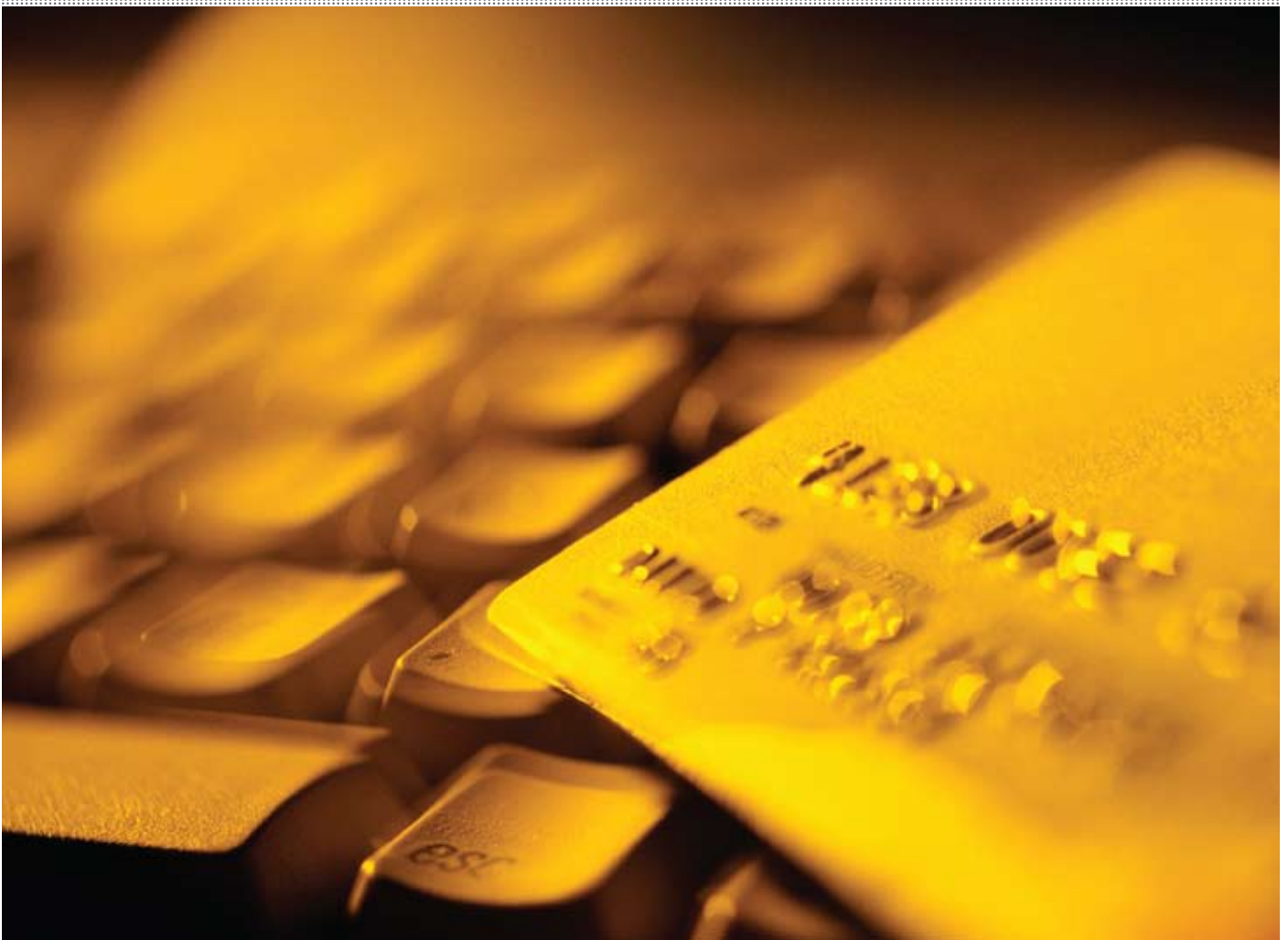


Interviews and Findings from Industry Leaders

Internet Retail Leadership

Transformational Business Leaders and Potential Group CEOs



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Foreword

As part of Russell Reynolds Associates' commitment to understanding the future trends and challenges that our clients will face, we publish reports that examine the transformations taking place across major business sectors. In each of our studies, we look at an industry from the inside by gathering the views of the experts, executives and senior commentators.

