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What PE Firms Should Look for in Retail Executives

As the shifting retail climate throws some retailers, such as now-bankrupt American Apparel, off their games, PE firms should look for leadership that mentors, says Leslie Berglass.

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E-commerce is just one of many things shaking up the consumer goods and retail industries (resulting in retailers, like American Apparel, going bankrupt), leaving private equity dealmakers in those sectors desperate for good leadership teams that are able to navigate the shifting terrain of 2015. Firms should consider a target company's CEO during the due diligence phase to make sure that they either have or can readily put together the proper C-suite for success, says Leslie Berglass, chairman of Berglass & Associates, which has placed retail executives for clients that include private equity firms CCMP, Good Partners, Catterton Partners and Apax.

What's different about today's retail climate?

We have a universe where that mid-tier retailer is finding itself in a very quiet place – the Macy's of the world struggle. The Internet has given the consumer a master's degree in shopping, which redefines what a store has to do to attract that consumer and therefore redefines the leadership model. Today's CEOs are more about strategy than choosing a product or a warehouse. They mentor instead of dictate; they provide the teams with freedom and resources. What you have is a very different model, not really that top-down control model of previous years.

When placing retail CEOs, what should PE firms focus on?

The challenge with so much consolidation in the public sector is that CEOs of companies are now really CEOs of brands as part of a multidivisional organization with a combined back end, referred to as shared services. So the CEO is really a divisional CEO. But a private equity portfolio company CEO operates a standalone business. It may be better for a $500 million PE-owned business to find a leader at a $300 million standalone business than at a $1 billion division of a public company. Because many companies that are bought have not yet exploited their digital business, you want a CEO who wants to increase Internet growth. There's a lot of fast growth if the person knows how to digitize the business. Firms should run the CEO search process parallel to the acquisition process because that can increase the value of the business.

What other executives are important to the equation?

Chief customer officer – a title that didn't exist a mere 10 years ago – is really a more empowered marketing executive. The marketing people are more important than they have ever been before – they are the voice of the consumer. Chief information officers, who used to handle mainly data, are now strategists because they monitor the buying habits of consumers. The CEO cannot run a business on his or her own anymore; they have to have good people around them.