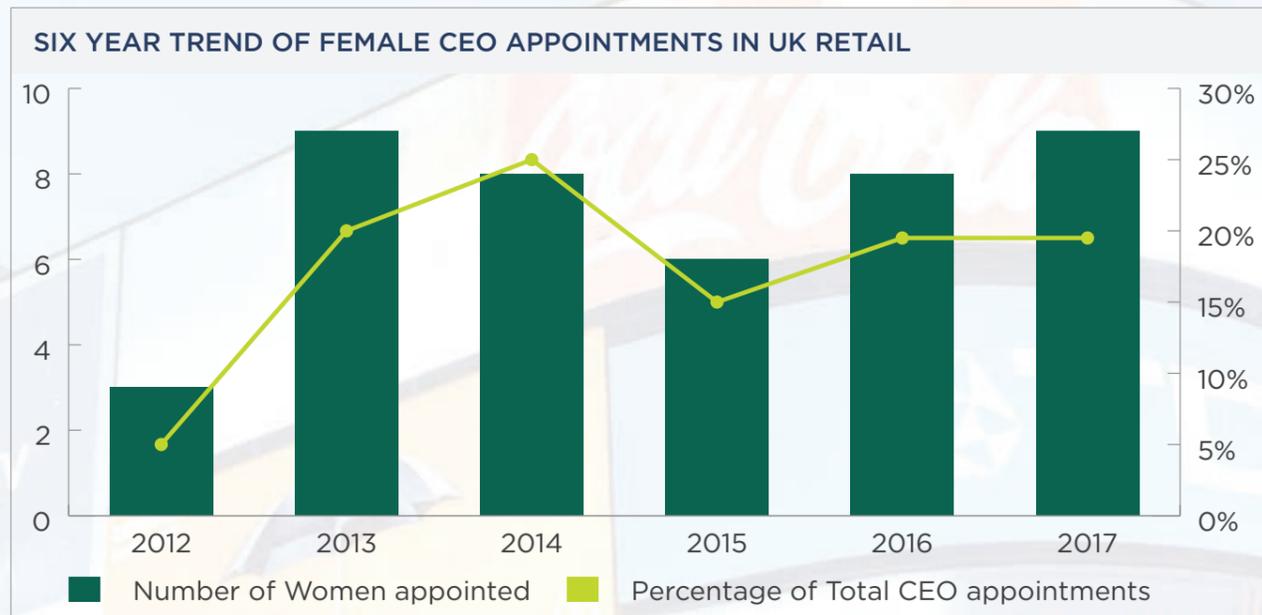
(The Original Factory Shop), Jo Jenkins (White Stuff) and Manju Malhotra/Daniela Rinaldi³ (Harvey Nichols).

However, the percentage of female CEOs appointed during 2017 at 18%, represents a decrease on the previous year from 19.5% in 2016. Whilst in real terms the number increased from eight to nine year-on-year, the overall number of CEO changes increased considerably more, and the number of women appointed as CEO did not keep pace with this change.

Of the nine women appointed, three were already proven CEOs; Mary Homer at The White Company, Miriam Lahage at Fagleaves (a division of N Brown) and Lisa Montague at Aspinall of London. Three of the female CEO seats filled were as a result of internal promotion; Jo Whitfield at Co-Op Food Retail, Claire Webb at Go Outdoors and Manju Malhotra/Daniela Rinaldi as joint MDs at Harvey Nichols.²

This year most women CEOs were appointed into smaller Fashion, Apparel or Home businesses (Boden, Go Outdoors, Harvey Nicholls, White Stuff, The White Company, TOFS, Fagleaves, Aspinall of London). The notable exception to this was the appointment of Jo Whitfield as divisional CEO at Co-Op Food Retail - the only woman to have been appointed this year into a larger Retail business and into Food.

³ Note that in the case of Harvey Nichols where Manju and Daniela have been appointed as joint MDs, this has been calculated as one appointment, for statistical purposes.

