

# THE FUTURE OF THE RETAIL C-SUITE

What Does It Look Like in 2020?

OCTOBER 2014

**berglass+associates**

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IN PARTNERSHIP WITH

**WWD**

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# ABOUT BERGLASS+ASSOCIATES

Be where consumers are today - and where they will be tomorrow.

With this guiding principle, Berglass+Associates partners with clients to successfully stay ahead of the business demands that drive our retail landscape. They were the first executive search firm to recognize the development of vertical retail as a competitive force and first to understand that the digital revolution will necessitate a redefinition of retail leadership. Berglass+Associates has successfully placed CEO and executive leaders at both brick-and-mortar and pure play retailers.

Today, they're helping clients re-populate their C-suites and Boardrooms with the most innovative and forward-thinking leaders... leaders from both inside and outside of retail.

In partnership with WWD, the company has commissioned a leadership survey to determine the changes that will occur in the C-suite by 2020.

# ABOUT WWD

For 100 years, Women's Wear Daily (WWD) has been the daily media of record - and the industry voice of authority - for senior executives in the global women's and men's fashion, retail and beauty communities and the consumer media covering the market.

Often referred to as "the fashion bible," WWD provides a balance of timely, credible business news and key fashion trends to a dedicated readership of retailers, designers, manufacturers, marketers, financiers, Wall Street analysts, media executives, ad agencies and tastemakers around the globe.

As an increasingly complex marketplace heightens the need for information and competitive intelligence, WWD delivers with frequency, integrity, independence, spirited coverage and a long tradition that demands staffers get the story and get it first.

# STUDY OVERVIEW

## **HYPOTHESIS**

Because the digital revolution has changed the way consumers think, shop and buy, we will witness changes in the C-suite and Boardroom that will redefine the lives of everyone in retail.

The majority of retailers, in spite of all the adaptive moves they've made thus far, still underestimate the changes that are needed in the C-suite and Boardroom.

## **STUDY OVERVIEW**

Berglass+Associates commissioned WWD to conduct a retail industry executive study to gauge and compare perceptions of leadership structure and responsibility in the industry today, versus 2020.

## **METHODOLOGY**

- Online quantitative survey of retail industry executives with titles ranging from Chairman/CEO through Vice President.
- Respondents included executives from brick-and-mortar retail, pure-play/direct e-commerce retail, wholesale and investment/private equity sectors.
- Surveys conducted in July and August, 2014.

# EXECUTIVE SUMMARY

## KEY FINDINGS

### C-Suite Skills

- Respondents believe that the top three disciplines required of future CEO's will be Digital Technology, Merchandising and Globalization.
  - Digital Technology and Globalization skills replace Finance and Sales, which are considered among the most important today.
  - By contrast, today, only 33% of respondents consider a "global perspective" to be among the most essential skills of CEO leaders.

### C-Suite Leadership

- Nearly 70% of respondents believe that C-Suite leadership coming from outside of the retail industry will increase by 2020.
  - Technology, Pure-play E-Retailer and Consumer Packaged Goods are top 3 industries for outside leadership recruitment.

### Role of the Board

- 78% of respondents do not consider the leadership the Board of directors provides to be very effective.
- 60% of respondents believe the make-up of Board members (e.g. experience, skill sets, etc.) will change by 2020.
- Among those who believe the board make-up will change, 72% expect the board to add leaders with technology backgrounds; 64% expect to add leaders with global experience.

# THE RETAIL BOARDROOM AND C-SUITE IN 2020

*Les Berglass worked in collaboration with Women's Wear Daily on the publication of this study. As the CEO of an executive search firm focused on the retail industry, his team must surface the Board and C-suite leaders that will drive retail growth in 2020. WWD asked him for his POV on the study and to provide the outline for what the top of a successful retail organization must look like five years from now..*

## A PATH TO THE FUTURE

**By Les Berglass, CEO, Berglass+Associates**

The leaders participating in this study acknowledge that a change is coming and have a fairly good understanding of its components. What they may not anticipate is its intensity.

To stay ahead of consumer demands, shifts brought about by rapid technological changes - and global expansion, we see the need for the following immediate adjustments:

**In the Boardroom** Use new filters for independents...add proven leaders with Technology, Pure-play, Global and sophisticated Marketing backgrounds. Industry veterans? Yes, but only if they've modernized their last company.

# THE RETAIL BOARDROOM AND C-SUITE IN 2020

## A PATH TO THE FUTURE (cont.)

**Filling the CEO's Office** While product innovation, adding talent and consumer engagement remain at the top of the list, the role of the retail CEO is experiencing the greatest shift in the necessary skills required to succeed. With the CEO job incredibly complex, being a picker of product is no longer enough. Today's CEO is a fabulous "picker of people". Finding the talent, nurturing it and, above all, giving it the freedom to innovate, regardless of the function.

A few years ago, the CEO had all the right answers...today the CEO must have all the right questions.

**The biggest change in the C-suite** The Chief Customer Officer. The CCO is a "super" marketer focused on the consumer, not the channel. It's someone who understands that it's not only a multi-channel consumer, but more importantly a multi-generational consumer. How do I make my one brand viable for the baby boomer and the millennial. If BMW can do it, so can we in retail.

And, yes, look for talent from outside the industry....focus on leaders with skills that are transferable to retail.

Foster a borderless-organization...no silos and stop using the word "department".

Happy New Year 2020...start celebrating it now.