This report focuses on the role of the Internet in multi-channel retail, its impact on the industry, and how integrated service offerings are reshaping the talent pool and executive teams. This international study is based on a series of interviews with CEOs of traditional retail organisations, e-commerce leaders and leaders of pureplay Internet retail businesses.

We explore three fundamental issues: first, the balance and mix of skills that the online leader needs; second, the kind of team required to help execute a multi-channel strategy; and third, the bottom line on talent in an industry creating new roles and requirements as it evolves.

Russell Reynolds Associates would like to thank all those who generously shared their insights throughout the research process. Further details are set out in the Appendix.

Executive Summary

Growth of the online retail industry

The retail industry is faced with mounting pressure in the current economic gloom. Figures from the British Retail Consortium (BRC)-KPMG retail sales monitor for December 2008 show the biggest fall in the United Kingdom in 14 years, with the value of retail sales dropping by more than 3 percent on a like-for-like basis and by 1.4 percent on a total basis from December 2007.

Figures for the United States tell a similar story. The US Department of Commerce reported retail sales (excluding cars) for December 2008 down by just over 3 percent—the steepest fall on record—leading to the first ever calendar-year decline in sales.

In the euro zone, retail sales shrank 1.5 percent in November 2008 compared with November 2007, and consumer confidence plunged in December 2008 to its lowest level since the European Commission started tracking it in 1985.

In this climate, the advantages of Internet shopping to find the best price are prized by consumers, investors and retailers. According to the BRC, non-food non-store sales in December 2008 were 30 percent higher than a year ago. In the United States, year-on-year figures for November 2008 show an increase in online sales of 15 percent, according to comScore. In December 2008, total unique visitors to online stores increased by 5 percent to just under 180 million.

“I think there are a lot of gaps in e-tailers' knowledge,” says Julia Reynolds, CEO, www.figleaves.com. “They are running off the growth of the industry rather than the growth of an efficient operating model. There are very few people making money out of their Internet business so the operating model is perhaps not where it should be.”

What implications does the continued growth of e-commerce have on the leadership requirements of online retail businesses?

Leadership requirements

For every business model in the retail industry, the key question is what degree of e-commerce experience does the business leader require? Is it more—or less—valuable than offline retail experience? Should the e-commerce leader in a traditional retailer be a retail expert, an online specialist, a marketing guru or a technophile? Our participants are unanimous in their opinion that the e-commerce head needs to be, above all, a commercial leader. Every executive should have a strategic view, a track record in leadership and expertise in driving change or transformation. Specific retail experience was deemed to be much less important.

“Your job as leader of the e-commerce business is precisely that—to lead the e-commerce business rather than trying to be the marketing director, the systems director or the fulfilment director. However, you need to know a little bit about all those areas in order to get the best out of your team,” says Laura Wade-Gery, CEO, Tesco.com and Tesco Direct.

As Internet retailing continues to evolve, retail leaders are faced with finding e-commerce business leaders in an environment where the sources of talent are limited in the extreme. Consequently, retail leaders have to make tradeoffs in the desired skill sets, with the majority now placing a higher value on leadership and commercial experience than on more traditional retail experience. Building and retaining a strong team, delivering demonstrable long-term results and providing transformational leadership will become increasingly important.

Recruitment and retention challenges

Traditional retailers historically have focused on developing their own talent in-house. Most now recognise that bringing in new talent to drive the online arm of these increasingly multi-channel businesses often is essential. However, the talent pool still is limited in the extreme, and potential leadership candidates often want to go to pureplay Internet retail businesses rather than to multi-channel retailers because they think that pureplays are more cutting edge. Respondents believe that multi-channel will become the cutting edge in the next few years.

“I think the future is all about multi-channel. It’s about finding people who have some e-commerce experiences but who also have seen—from a customer perspective—how a joined up e-commerce solution works best,” says Robin Terrell, Managing Director, John Lewis Direct.