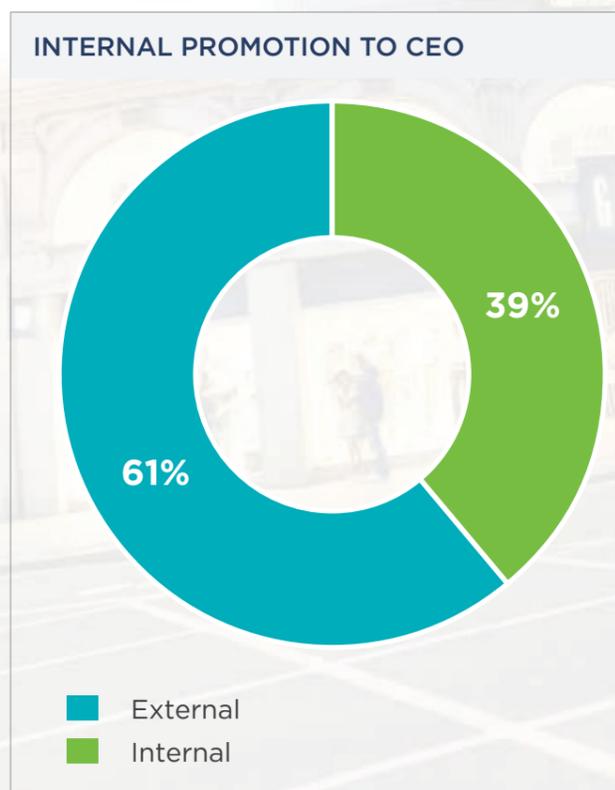


The six-year trend from 2012-2018 in Female CEO appointments shows no improvement in the number of women appointed into CEO roles in the industry - typically remaining at eight-to-nine female CEOs appointed per year, irrespective of the overall number of CEO changes in the industry.

CEO tenure

It is interesting to note that of the 50 CEO changes, 50% of the exiting Chief Executives (25) had been with their respective businesses for four years, or in some cases considerably less time. This speed of change within the industry reflects the increasing pressures on CEOs to deliver within ever shorter timelines, driven by shareholder demand, margin pressure & increased competition from pureplay online retailers.

Two exceptional changes were noted this year - that of John Colley & David Boynton. John Colley's appointment at Hobbycraft was short-lived, as he opted to resign after only two months in the role, with the position yet to be re-appointed. David Boynton appears twice in this year's survey, having initially been appointed at Charles Tyrwhitt as CEO, but then subsequently having left later in the year to re-join the Health & Beauty sector as CEO of The Body Shop.