# RESPONDENT PROFILES

## EXECUTIVE PROFILE

- 32% CEO's
- 30% EVP's, SVP's or VP's
- Average age: 47.5 years; 68% between age 35-54
- 50% have been in retail for more than 20 years

## COMPANY SIZE & VOLUME

- 46% come from companies with more than 1,000 employees
- Less than 25% come from companies with less than 100 employees
- 35% come from companies with more than \$1 billion in revenue
- 33% have sales under \$100 million

## RETAIL BUSINESS PROFILE

- More than 80% are retailers or "blended" wholesaler/retailers
- More than 75% operate physical stores
- 20% come from pure-play e-Commerce
- 90% conduct business over the internet
- Approximately 10% come from the investment community

## INDUSTRY PROFILE

- Close to 70% sell apparel, with over 60% selling accessories and nearly half (47%) selling footwear
- Nearly 40% are involved in beauty
- Merchandise sold is divided evenly between proprietary and branded goods



# UNDERSTANDING THE FUTURE OF THE C-SUITE



# C-SUITE STRUCTURE

**WHAT WE KNOW** U.S. Company Trends

**WHAT WE LEARNED** Retail Survey Responses

# WHAT WE KNOW

## C-Suite Structure

- Since the 1980's **the size of the C-Suite has doubled** from five to ten members<sup>1</sup>
- Roles have been added **based on emerging needs and functional expertise** (e.g. Chief Digital Officer, Chief Social Media Officer, etc.)<sup>1</sup>
- In 2014, a quarter of the executive respondents say they now have a **Chief Digital Officer** and it is estimated to be half of companies by the end of 2015.<sup>2</sup>

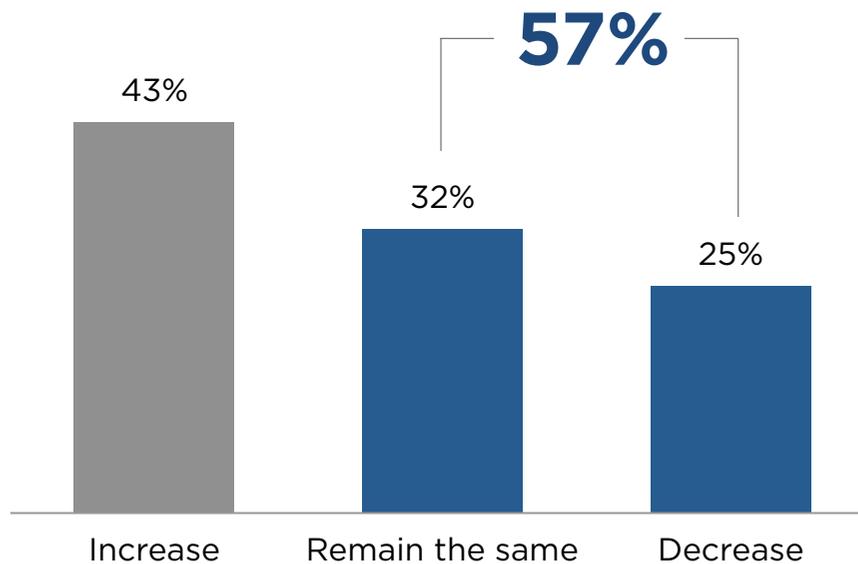
1. Harvard Business School, Working Paper, "Who Lives in the C-Suite? Organizational Structure and the Division of Labor in Top Management", June 2013.  
2. Gartner, CEO and Senior Executive Survey 2014

# WHAT WE LEARNED

Only 43% of respondents think the C-Suite will grow by 2020

**57%** of respondents believe the C-Suite will decrease or remain the same.

## C-SUITE STRUCTURE IN 5 YEARS



Base: Total (n=127)

Q9. Now we'd like to ask you a few questions about the structure of the C-Suite in retail. In general, do you think the number of C-Suite roles within organizations in the retail industry will increase, decrease or remain the same in 5 years?

# WHAT WE LEARNED

### Consumer facing roles are growing

Many expect a significant rise in positions that reflect a focus on consumer engagement such as Chief Marketing, Digital, eCommerce, and Customer Officers.

<b>C-SUITE POSITIONS TODAY VS. 5 YEARS FROM NOW</b>	<b>Exist Today</b>	<b>Will Exist In 5 Years</b>
<b>Chief Marketing Officer</b>	43%	63%
<b>Chief Digital Officer</b>	9%	36%
<b>Chief eCommerce Officer</b>	13%	33%
<b>Chief Technology Officer</b>	14%	27%
<b>Chief Customer Officer</b>	5%	23%
<b>Chief Innovation Officer</b>	2%	17%
<b>Chief Social Media Officer</b>	6%	13%

Base: Total (n=127)

Q10. Which of the following C-Suite positions exist in your company/portfolio companies today (please select all that apply)?

Q11. Which of the following C-Suite positions do you anticipate will exist in your company/portfolio companies 5 years from now (please select all that apply)?

# INFLUENCES ON STRATEGY

**WHAT WE KNOW** U.S. Company Trends

**WHAT WE LEARNED** Retail Survey Responses

# WHAT WE KNOW

## C-Suite Influence

### **ACCORDING TO A RECENT IBM C-SUITE STUDY<sup>1</sup>**

- 60% say customers have considerable influence on their business.
- 88% of CEO's say getting closer to their customer is a top priority
- 69% say they need to create a consistent experience across all customer touchpoints