Over the last 10 years, Internet executives have moved rapidly from company to company, particularly in the pureplay environment. Retaining online business leaders is a challenge—there are lots of opportunities for good candidates, and, as a result, they are expensive. In response, some companies have offered executives more autonomy and freedom, creating friction with other parts of the multi-channel business. Other companies have moved executives into broader leadership positions for which they are ill-prepared—particularly if they lack more traditional retail experience. In addition, this constant movement of senior executives makes it hard for companies to identify what executives have really achieved as individuals. The career path for online executives still is being developed, with candidates coming from a range of backgrounds. Finding executives with a strong cultural fit and the ability to build relationships and understand the offline, as well as the online, business is crucial for long-term success. Developing these future leaders also requires retailers to be bolder.

“I think there is a myth about needing to have the experience of doing it, leading to an apparent shortage of people who are known to know about e-commerce,” says Laura Wade-Gery. “Does that mean they can’t be created? No, I don’t think it does. But selection committees can have a risk-averse mindset about not creating somebody but finding someone who’s already done it, particularly if they feel they are playing catch-up.”

Transformational business leaders and potential group CEOs

In big picture terms, the overriding challenge for traditional retailers is how to become a multi-channel retailer with an offer spanning a series of integrated customer channels enabled and enhanced by the Internet. For traditional retail enterprises developing a multi-channel strategy, the e-commerce head often is envisaged as the personification of what the organisation hopes to achieve in the future. As such, these leaders occupy a transforming role. The role typically is highly evolutionary for the organisation. Many of our research participants mention that online heads need to be seen to have broader capabilities to go on to bigger things.

In short, they need to have CEO potential.

“E-commerce businesses are more demanding than traditional retail management. If you can be efficient in Internet management, you can probably do it in other channels,” says a leading retail executive.

Opinions vary as to whether the online business leader is likely to become a core source of talent for retail CEOs in the future. But there is no doubt that those individuals who manage to build strong relationships across the full spectrum of the multi-channel business and who demonstrate real commercial leadership may well become the retail CEOs of the future.

Leadership Requirements

The “five-legged sheep”

In the evolving world of multi-channel retail, the pool of executives with the requisite breadth of skills and personal flair still is relatively small.

“In terms of finding talent, there is a shortage of the right kind of people. Everyone is looking for the elusive ‘five-legged sheep’. We’re looking for people who are inquisitive, have a passion for the Internet, have good management skills and understand brand management, as well as have analytical skills and the ability to react quickly,” says the Customer Service Director of a luxury brand.

In today’s multi-channel world, of the top seven key skills for the e-commerce head, rated by our participants (see Figure 1), commercial expertise is considered the most important skill. The least important is retail experience.

Technological expertise is considered non-essential and is a skill that can be drawn from within the team. Our research participants do stress, however, the importance of a passion for the Internet and what Internet technologies can achieve for the business—and for the customer. Finding such consumer-savvy individuals is a high priority for the majority of our participants. For both pureplays and traditional businesses, despite retail experience being considered non-essential, service experience is a must, with closely related sectors such as travel or leisure particularly relevant, where a consumer-centric view dominates the approach.

“I think you can live without the really high-tech expertise and retail expertise as long as you have someone with great consumer-centric general management skills,” says Reg McLay, Senior Vice President, Marketing and Business Development, Canadian Tire.

“You need people who are very conceptually agile, who are able to grasp virtual thinking, which is a little different from a classical retailer, who needs to see things. The whole way of working virtually requires people to be able to abstract from reality and use imagination,” explains Thomas Vollmoeller, Former Member of the Board and President for Non-Food, Tchibo.

Figure 1: Ranking of Seven Key Skills

1.	Commercial expertise
2.	Strategic view
3.	Leadership track record
4.	Step-change expertise
5.	= Boardroom potential
5.	= Internet expertise
6.	Retail experience

Retailers need to identify the tradeoffs they are prepared to make in finding the right leader for the online business. Understanding the balance a particular organisation requires between e-commerce experience and broader commercial and transformational leadership capability will open avenues that might not have been considered previously.