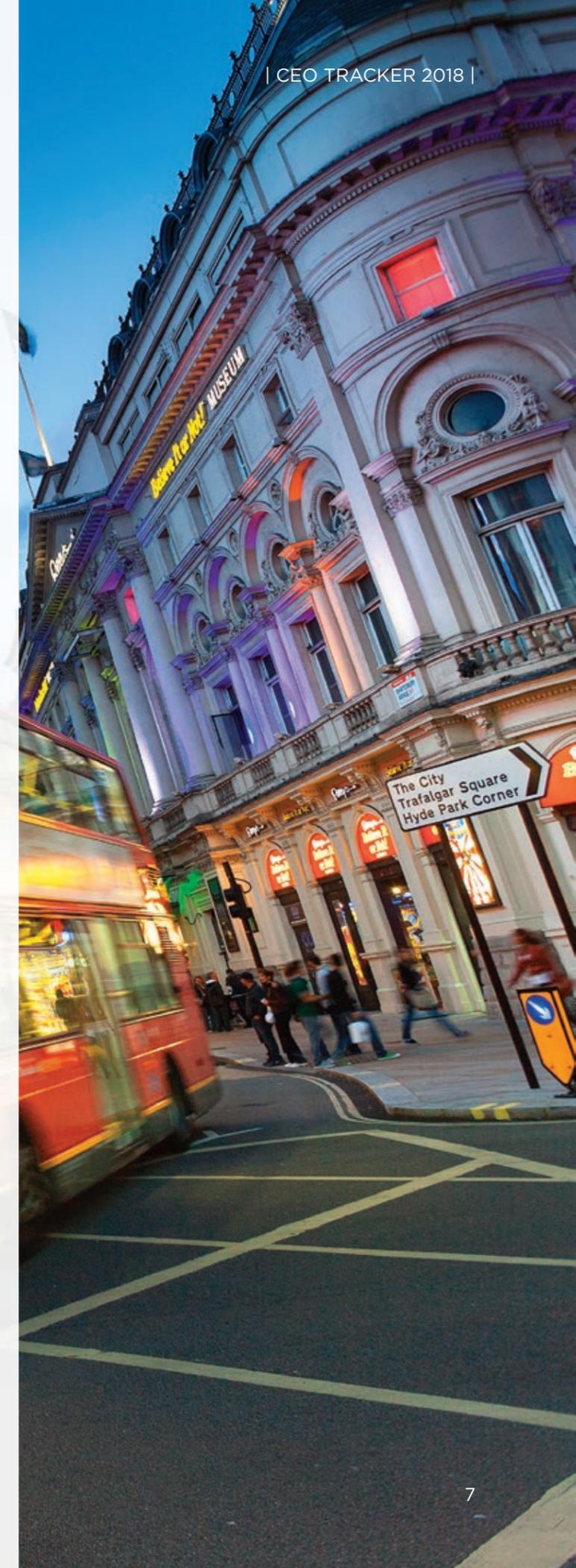
This year the number of CEOs appointed as a result of internal promotion fell to 40% from 47% the year before. Also notable is the fact that these internal appointments were not, in all cases, the result of a planned CEO succession, but due to the need to draft in an existing Chairman or Non-Executive to caretake the CEO seat at a time of change (Poundworld, Nisa, New Look and Dr Martens). Further, three of the internal hires initially took on the top job as interim CEO, before being confirmed as the permanent appointment, as in the case of American Golf, Mamas and Papas and The Co-operative Food Division. Interestingly, all three had come from a Finance background.

Inside or Outside of Sector?

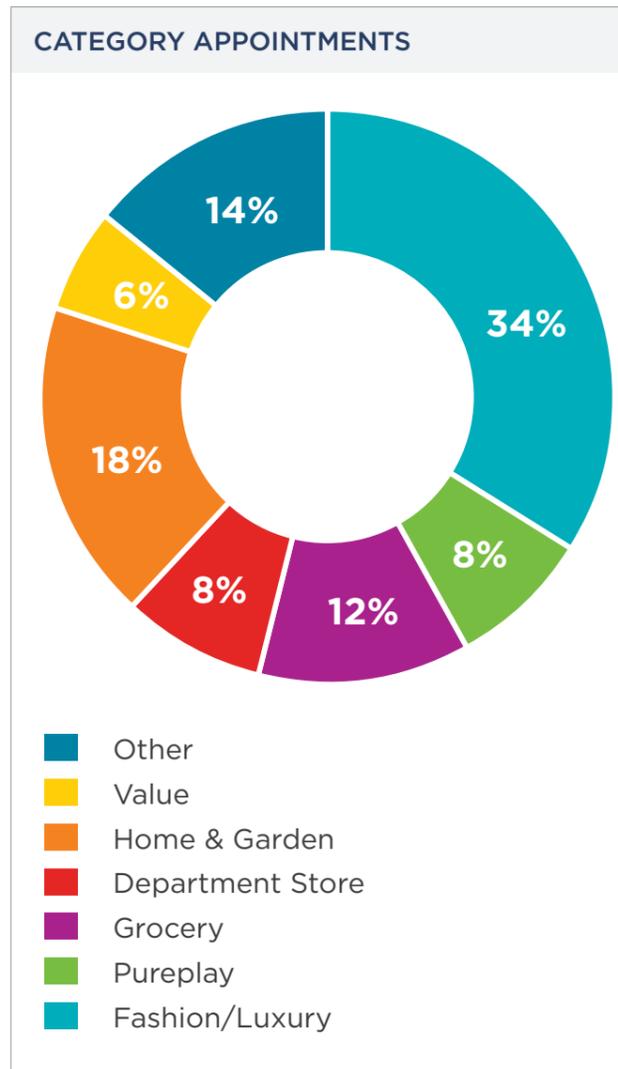
In the previous year's survey, we noted that a number of Retail CEOs had either left the sector, or moved into the sector for the first time. This year the trend has been to appoint predominantly from within the Retail industry. This suggests greater caution with a desire to appoint those with proven Retail experience. The notable exception to this was the appointment of Alex Williamson as CEO of House of Fraser, from a prior background as CEO of Goodwood.