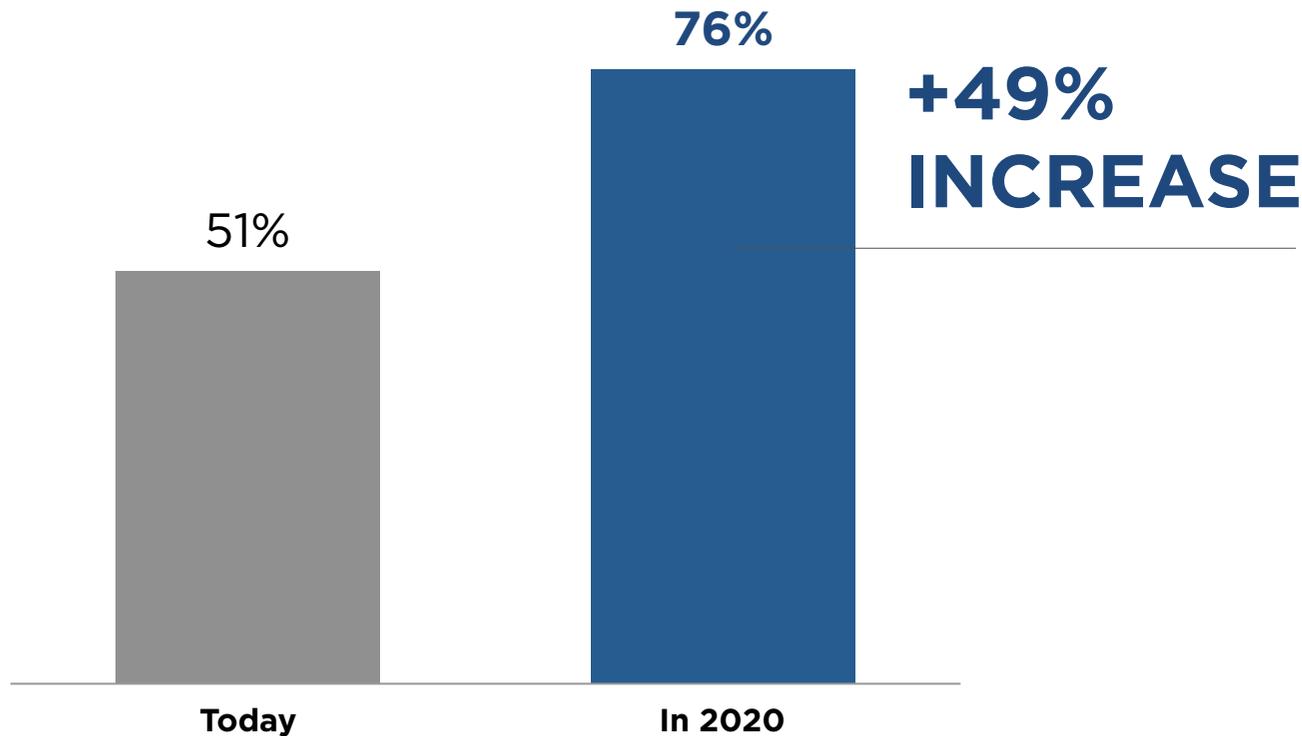
1. IBM Institute for business Value, C-Suite Study 2013

# WHAT WE LEARNED

## The Consumers Voice Is Louder Than Ever

While always a strong influence, retailers are feeling the influence of consumers more than ever (+49%)

### C-SUITE INFLUENCE ON STRATEGY



Base: Total (n=127)

Q14. Which of the following exert a dominant influence on your company's/portfolio of companies' business strategy today (please select all that apply)?

Q15. Which of the following do you think will exert a dominant influence on your company's/portfolio companies' business strategy 5 years from now (please select all that apply)?

# WHAT WE LEARNED

While the core performance areas remain, focus areas expand in 2020

## Retail Survey Results

Consumer engagement and consistent consumer experiences reach a critical mass, while big jumps occur in leveraging technology, “big data”, and social media.

### PERFORMANCE AREAS OF FOCUS 2014 VS. 2020

TOP 2 BOX	How Focused Are You Today?	How important will focus be in 5 years?
Product Innovation	78%	98%
Consumer engagement	82%	98%
Talent acquisition/retention	72%	98%
Providing consistent consumer experiences across all touchpoints	77%	98%
Digital orientation	69%	96%
Technological advancements	61%	96%
Marketing strategies	80%	96%
Leveraging "big data"/analytics	57%	93%
Leveraging social media	63%	92%
Global expansion	65%	84%

Base: Total (n=127)

Q18. How focused are your company's/portfolio companies' C-Suites on performing in the following areas today: [Very focused, Somewhat focused]?

Q19. How important do you feel focusing on each of the following will be for a company to succeed in the retail industry in the next 5 years: [Very important, Somewhat important]?



# C-SUITE SKILLS

**WHAT WE KNOW** U.S. Company Trends

**WHAT WE LEARNED** Retail Survey Responses

# WHAT WE KNOW

## C-Suite Skills

- A **global outlook and meaningful international experience** is a clear need in leadership. Already the foremost emerging skill over the past decade, a global orientation is apt to become even more dominant going forward<sup>2</sup>
- Executives see **digital technologies as transforming their business** — 52% see them driving either a complete transformation or significant change.<sup>1</sup>
- Change agent executives with focus not necessarily on driving drastic firm-wide change, but more with **being at ease with constant flux**<sup>2</sup>