The online business leader, like any other channel business leader, needs to be able to take a helicopter view of the overall business requirements and translate that for the online environment and vice versa.

“Anyone in a retail organisation needs to have strong online skills. These are not discrete bubbles. They are integrated. Online and retail need to work hand in hand,” asserts Simon Fox, CEO, HMV.

Recruitment and Retention Challenges

Balancing the skills of the team

Given growth rates in online sales, participants expect the talent pool for senior executives with the ability to run online businesses to swell significantly over the next few years as those with potential at all levels gain a track record.

As Simon Fox says, the skills needed of an online leader “depend on the quality of people you put around this person. It is about making sure the person’s weaknesses are covered through strengths in the team that is built around them.”

If the online leader must have commercial expertise, a strategic view and a leadership track record, members of the team must provide the high-level technological capabilities and appropriate retail experience across the entire spectrum of disciplines. Fundamentally, online team members are agents of change so they must be able to find the middle ground in helping execute a multi-channel strategy while maintaining positive collaboration with offline colleagues. All members of the team must be customer-centric, including the technological experts who may experience a step-change in this area of their development.

Developing internal talent

“I think it’s better to have one of your smart up-and-coming executives running the business internally for the main reason that if you want to be multi-channel and integrated into the organisation, you need somebody who understands how the whole organisation works to link it all together,” says Ian Filby, Beauty and Lifestyle Director, Boots.

The importance of fostering collaboration and knowledge of the organisation leads some of our participants to favour the approach of developing talent in-house, usually by moving individuals around to give them exposure to e-commerce. In the early years, this often was the only option. Given the cultural challenges, one advantage of moving high-potential executives from the offline to the online part of the business is that they, it is hoped, will maintain good relations with former teammates. With a strong leader encouraging online and offline collaboration, the team members develop the right attitudes and behaviours to ensure multi-channel success for the whole enterprise.

“The online and offline teams should be one team working towards a common goal with the brand they are representing. The danger is that there is a divergence of what the brand stands for, with the online and offline teams doing different things,” says Michael Hancox, formerly Managing Director, Otto Versand, currently CEO, Ideal Shopping Direct.

Bringing in fresh talent from outside

However, in growing their own talent, companies might forgo other dimensions. Many of the participants strongly recommend hiring talent from the outside at this point in time to gain a fresh perspective.

“You can’t grow everything yourself, especially in this area where technology is new and the whole experience is different. You are looking for some freshness of thinking and ability to accelerate your growth,” says Steven Robinson, CEO, M&M Direct.

For an industry that traditionally has sourced talent from within, the recognition that successful e-commerce executives can be sourced from alternative service and customer-focused industries represents a significant change in industry thinking.

Such open-mindedness is one of the most significant changes brought about by multi-channel opportunities. Rather than concentrating on retail experience, the focus is specifically on the individual, his or her background and one's behavioural characteristics. Participants point to the value of a candidate having a mixed background, encompassing commercial expertise, pureplay experience and—pointing to some notably successful executives—consulting experience.

Multi-channel retailing is attracting a new group of candidates who might not have considered going into retail in the past.

"We've had success from pulling people from Google, Yahoo! and other retail-type companies. I wouldn't rule any source of talent out. It becomes an evaluation of the specific individual against the responsibilities he or she would have," says a traditional retail CEO.

Maintaining a balance

Our participants note four key points in growing and identifying talent:

1. Online experience is a career builder.

Leaders should place promising young talent in online divisions early to give individuals exposure and prepare them for future multi-channel roles.

"To broaden your experience, you either get some Internet experience or you go international. Organisations have to grow their own and put some of their best people in the Internet now—or put good people in who want to build diverse skills," advises Julia Reynolds.

2. Sector differences are becoming more pronounced.

Hiring for food, non-food, luxury brands or digitising businesses brings specific challenges and issues to address. Technological expertise is a high priority for digitising businesses while brand expertise is prized by luxury retailers.