International CEO appointments

There was a marked drop-off in the number of non-British CEO appointments this year. Whilst in previous years we have seen as many as 14 non-British CEO's appointed (2013), this year the number was only five - Paul Price (Top Shop), Andrew Magg (Alfred Dunhill), Miriam Lahage (Fagleaves), Christian Mazauric (B&Q) & Francesco Giannaccari (Anya Hindmarch). Only one of these appointments was outside of the Fashion/Luxury/Apparel sector - that of Christian Mazauric at B&Q. Christian is a Frenchman promoted internally to the role of UK CEO at B&Q, by his French Group CEO of Kingfisher.



Retail subsector changes



Fashion, Luxury and Apparel

Unsurprisingly the Fashion, Luxury & Apparel category once again dominated a number of moves within the sector with 17 CEO changes (34%) in the sector. The fast-paced nature of the category as well as the intense competition within Fashion has continued to draw on expertise from within the category rather than taking a risk on an outsider. Two of the exiting CEOs were replaced in an interim capacity by their Chairman and/or investors, with Paul Mason becoming Exec Chair at Dr Martens and Alistair McGeorge returning once again as Exec Chair of New Look. The increasing competition in the category is emphasised by the profit warnings, continuing CVAs and collapse of many high street brands including Agent Provocateur, Blue Inc, Jaeger and Style Group Brands, illustrating the intensity of competition in the sector.

Pure-play Online Retailers

Pure-play Online Retailers have been the success story of the sector in the last year and perhaps as a result of this, have experienced greater stability and less CEO change than other areas. The notable appointments were that of Steve Counce at AO.com, Will Kernan as CEO of Wiggle and Phil Maudsley at Findel - the latter two having come from more classic bricks and mortar retailing backgrounds, but with wider multichannel experience. We noted last year that brick and mortar businesses were increasingly bringing in talent from the online world, highlighted by Sergio Bucher's appointment at Debenhams. However, this year the opposite seems to be true, with Pure-play Online Retailers adapting to build brand

loyalty and widen their appeal, evidenced by businesses such as Boden and Misguided venturing into physical store openings this year.

Grocery

The significant appointments in UK Grocery this year included the long awaited appointment of Roger Burnley as CEO at Asda, the appointment of Steve Murrells as Group CEO of the Co-Op, and subsequent appointment of Jo Whitfield as Divisional CEO of Co-Op Food Retail. In addition, the return of the family with the appointment of Edwin Booth at Booths, the appointment of Tarsem Dhaliwal at Iceland and the transitional appointment of Arnu Misra at Nisa. With the exception of Jo Whitfield who moves from finance into the top job, all of these CEO appointments reflect seasoned retailers with extensive experience in Grocery retailing through their career to date.

Department Stores

Three of the department stores changed CEO in the last year - Beale's, House of Fraser and Harvey Nichols - all with very different strategies for those appointed. Beale's saw the re-appointment of Tony Brown as CEO, who left to go to Peacocks as CEO, now to return. Harvey Nichols opted to make the dual appointment of co-MDs in Manju Malhotra and Daniela Rinaldi, following Stacey Cartwright's decision to go plural. And finally, House of Fraser is the one potentially taking the greatest risk, with the appointment of Alex Williamson, the former CEO of Goodwood. This follows last year's appointments at M&S, John Lewis and Debenhams, in a sub-sector under extreme pressure from pureplay and monobrand. The latest profits warning from Debenhams is indicative, with more to come, and it will be interesting to see whether those injecting fresh ideas from outside of sector, or those with the inside knowledge will ultimately triumph.