1. IBM Institute for business Value, C-Suite Study 2013

2. Harvard Business Review, "The 7 Skills You Need to Survive in the C-Suite", March 2014

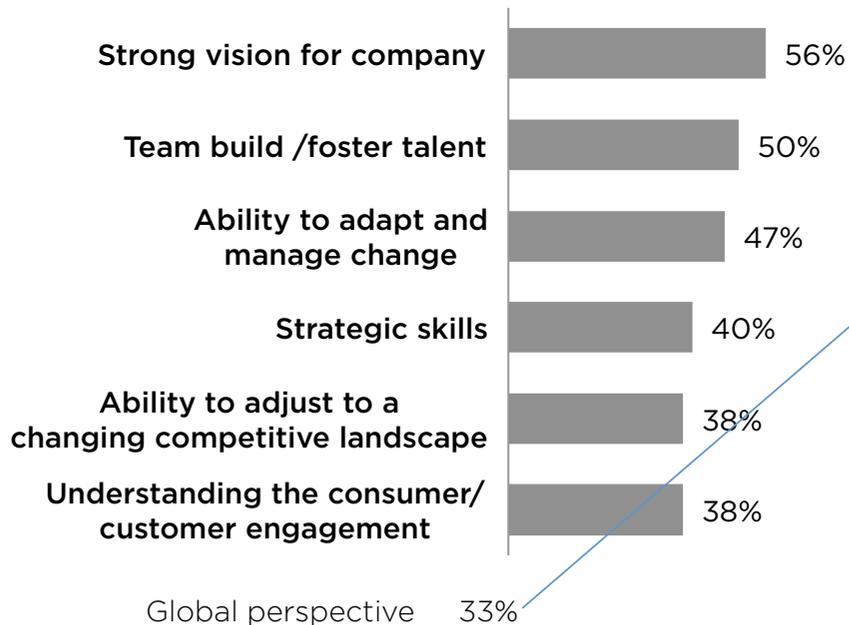
# WHAT WE LEARNED

A global perspective will become one of the essential leadership skills

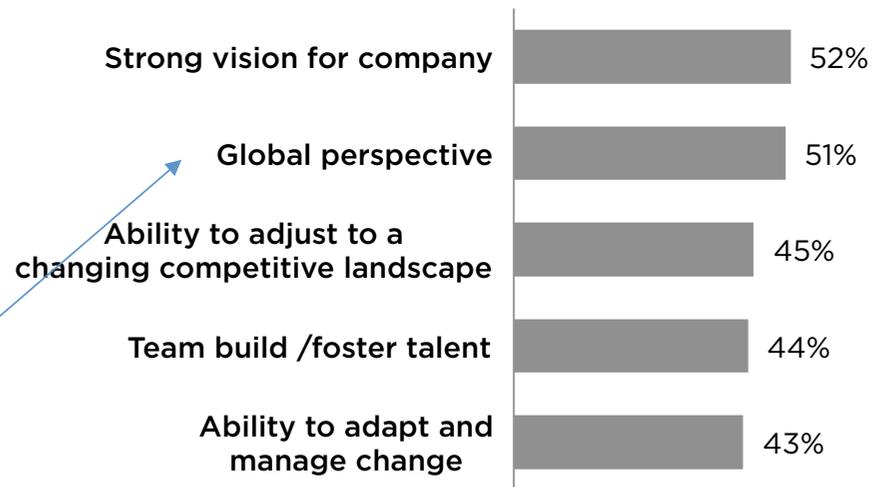
## Retail Survey Results

Leadership skills required in 2014 and 2020 largely mirror each other, with a large increase in global perspective pushing out strategic skills in the top 5 for 2020.

### TOP 5 LEADERSHIP SKILLS TODAY



### TOP 5 LEADERSHIP SKILLS 5 YEARS FROM NOW



\*\*\* "Ability to adjust to a changing competitive landscape" and "Understanding the consumer/customer engagement" were tied in responses.

Base: Total (n=127)

Q16. What are the top five (5) leadership skills that are most important in being a successful C-Suite leader in retail today?

Q17. What are the top five (5) leadership skills you think will be the most important in a successful C-Suite leader in retail 5 years from now?

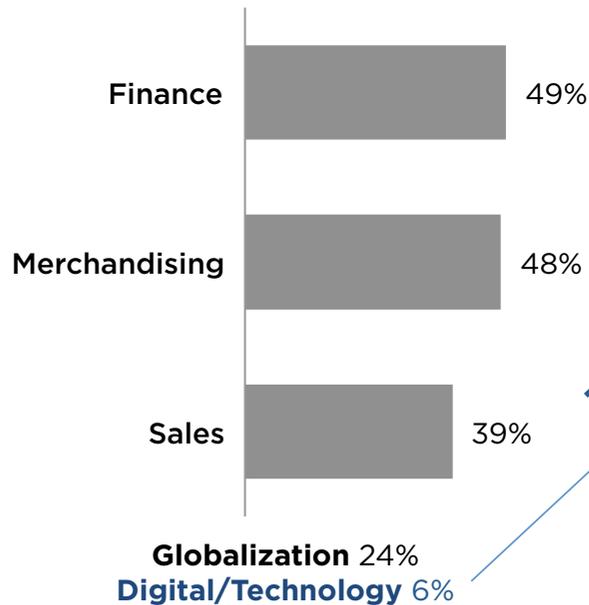
# WHAT WE LEARNED

For CEO's, digital and technology expertise push out finance and sales from top three

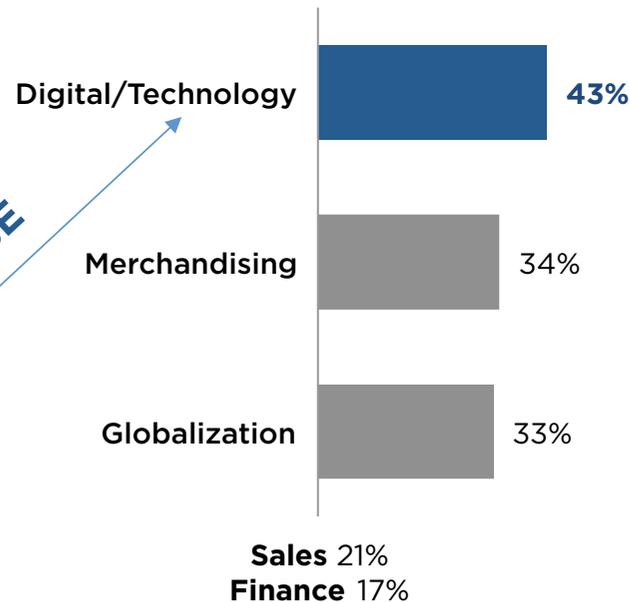
## Retail Survey Results

While Merchandising is seen as an important, CEO discipline in retail both now and in the future, **Digital/Technology (43%)** is considered by far the most essential discipline in the next generation. **Globalization (33%)** also rises up to the top 3.

### TOP 3 CEO DISCIPLINES TODAY



### TOP 3 CEO DISCIPLINES IN 2020



7x INCREASE

Base: Total (n=127)

Q20. Thinking about the CEO role in the retail industry today, expertise in which three of the following disciplines is most prevalent among leaders today?

Q21. If you could choose three disciplines that you think would be the most effective pipeline for the next generation of CEOs in retail, which three would they be?

# WHERE WILL TOMORROW'S C-SUITE LEADERS COME FROM?

**WHAT WE KNOW** U.S. Company Trends

**WHAT WE LEARNED** Retail Survey Responses

# WHAT WE KNOW

## C-Suite Leadership

### **When leadership roles are recruited from outside the company and outside the core industry, it signals a need for change**

- “When outsiders are picked, it’s usually because the board wants two things: a fresh perspective at the top and someone unencumbered by the past who can make changes fast.”<sup>1</sup>
- “... a firm seeking an executive who can engineer change often opts for an external candidate on the grounds that an external hire can bring “a new skill set that can lead to significant change and growth.”<sup>2</sup>
- The number of CEO vacancies filled by outsiders, including those from other industries, has been increasing in recent decades.<sup>3</sup>

1. Forbes.com, “New CEO Study Underlines Merits Of Promoting From Within”, May 25,2012.  
2. Harvard Business Review, “The Seven Skills You Need to Survive in C Suite,” March 2014.  
3. Strategy-Business.com, “Research Perspective on the new CEO”

