Retail: an economic national treasure
The 2013 survey of UK retail chairmen

About Korn/Ferry Whitehead Mann
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About the British Retail Consortium
The British Retail Consortium (BRC) is the lead trade association representing the whole range of retailers, from independents to the large multiples and department stores, selling a wide selection of products through centre of town, out of town, rural stores, and online.

The BRC is the authoritative voice of retail, recognised for its powerful campaigning and influence within government and as a provider of excellent retail information.

For further information, visit www.brc.org.uk
Foreword

I welcome the BRC’s involvement in this continuing and valuable project. Direct engagement with such a comprehensive and diverse range of senior retail figures provides uniquely personal and hands-on insights into the state of our very varied sector and its future prospects.

The views expressed here are not necessarily the BRC’s but each provides an important window on individual corporate priorities. The retail chairmen have set out clearly their priorities for 2013. The challenges are particularly stark but so, too, are the accompanying opportunities.

Having battled the endurance test of a relentlessly low or no-growth environment for several years now, the overriding consideration for retailers in all parts of the sector is the health of the UK economy. If anything, the persistence of these tough conditions has left the chairmen surveyed even more concerned about the broad economic outlook than they were twelve months ago.

Bringing new life to our high streets is a high priority for many. The UK Government can take credit for a high-profile review of high streets and for planning reforms that encourage investment. But continued weak consumer spending and rising business costs mean we’re seeing more empty shops. Providing the support that keeps retailers trading successfully in town centres and finds new uses for former shops is both vital to local communities and economies, and central to maximising the sector’s wider contribution to jobs and growth.

The survey confirms that online retailing, including international online retailing, is a great source of optimism. Our figures show that UK customers spend more per head online than customers in any other country and UK retailers are responsible for 11 per cent of global online retail sales. Overwhelmingly they are making the development of this channel central to their future strategies.

A range of evidence shows the scale of the retail sector’s actual and potential contribution as a wealth creator, tax payer, jobs provider and innovator. But that contribution cannot be taken for granted.

The chairmen are impatient to see meaningful action that will really make a difference and help retailers deliver growth. As you’ll read, they are united in their call for robust measures now to build consumer confidence and to provide businesses with the certainty they need to invest and grow.

Ian Cheshire
Chairman
British Retail Consortium

February 2013

About the authors

Sally Elliott, Senior Client Partner, Retail Practice
sally.elliott@kornferrywhm.com

Sally Elliott leads Korn/Ferry Whitehead Mann’s retail practice, focusing on Chair, Non-Executive Director, CEO and Executive Board recruitment activity within the UK and International retail sector. She joined the firm in 2000, following an earlier career with PepsiCo.

Ben Twynam, Principal, Retail Practice
ben.twynam@kornferrywhm.com

Ben Twynam focuses on board-level appointments within the retail sector, and leads Korn/Ferry’s digital practice in the UK. He has worked in senior level recruitment for seven years, five of which have been with Korn/Ferry Whitehead Mann in London and Hong Kong.
Executive summary

Retail chairmen, as they have in Korn/Ferry Whitehead Mann’s two previous surveys, continue to express concern about a weak UK economy as a challenge to the health of the sector. They are also pessimistic about prospects for economic growth. Almost 80 per cent of the chairmen surveyed specifically cited overarching economic issues as their first concern, a topic encompassing consumer confidence, pressures on household budgets leading to reduced spending and demand for value products, continued subdued growth in disposable incomes, and the prospect of flat consumer spending for a prolonged period.

Despite this pessimism, three-quarters of retail chairmen we surveyed are confident that his or her company will beat the market in 2013. All are looking for growth opportunities such as multi-channel sales and international markets, and competing to increase market share at home.

The move to multi-channel was among the top three priorities for more than two-thirds of the chairmen. Though this has been a central issue for several years, there was an air of opportunities to be seized in this year’s interviews. At the same time, retail chairmen acknowledge that there are strategic, operational, social and economic issues—particularly on the future of high streets—that have to be tackled as a result of the increase in digital and mobile sales.

Still, the UK Government’s handling of the economy seems to frustrate many chairmen. Whilst they support deficit reduction, they are also anxious to see greater action to stimulate economic growth. Half thought the Government “could do better” (up from 17 per cent last year); one in five described themselves as “indifferent” to the Government’s performance to date. They called for a change in the tone of political messages to encourage greater confidence, public and private investment in infrastructure, and substantive improvement in the bureaucracy facing business.

Without active management, town centres and high streets will continue to struggle, they say. The Portas Review: An independent review into the future of our high streets, and the limited pilot projects it spawned, in particular, represent a missed opportunity. More action—some radical, some pragmatic—is needed. High streets must be helped to evolve to meet long-term consumer trends, rather than preserved in aspic.
Scope of the research

This survey of thirty-four retail chairmen, between them representing the perspectives of forty-two retail companies, builds on earlier Korn/Ferry Whitehead Mann surveys conducted during the pre-election period in 2010 and in the autumn of 2011. Participants included the chairmen of the UK’s ten largest retailers and a cross-section of all retail sub-sectors, high street, out of town, multi-channel and pure-play online retailers.