3. E-commerce/multi-channel businesses need commercial leaders but also people leaders and talent spotters.

Moving executives to the online part of the business is wise in a tight market. But as the talent pool grows, it is good practice to benchmark internal talent against the market. A high degree of comfort with internal candidates should not preclude hiring the best candidate for the role. External candidates might not have an internal track record, but their experience in other service industries could be more valuable.

4. Consider hiring from a wide range of sources.

Consider hiring individuals with a background in digital marketing who can take the Internet beyond information and sales and use it as a marketing tool for customer acquisition. Internet technologies are expected to continue to develop, changing the nature of customer interaction, so increasing digital marketing expertise ahead of the curve is a strong tactic.

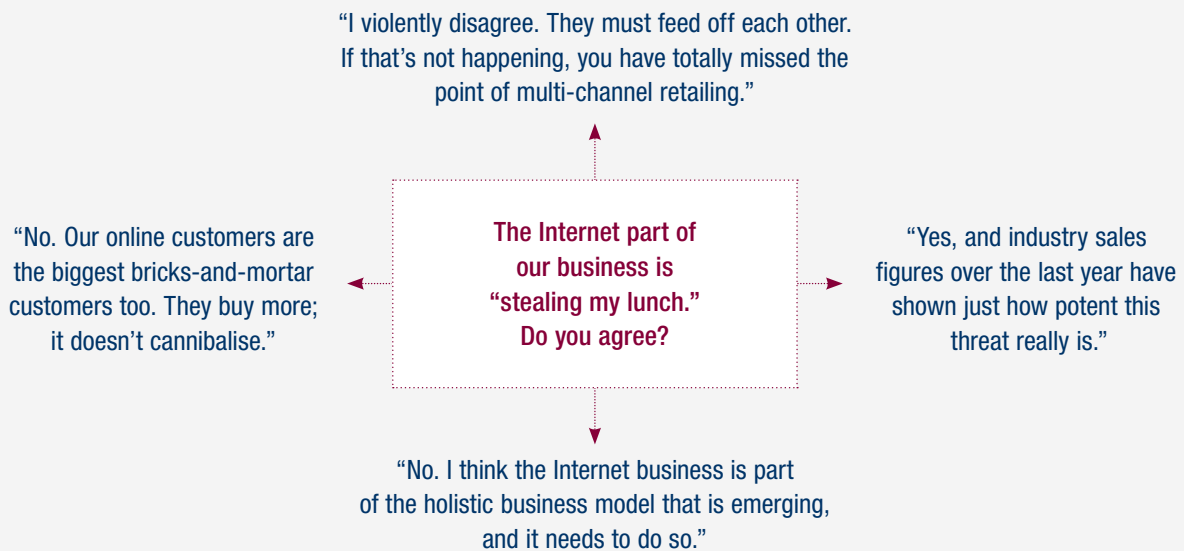
"The piece that is growing and becoming more important is the Internet as a marketing channel. First and most important, it is an environment in which to build loyalty and customer relationships and engage our shoppers in an ongoing, two-way dialogue about our business, the brand and what's relevant to them," says a traditional retail executive.

Transformational Business Leaders and Potential Group CEOs

In many cases, the online and offline teams within a traditional retailer tend to see themselves as two different tribes. The tension between them is not productive.

“In some ways, it’s good to have competition because people strive to be the best. But there is a tipping point where it can become negative,” comments William Lynch, Executive Vice President, Marketing and Content, HSN.

Figure 2: Tension between Online and Offline Teams



Within multi-channel retail, the Internet is not an exclusive shopping option; it is an online thoroughfare, which often is able to provide another perspective on the customer base. Communication needs to be a two-way channel at all levels of the organisation, but it needs to be led from the top.

“We’re a very immediate channel so we learn separately some things about customers that then turn out to be quite valuable to our store colleagues. So because online is a sort of microcosm of our overall business, we can sometimes learn things or see what’s working more quickly. In a nutshell, we are a ‘hothouse’ of things,” says Laura Wade-Gery.

In traditional retail enterprises that are pursuing a multi-channel strategy, the e-commerce head often is perceived to be the personification of what the organisation hopes to achieve in the future. The executives need to be transformational leaders who are adept at driving change and encouraging innovation. Many of our research participants mention that if the online head can demonstrate broad capabilities and understanding of the overall business, then he or she can almost certainly go on to bigger things. These individuals need to have CEO potential.