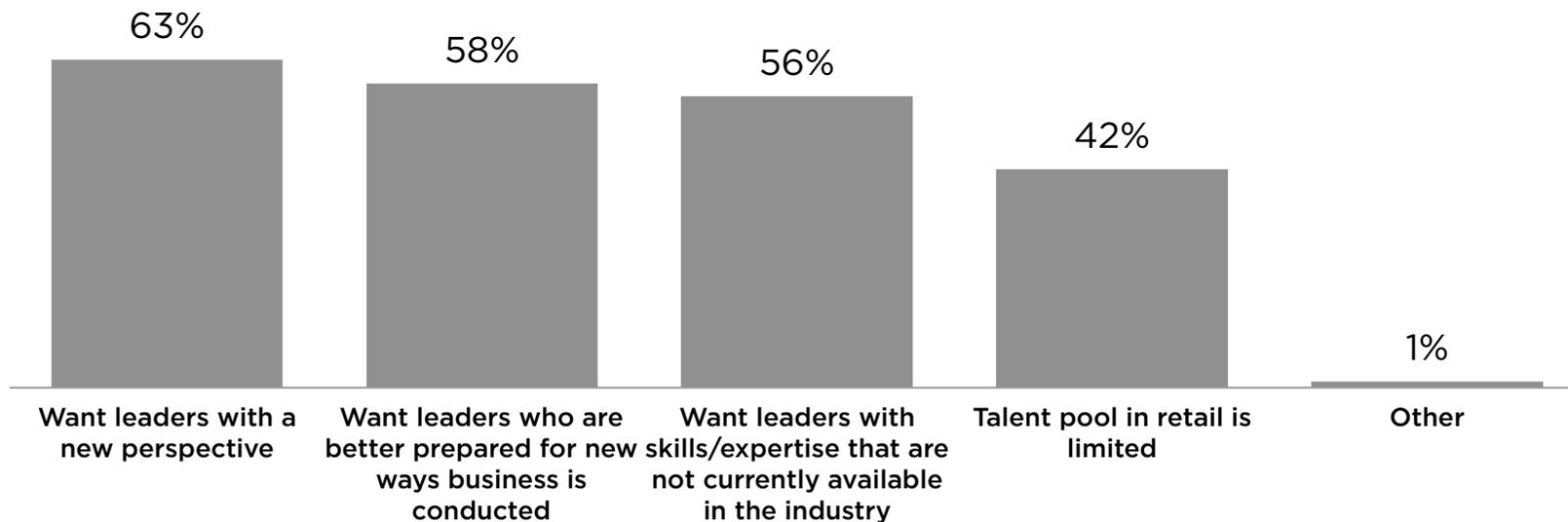
# WHAT WE LEARNED

Many in retail believe an outside perspective and different expertise is necessary

## Retail Survey Results

- 68% of respondents say leadership will come from outside the industry
- Of those respondents fresh perspective and new skills are perceived as key in the next five years

### REASONS FOR PERCEIVED INCREASE IN C-SUITE RECRUITMENT OUTSIDE OF RETAIL IN NEXT 5 YEARS



Base: Total (n=127)

Q23. Do you think the recruitment of C-Suite executive leadership in retail from outside the industry will increase, decrease or remain the same over the next 5 years?

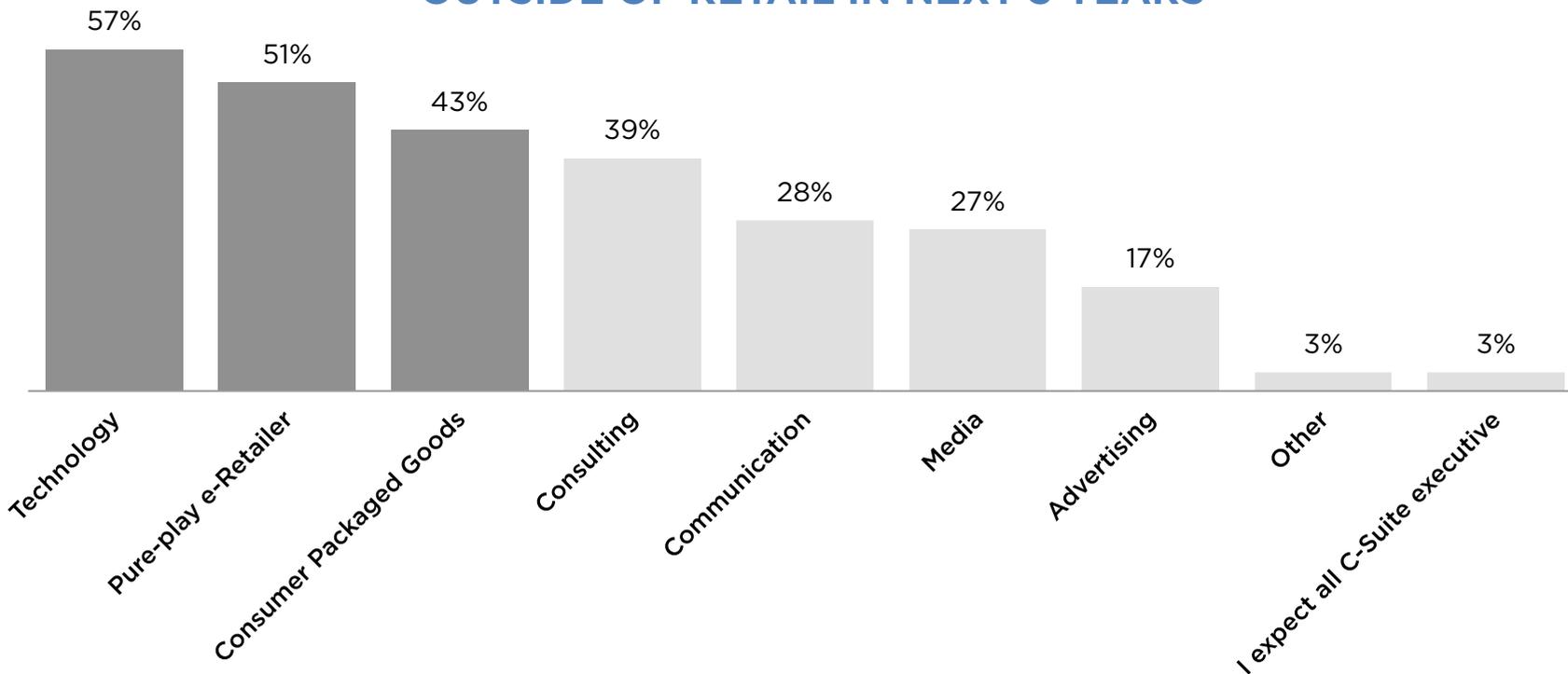
Q24. Why do you think recruitment for C-Suite executive leadership from outside the retail industry will increase over the next 5 years (please select all that apply)?

