Finding CEOs With A Millennial Mindset

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I recently spoke with Les Berglass, one of the deans of the executive recruiting business who is also a great trend spotter in retailing. Numerous private equity investors consult with him before they invest in this sector. We were talking about retailing and he was lamenting the struggles going on in the c-suites, and among corporate boards, about choosing leaders who can navigate in an era when traditional shopping patterns have been turned on their heads. Blame the Millennial wave, that often eschews traditional brick and mortar for click and mortar and "small screen" shopping. Our conversation reminded me of one of the most important rules many smart value investors like Warren Buffett live by: They seek companies with outstanding management. Knowing and understanding the talent at the top can be more telling than the spreadsheet figures in a financial statement. Steve Forbes calls it understanding the "head knocker," which has long been a trademark of company stories in Forbes Magazine. The guest post below, by Berglass, argues that big retailers need to stop bringing back successful management from yesteryear, as has recently been done with little success at retailers like JC Penney (JCP -2.82%) and Aeropostale. You can't always teach an old dog new tricks. Retailing is in turmoil and radical –Millennial-minded–changes are needed at the top.

- Matt Schifrin, Vice President and Investing Editor

By Les Berglass

As retailers adapt to a world impacted by technology and a new consumer we call a "Millennial", they struggle. Target (TGT -0.47%) closes its entire Canadian operation, Staples SPLS +1.31% reduces its store count drastically, Dots and Delia's disappear, Radio Shack gets auctioned off – all while the teen market looks for the next hoodie. Investors are left wondering what makes one retailer succeed while others – many of whom we thought could adapt or reinvent adequately– are casualties of a changing consumer climate. How can investors analyze retail stocks to understand what creates long-term value? Who's example can we follow? Apple, HSN and Victoria's secret are a good start.

But let's start with what not to do. The knee-jerk reaction in a historically merchant driven industry is to "rush into the past" and turn to leaders from bygone eras for solutions. They aim to reassure investors by reinstating the command of who was there at the time the brand was last successful, measuring future success against a CEO's noteworthy legacy.

Many are still stuck in days gone by and see the business through a product lens – when the merchant was the fulcrum of the business. While they aren't wrong that product should never take a back seat, where they're misguided is thinking that the solution is housed only in product. It is not. In fact in most cases, we don't have a product or merchandising problem at all – we have a marketing issue. Today, ideas drive product – not the other way around.

So what do these retail winners have in common? It's easy to think there isn't much. What could innovative technology (Apple), luxury (Neiman Marcus) sexy underwear (Victoria's Secret) and products aimed at Middle America's sweet spot (HSN) possibly share? Let's start with increased shareholder value. A year ago Apple's stock traded around \$80; today it's \$125). HSNi stock was \$55 in 2014 and is now \$67. LBrands continues to reinforce the point – it was at \$56.00 in 2014; today it's at \$93.10.

Turns out that while they are different in almost every way on the outside, inside, they are actually the same species. And that species starts with a radically different type of CEO.

The smartest retailers hire CEO's who take down the walls between technology and classic retail. Burberry alum Angela Ahrendts married product, brand and technology together to form a formidable fashion empire – and while not a techy per se – this was perfect training for her future post as CEO of the sexiest technology retailer in the world – Apple.

These leaders also behave like brand marketers. Sharen Turney went from heading the infamous Neiman Marcus Catalog, to running a different one targeted specifically to women, but coveted by men – Victoria's Secret. With nothing but catalog history, Sharen transformed the business by bringing the hugely profitable catalog and somewhat disconnected in- store experience into the same universe. She yoked the store, digital and beauty business – all separate before – into a seamless brand that continues to experience growth, even through the recession.

The new guard is also courageous. Karen Katz was charged with filling the shoes of Burt Tansky, one of America's greatest merchants, when she succeeded him as CEO of Neiman Marcus. Karen made a brave move by promoting John Koral, head of e-commerce, to be President of all stores, because she understood that putting a digital guy in charge of the most revered brick-and-mortar luxury retailer in America disrupted the old idea of in-store versus on-line. Today's customer sees them as the same – something Karen – and others like her – understood first.

The right person establishes value, not low price, to justify their brands existence. Mindy Grossman was raised as a "classic" apparel wholesaler. She took on the male-dominated, "jock" culture of Nike to drive their women's apparel and retail presence. Unafraid of a challenge, she then rolled up her sleeves on a tired Home Shopping Network to transform it into the refreshed HSN. She is proof that a women-focused mass brand can be elevated by offering more aspirational, branded, editorially savvy product- to the very same audience.

Today's CEO's has more information about their consumer – but it's not what makes them smarter. It's in the application of the data – it's the way they edit through the what to get to the how. The leap they make isn't in understanding the customer; it's in staying ahead of how they want products and experiences served.They take brave bets on how we'll be thinking and buying tomorrow. They aren't reactive to market conditions, with a mindset to "fix" what's gone wrong, but rather are engaged from the beginning, are part of the consumer conversation.

Bringing back leaders whose last success dates back further than ten years doesn't effectively match car and driver. The brands to watch are helmed by visionaries – and today's definition of that means they don't look in the rear view mirror for solutions – but instead focus on the horizon. Simply put, they live in tomorrow, not yesterday.

Les Berglass is the founder of Berglass + Associates, an executive search firm focused on retail, be it brick-and-mortar or digital.