Home and Garden

Home and Garden saw a noticeable uptick in movement with nine changes in CEO in the past year - B&Q, Dobbie's Garden Centres, Dunelm, Bunnings, Howdens, Screwfix, Bensons for Beds/Harveys, The Range and the White Company. Hardlines/DIY looks to be a hard fought over category for the year ahead, with the appointments at Howdens, B&Q, Screwfix and Bunnings all having come up through the Kingfisher school of training and all with demonstrable experience in the category. Out of these appointments, both Kingfisher appointed CEOs (Christian at B&Q and Graham at Screwfix) were as a result of internal promotion, demonstrating the importance the business places on both sector expertise and succession.

Value

We felt the Poundshops worthy of special mention this year, given the changes in the sector and the fact that all three Poundshops have changed, or are in the process of changing their CEO. Poundland saw the promotion of Barry Williams to CEO, Poundstretcher opted to hire its former rival from Poundworld, Chris Woods, as CEO and to date, Poundworld is yet to replace Gerry Gray, who left the business at the end of 2017 after less than two years at the helm.

CEO salaries under the spotlight

For the first time this year, we analysed changes in salary levels within the 30 UK listed retailers, to ascertain change over the last year, and to provide an indication of changes over the past four years.

Last 12 months - CEO salary change

Over the past year, the median increase in CEO salary was 1.5% - considerably lower than UK inflation and the rate of workforce salary inflation (of around 2% to 3%, and a projected increase of circa 2%).

Top 30 Listed UK Retailers and base salary changes - four year trend⁴

COMPANY NAME	LATEST SALARY (T)	T-1 SALARY	T-2 SALARY	T-3 SALARY
	(£)	(£)	(£)	(£)
AO WORLD	450,000	450,000	450,000	450,000
BOOKER GROUP	519,180	510,000	510,000	510,000
BROWN (N) GROUP	554,533	543,660	533,000	530,000
CARD FACTORY	453,900	453,900	459,000	450,000
CARPETRIGHT	459,000	459,000	459,000	450,000
DEBENHAMS	700,000	700,000	618,844	615,000
DIGNITY	511,500	510,300	486,000	476,250
DIXONS CARPHONE	853,000	836,000	820,000	820,000
DUNELM GROUP	510,000	500,000	560,000	416,000
FINDEL	420,000	340,000	410,000	410,000
GREGGS	534,163	521,135	507,187	495,300
HALFORDS GROUP	520,200	500,000	517,650	507,500
INCHCAPE	717,500	700,000	650,000	822,000
JD SPORTS FASHION	769,000	758,000	747,000	732,000
KINGFISHER	770,100	755,000	700,000	849,000
LOOKERS	368,000	364,100	357,000	350,000
MARKS & SPENCER GROUP	810,000	810,000	975,000	975,000
MCCOLL'S RETAIL GROUP	442,000	430,000	594,224	594,224
MORRISON (WM)	850,000	850,000	850,000	850,000
MOSS BROTHERS GROUP	327,500	321,000	310,500	301,000
MOTHERCARE	618,120	612,000	600,000	600,000
NEXT	773,000	766,000	751,000	743,000

⁴ sourced from companies' Annual Reports

COMPANY NAME	LATEST SALARY (T)	T-1 SALARY	T-2 SALARY	T-3 SALARY
	(£)	(£)	(£)	(£)
OCADO GROUP	577,000	561,000	550,000	517,000
PENDRAGON	464,000	464,000	464,000	464,000
PETS AT HOME GROUP	484,500	475,000	437,500	420,000
SAGA	689,785	676,260	663,000	650,000
SAINSBURY (J)	943,428	929,486	915,750	900,000
TESCO	1,250,000	1,250,000	1,250,000	1,145,000
TOPPS TILES	394,147	388,323	280,708	373,244
WH SMITH	550,000	550,000	550,000	480,000

The trend in CEO salaries over the last four years shows that for these companies, the median salary increase was only 1.5% p.a.

Excluding those retailers which changed CEO during this period raised the median salary increase to 1.6% p.a over the four year period. This implies that changing CEO is likely to have a modest damping impact on salary increases in the sector. (We have taken the median of a set of increases as it avoids the distortion caused by one or two very large changes in a relatively small dataset).