# WHAT WE LEARNED

Technology and pure-play e-retail is the top targeted industry for new retail leadership

The majority of respondents think Technology (57%) will be the top target of C-Suite recruitment followed by pure-play e-Retail and CPG.

## TOP 3 C-SUITE RECRUITMENT INDUSTRIES OUTSIDE OF RETAIL IN NEXT 5 YEARS



Base: Total (n=127)

Q25. What are the top three (3) industries outside of retail that recruitment of C-Suite executive leadership will come from over the next 5 years?



# ROLE OF THE BOARD

**WHAT WE KNOW** U.S. Company Trends

**WHAT WE LEARNED** Retail Survey Responses

# WHAT WE KNOW

## Role of the Board

According to a 2013 NACD Public Company Governance Survey:

- **60% of boards have replaced or added a director** in the last 12 months – up from 42% last year<sup>1</sup>
- 43% admit their boards **could use improvement in their technical knowledge**<sup>1</sup>
- “When replacing out-going directors, boards sometimes struggle on whether they should replace the same skill set. However, the process of evaluating the board’s gaps and looking at new directors often leads to the discovery of new needs in areas such as changing technology, new regulations or shifting demographics of the customer base.”<sup>1</sup>

1. NACD Directorship, “How to Optimize Your Board for Future Success” February 2014

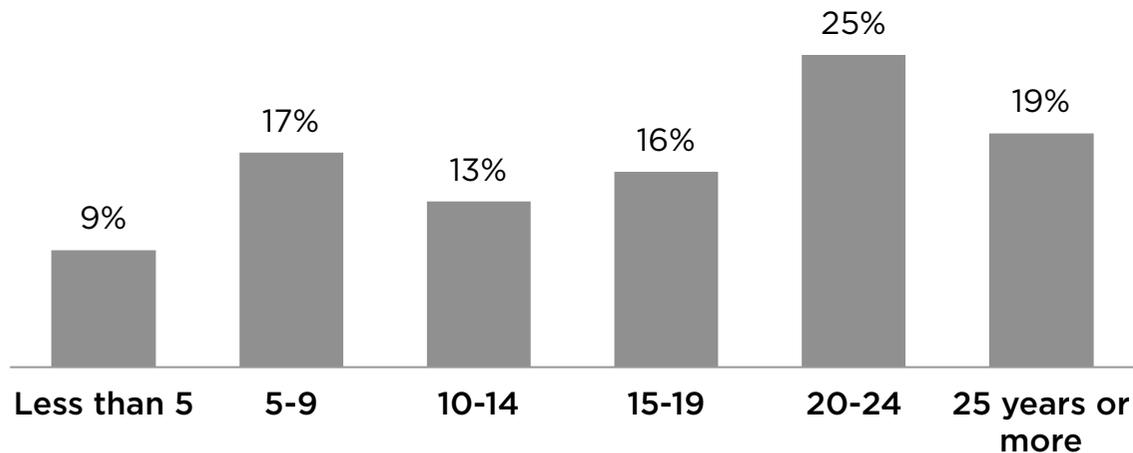
# WHAT WE LEARNED

Almost half (44%) of board members have 20+ years experience in retail

On average, board members in the retail sector have 16.9 years of experience, with 44% having 20+ years experience.

## BOARD MEMBERS' TENURE IN RETAIL SECTOR

Mean 16.9 years



Base: Total (n=127)

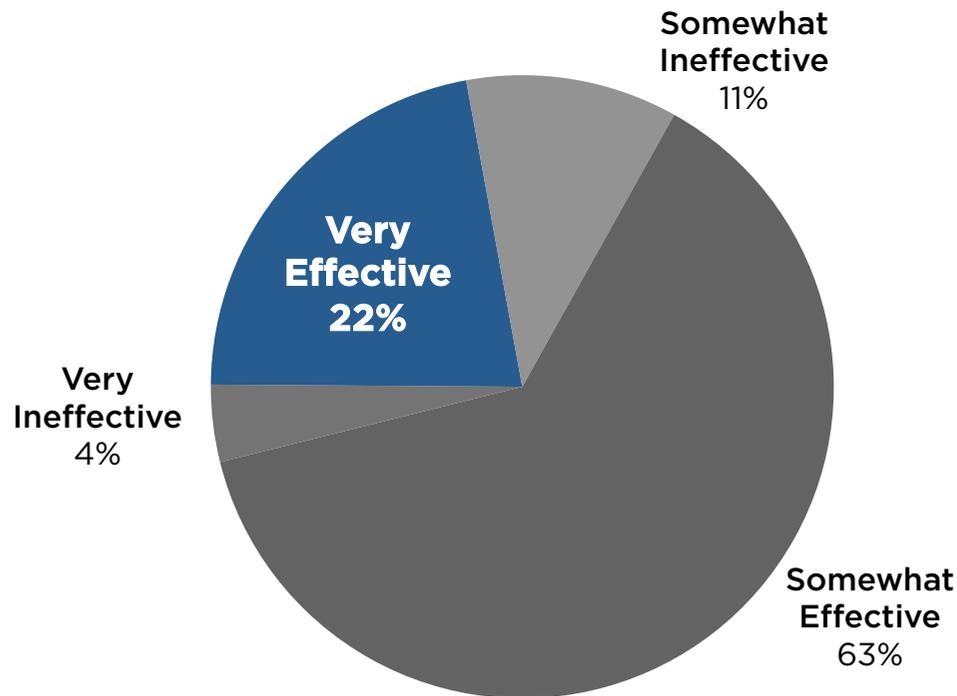
Q27. On average, how many years of experience in the retail sector do members of your company's/portfolio companies' board have?