“The head of the online organisation has the obligation to drive collaboration and interactive work with the offline part of the business. If it doesn't work, it becomes competitive, and the online group will be viewed as being an irritant and not a productive part of the organisation and will be pushed to the side and not supported very well,” says an executive from a leading supermarket.

Figure 3: The Online Leader as Retail CEO?



If the right multi-channel leaders are hired into the online part of the business—with the breadth of requisite skills and experience—then they would be well-placed to lead the overall enterprise. In the short term, however, there is likely to be significant cultural reticence about embracing a leader from the e-commerce or multi-channel side of the business as the overall leader of the organisation.

Notwithstanding this reticence, our respondents all agree that the Internet continues to transform the retail industry in terms of both commercial potential and executive talent.

Appendix

Russell Reynolds Associates would like to thank the following individuals for the time and insight they shared as participants in this research:

Tim Curtis, Managing Director, Lands' End

Ian Filby, Beauty and Lifestyle Director, Boots

Simon Fox, CEO, HMV

Ben Gordon, CEO, Mothercare

Michael Hancox, formerly Managing Director, Otto Versand, currently CEO, Ideal Shopping Direct

Ajay Kavan, Strategy and Marketing Director, Homebase

William Lynch, Executive Vice President, Marketing and Content, HSN

Reg McLay, Senior Vice President, Marketing and Business Development, Canadian Tire

Julia Reynolds, CEO, www.figleaves.com

Steven Robinson, CEO, M&M Direct

Robin Terrell, Managing Director, John Lewis Direct

Thomas Vollmoeller, Former Member of the Board and President for Non-Food, Tchibo

Laura Wade-Gery, CEO, Tesco.com and Tesco Direct

We also would like to thank those participants who have given their perspective and wish to remain anonymous.

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About Russell Reynolds Associates

Leadership. In today's ever-changing global business environment, success is driven by the talent, vision and leadership capabilities of senior executives.

Russell Reynolds Associates is a leading global executive search and assessment firm with more than 300 consultants based in 39 offices worldwide. Our consultants work closely with public and private organisations to identify, assess and recruit senior executives and board members to drive long-term growth and success. We value teamwork, serving our clients with a collaborative approach that spans our international network of sector and functional experts.

Our in-depth knowledge of major industries and our clients' specific business challenges, combined with our understanding of who and what make an effective leader, ensure that our clients secure the best leadership teams for the ongoing success of their businesses. For more information, please visit us at www.russellreynolds.com.

Americas

Atlanta

1180 Peachtree St., NE
Suite 2250
Atlanta, GA 30309-3521
United States of America
Tel: +1-404-577-3000

Boston

One Federal Street
25th Floor
Boston, MA 02110-1007
United States of America
Tel: +1-617-523-1111

Buenos Aires

Buenos Aires Plaza
Manuela Sáenz 323
Seventh Floor, Suites 14 and 15
C1107CBP Buenos Aires
Argentina
Tel: +54-11-4118-8900

Chicago

200 South Wacker Drive
Suite 2900
Chicago, IL 60606-5802
United States of America
Tel: +1-312-993-9696

Dallas

8401 N. Central Expressway
Suite 650
Dallas, TX 75225-4404
United States of America
Tel: +1-214-220-2033

Houston

600 Travis Street
Suite 2200
Houston, TX 77002-2901
United States of America
Tel: +1-713-754-5995

Los Angeles

11100 Santa Monica Blvd.
Suite 350
Los Angeles, CA 90025-3384
United States of America
Tel: +1-310-775-8940

Menlo Park

2500 Sand Hill Road
Suite 105
Menlo Park, CA 94025-7015
United States of America
Tel: +1-650-233-2400

Mexico City

Torre Reforma
Paseo de la Reforma
115-1502
Lomas de Chapultepec
11000 México, D.F.
México
Tel: +52-55-5249-5130