Over the four year period, there were eight internal appointments (shown in blue in the table above) and six external appointments

(shown in red). Note that for consistency purposes, the most recent appointments in the past two months at Dunelm, Pets at Home and Halfords are not included in the above figures as they took place after the companies' latest annual reports were published.

CEO salaries: interpretation of findings

General practice for the replacement of an executive director has historically been to pay the incoming CEO a salary below that of the outgoing CEO. This reflects the experience the outgoing individual has typically built up in the role. Our view is that this “discount” has been narrowing over the last few years for two reasons:

- a) The interaction with institutional shareholders and the way they vote on listed companies’ directors’ pay. We observe that Remuneration Committees have been very conscious of the views of institutional investors on directors’ salary increases, which have been to generally oppose large increases. In reaction, these Committees have been showing a degree of nervousness about setting salaries too far below the market rate as they fear they may not be able to put through subsequent increases. In our experience, the need for those increases is generally understood by investors if they have been clearly signposted in the annual Directors’ Remuneration Report that a director’s appointment is first announced. The problem comes where business performance and in particular, the need for efficiencies and perhaps a workforce salary freeze may stand in the way of the anticipated increase in one or more years.
- b) The extreme challenges facing a company which requires a very experienced CEO candidate. The sector stress within Retail over the last four years has been well documented, resulting in the high churn in CEOs and in many cases, a strong desire to recruit experienced veterans over ‘step up’ candidates.



Overall Outlook for 2018

2017 was without doubt, a year of considerable change. Over the past 12 months, a greater number of retailers responded to the current political and economic uncertainty by seeking to change CEO. Whilst the effect of the Brexit negotiations over the next year will become more meaningful, we anticipate the impact in number of CEO changes will result in fewer changes over the next year, as businesses start to move forward in an economic landscape that becomes clearer.

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New CEOs announced as appointed during 2017

COMPANY	CEO	COMPANY	CEO
American Golf	Barry Leach	House of Fraser	Alex Williamson
Anya Hindmarch	Francesco Giannaccari	Howdens	Andrew Livingston *
AO World	Steve Caunce	Iceland	Tarsem Dhaliwal
Asda	Roger Burnley	Mamas & Papas	Jason Greenwood
Aspinal of London	Lisa Montague	New Look	Yet to be appointed (Alistair McGeorge - Exec Chair meantime)
B&Q	Christian Mazauric	Nisa	Yet to be appointed (Arnu Misra - interim CEO)
Boden	Jill Easterbrook	Pets at Home	Peter Pritchard
Beales	Tony Brown	Poundland	Barry Williams
Booths	Edwin Booth	Poundstretcher	Chris Woods
Bunnings (Homebase)	David Haydon	Poundworld	Yet to be appointed (Steve Johnson, TPG - Interim Exec Chair)
Charles Tyrwhitt	David Boynton (appointed then left within a year) - still recruiting	Reiss	Christos Angelides
Dobbies Garden Centres	Nicholas Marshall	Screwfix	Graham Bell *
Dr Martens	Yet to be appointed (Paul Mason - Exec Chair meantime)	Steinhoff - Bensons Beds & Harveys	Stuart Machin
Dune	James Cox	Style Group Brands	Peter Ridler
Dunelm	Nick Wilkinson	The Body Shop	David Boynton
Dunhill	Andrew Magg	The Co-operative Group	Steve Murrells
eBay UK	Rob Hattrell	The Co-operative Food Retail Division	Jo Whitfield
Fenwick	Robbie Feather	The Original Factory Shop	Emma Fox
Fingleaves	Miriam Lahage	The Range	Nigel Oddy
Findel	Phil Maudsley	The White Company	Mary Homer
Go Outdoors	Claire Webb	Thomas Pink	Christopher Zanardi
Halfords	Graham Stapleton	Topshop	Paul Price
Hamleys	Ralph Cunningham	Toys R US UK	Steve Knights
Harvey Nichols	Daniela Rinaldi & Manju Malhotra (joint MDs) *	White Stuff	Jo Jenkins *
Hobbycraft	John Colley (appointed then left within 2 months) - still recruiting	Wiggle	Will Kernan

*appointed and announced during 2017; will start in role during 2018

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