# WHAT WE LEARNED

Only 22% believe the leadership of board of directors is very effective

Net effectiveness of very and somewhat effective is high (85%) with net ineffective scores at 15%

## BOARD OF DIRECTORS LEADERSHIP EFFECTIVENESS



Base: Total (n=127)

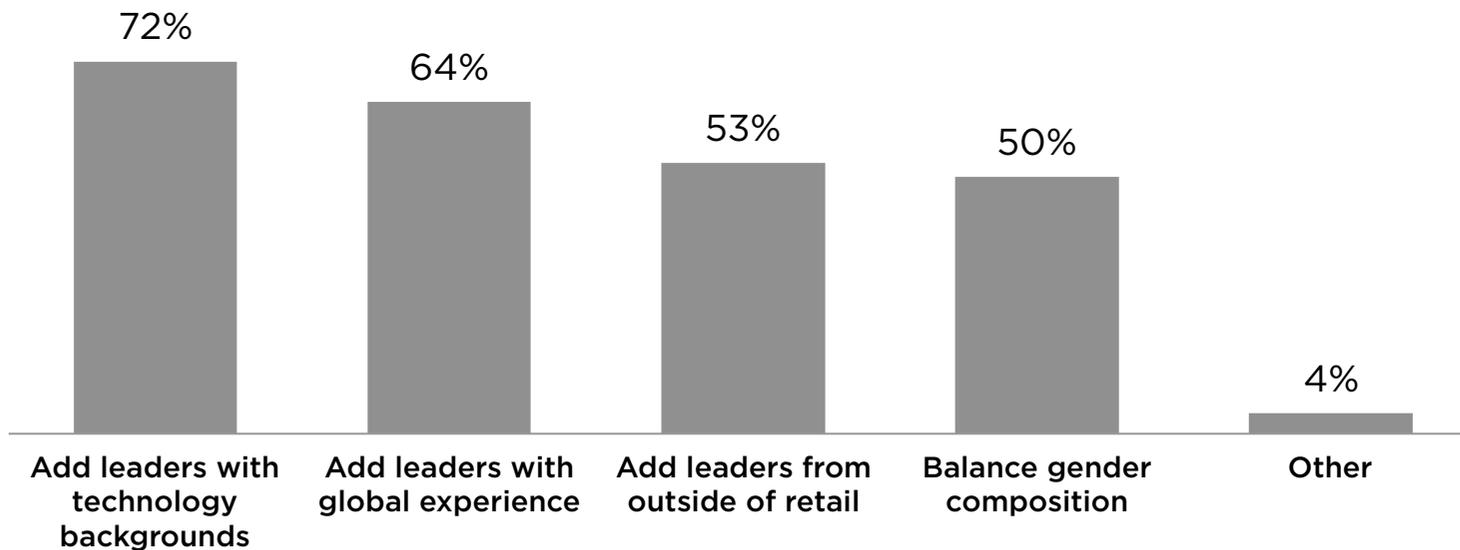
Q30. Overall, how effective would you say the leadership is that the board of directors provides for your company/ portfolio of companies?

# WHAT WE LEARNED

Board of Directors make-up predicted to change by 2020

- The majority (60%) of respondents expect the make-up of the boards to change over the next 5 years.
- Of those respondents that believe the make-up of boards will change, many believe it will be adding those with technology and global expertise.

## EXPECTED CHANGES IN MAKE-UP OF THE BOARD OF DIRECTORS IN NEXT 5 YEARS



Base: Total (n=127)  
Q30. How do you think the make-up of the board of directors will change? (select all that apply)

# ■ APPENDIX

# RESPONDENT PROFILE

- 32% CEO's
- 30% EVP's, SVP's or VP's
- Average age: 47.5 years: 68% between age 35-54
- 50% have been in retail for more than 20 years
- Total Respondents: 127

Title	Total
Chairman	2%
Board Member	2%
Chief Executive Officer/President	32%
Chief Financial Officer	2%
Chief Operating Officer	2%
Chief Marketing Officer	4%
Chief Merchandising Officer	4%
Chief Information Officer	0%
Chief Technology Officer	0%
Chief Supply Chain Officer	0%
Chief Customer Officer	0%
Chief Human Resource Officer	1%
Chief (Unspecified)	3%
EVP/SVP/VP	30%
Director	13%
Other	6%
<b>OWNERSHIP STATUS</b>	<b>Total</b>
Privately owned	63%
Publicly owned	34%
My portfolio of companies includes both privately or publicly owned	3%

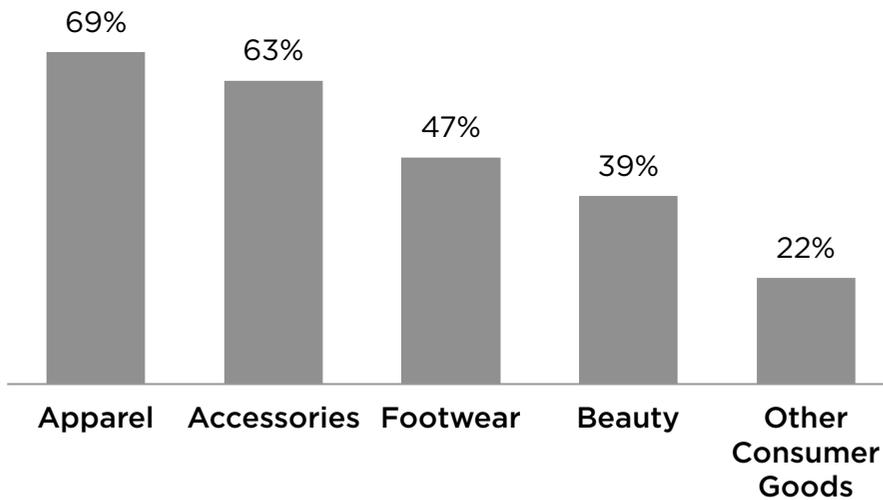
Title	Total
25-34	8%
35-44	31%
45-54	37%
55-64	23%
65+	2%
Mean	47.5
<b>Title</b>	<b>Total</b>
1-2 years	1%
3-5 years	6%
6-9 years	9%
10-14 years	16%
15-19 years	19%
20 years or more	50%
Mean	18.4
<b>Title</b>	<b>Total</b>
Male	46%
Female	54%