Minneapolis/St. Paul

225 South Sixth Street
Suite 2550
Minneapolis, MN 55402-3900
United States of America
Tel: +1-612-332-6966

New York

200 Park Avenue
Suite 2300
New York, NY 10166-0002
United States of America
Tel: +1-212-351-2000

San Francisco

101 California Street
Suite 2900
San Francisco, CA 94111-5829
United States of America
Tel: +1-415-352-3300

São Paulo

Av. Nações Unidas, 8.501
11º Andar
05425-070 São Paulo
Brazil
Tel: +55-11-3566-2400

Stamford

301 Tresser Boulevard
Suite 1210
Stamford, CT 06901-3250
United States of America
Tel: +1-203-905-3341

Toronto

Scotia Plaza, Suite 3410
40 King Street West
Toronto, ON
M5H 3Y2
Canada
Tel: +1-416-364-3355

Washington, D.C.

1701 Pennsylvania Avenue, NW
Suite 400
Washington, D.C. 20006-5810
United States of America
Tel: +1-202-654-7800

Asia/Pacific

Beijing

Suite 1320, China World Tower I
No. 1 Jian Guo Men Wai Avenue
Beijing 100004
China
Tel: +86-10-6505-2688

Hong Kong

Room 1801, Alexandra House
18 Chater Road Central
Hong Kong
Tel: +852-2523-9123

Melbourne

15th Floor
Bourke Place
600 Bourke Street
Melbourne VIC 3000
Australia
Tel: +61-3-9603-1300

Mumbai

Unit 9(A), Grand Hyatt Plaza
Santacruz (East)
Mumbai 400 055
India
Tel: +91-22-6733-2222

New Delhi

A4, Tower A
The Qutab Hotel and Apartments
Shaheed Jeet Sing Marg
New Delhi 110 116
India
Tel: +91-11-4603-4600

Shanghai

Room 4504, Jin Mao Tower
88 Century Avenue
Pudong, Shanghai 200121
China
Tel: +86-21-6163-0888

Singapore

2 Shenton Way
#08-01 SGX Centre 1
Singapore 068804
Singapore
Tel: +65-6225-1811

Sydney

Level 40 Aurora Place
88 Phillip Street
Sydney NSW 2000
Australia
Tel: +61-2-9258-3100

Tokyo

Izumi Garden Tower 14F
1-6-1 Roppongi
Minato-ku, Tokyo 106-6014
Japan
Tel: +81-3-5114-3700

Europe

Amsterdam

World Trade Center
Tower H, 18th Floor
Zuidplein 148
1077 XV Amsterdam
The Netherlands
Tel: +31-20-305-7630

Barcelona

Edificio Prisma
Avda. Diagonal, 613, 2ªA
08028 Barcelona
Spain
Tel: +34-93-494-9400

Brussels

Boulevard St.-Michel 27
B-1040 Brussels
Belgium
Tel: +32-2-743-12-20

Copenhagen

Østergade 1, 1st Floor
DK-1100 Copenhagen K
Denmark
Tel: +45-33-69-23-20

Frankfurt

MesseTurm
60308 Frankfurt/Main
Germany
Tel: +49-69-75-60-90-0

Hamburg

Stadthausbrücke
1-3/Fleethof
20355 Hamburg
Germany
Tel: +49-40-480-661-0

London

24 St. James's Square
London SW1Y 4HZ
United Kingdom
Tel: +44-20-7839-7788

Madrid

Calle Miguel Angel, 11
Seventh Floor
28010 Madrid
Spain
Tel: +34-91-319-7100

Milan

Via Mascheroni, 5
20123 Milan
Italy
Tel: +39-02-430-0151

Munich

Ludwigstraße 7
80539 Munich
Germany
Tel: +49-89-24-89-81-3

Paris
7, Place Vendôme
75001 Paris
France
Tel: +33-1-49-26-13-00

Stockholm

Hamngatan 27
SE-111 47 Stockholm
Sweden
Tel: +46-8-545-074-40

Warsaw

Belvedere Plaza
ul. Belwederska 23
00-761 Warsaw
Poland
Tel: +48-22-851-68-38

Zürich

Genferstrasse 21
8002 Zürich
Switzerland
Tel: +41-44-447-30-30