Base: Total (n=127)

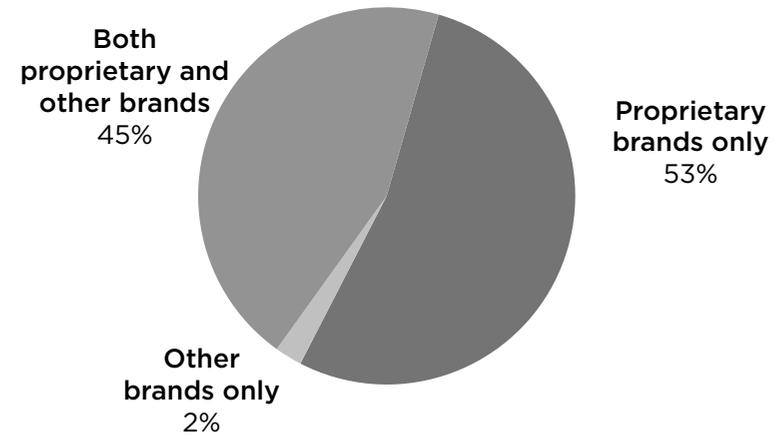
# INDUSTRY PROFILE

- Close to 70% sell apparel, with over 60% also selling accessories and nearly half (47%) selling footwear
- Nearly 40% are involved in beauty
- Merchandise sold is divided evenly between proprietary and branded goods

## MERCHANDISE SOLD



## BRANDS SOLD



Base: Total (n=127)

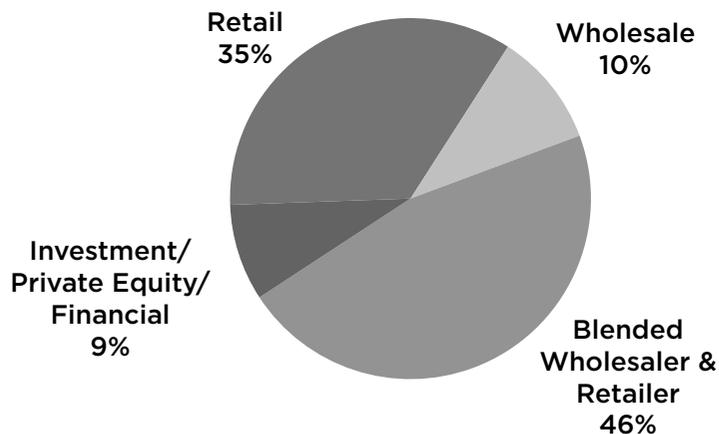
Q2. What type of merchandise does your company/portfolio companies sell (please select all that apply)?

Q7. Thinking only about the retail operations of your company/portfolio companies, which of the following product types are sold?

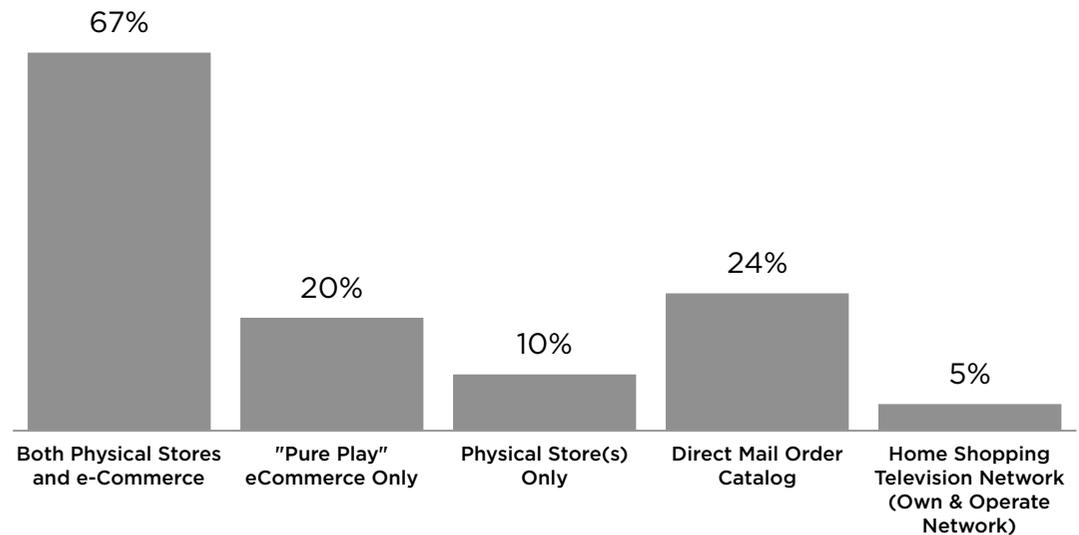
# DISTRIBUTION PROFILE

- More than 80% are retailers or “blended” wholesaler/retailers
- Approximately 10% come from the investment community
- 20% come from pure-play e-Commerce
- 90% conduct business over the internet
- More than 75% operate physical stores

## RETAIL SECTOR



## DISTRIBUTION CHANNELS



## OVERALL

90% operate e-commerce channels  
77% operate physical stores

Base: Total (n=127)

Q1. Are you professionally involved in any the following areas of the retail sector?

Q8. Through which of the following distribution channels does your company/portfolio companies sell merchandise (please select all that apply)?

# COMPANY SIZE & VOLUME

- 46% come from companies with more than 1,000 employees
- Less than 25% come from companies with less than 100 employees
- 35% come from companies with more than \$1 billion in revenue
- 33% have sales under \$100 million

NUMBER OF EMPLOYEES	TOTAL
10-99	23%
100-499	24%
500-999	9%
1,000 - 4,999	19%
5,000 OR MORE	27%
2013 ANNUAL REVENUE OF COMPANY	TOTAL
Under \$100 million	33%
\$100 million - \$200 million	10%
\$201 million - \$500 million	13%
\$501 million - \$999 million	5%
\$1 billion - \$10 billion	22%
Over \$10 billion	13%
Don't know/Prefer not to answer	6%

Base: Total (n=127)