The questions explore chairmen’s views on the current state of the economy and their businesses—and the anticipated prospects for both—as well as their opinions on the performance of the UK Government.

The interviews were conducted in person or by telephone between 4 October and 3 December 2012, notably before the Chancellor’s Autumn Statement which announced some plans for fiscal relief and infrastructure investment.

This year a number of chairmen have agreed to some of their comments being attributed. Generally, however, we have maintained anonymity as in previous years, in order to encourage frank discussion.

The views in this survey are those of the individual chairmen who took part and not necessarily those of Korn/Ferry Whitehead Mann or the British Retail Consortium (BRC).
Survey participants

John Allan
Chairman, Dixons Retail

Richard Baker
Chairman, DFS

John Barton
Chairman, Next

Robert Bensoussan
Executive Chairman, LK Bennett

Andy Bond
Chairman, Wiggle
Chairman, Republic

Walker Boyd
Chairman, WH Smith

Sir Richard Broadbent
Chairman, Tesco

Simon Burke
Chairman, Hobbycraft
Chairman, Bathstore

Tony Campbell
Chairman, The White Company
Chairman, Eat
Chairman, TM Lewin

John Coombe
Chairman, Home Retail Group

Geoff Cooper
Chairman, Dunelm

Godfrey Davis
Chairman, Mulberry

Tony DeNunzio
Chairman, Pets At Home

Sir Ian Gibson
Chairman, Wm Morrison Supermarkets

Alan Giles
Chairman, Fat Face

David Hamid
Chairman, Game
Chairman, Ideal Shopping Direct

Debbie Hewitt
Chairman, White Stuff
Chairman, Moss Bros

Andy Higginson
Chairman, N Brown
Chairman, Poundland

James Lancaster
Chairman, Martin McColl

Charlie Mayfield
Chairman, John Lewis Partnership

Brian McBride
Chairman, ASOS

Alistair McGeorge
Executive Chairman, New Look

Dennis Millard
Chairman, Halfords

Nigel Northridge
Chairman, Debenhams
Chairman, Paddy Power

Alan Parker
Chairman, Mothercare

Sir John Peace
Chairman, Burberry

Stefano Pessina
Executive Chairman, Alliance Boots

Philip Rowley
Chairman, HMV

Robert Swannell
Chairman, Marks & Spencer

Rob Templeman
Chairman, Gala Coral
Deputy Chairman, British Retail Consortium

David Tyler
Chairman, J Sainsbury

Robert Walker
Chairman, Travis Perkins

Len Wardle
Chairman, The Co-Operative Group

Phil Wrigley
Chairman, Majestic Wine
The state of retail: a question of confidence

The economy remains the main worry on retail company chairmen’s minds with 44 per cent describing themselves as pessimistic about the outlook for the next twelve months. The chairmen are more upbeat, however, compared to last year when 67 per cent described their economic outlook as pessimistic. Furthermore, 15 per cent have shifted their view to one of optimism, whilst none of the chairmen surveyed last year expressed any level of optimism.

The percentage of chairmen who feel “neutral”— neither optimistic nor pessimistic—about the near-term economy rose 10 points to 35 per cent. Several among this group prefer to describe themselves as “realistic”; that is, they don’t expect things to get much better or worse, but see significant downside (albeit diminishing) risk from an external shock, such as a crisis in the Eurozone. The next two years will be hard graft, some chairmen suggest. “It used to be that you’d have a business plan and a stretch plan. Now we have business plans and downside plans,” observes Tony Campbell, who chairs The White Company, Eat, and TM Lewin.

Overall, however, chairmen have high levels of confidence in their own companies, though they acknowledge retail remains a brutally competitive environment. “The rules of today are: make sure you’ve got enough cash and then play to win,” one chairman says. “It’s a market share game.”
Chairmen appear confident that costs in their businesses are under control, and are now pursuing positive strategies for future growth. After years of diminishing capital expenditure across the sector, nearly half expect to invest more during the next twelve months than they did in the previous year, with another third expecting to keep their spending at current levels.

Consumer confidence remains weak. “Consumers have been so burnt, they need to be convinced by positive news before relaxing the grip on their purse strings,” is how one chairman sums things up. Over 20 per cent of chairmen fear further declines in consumer confidence, though over half believe confidence will remain stable.

Many contend that there has been a permanent shift in consumer attitudes with both consumers and businesses now being cautious about taking on debt. Alliance Boots’s Executive Chairman Stefano Pessina was among them. “Consumers have accepted the reality of the situation and they will continue to be prudent,” he says.

Chairmen are acutely aware of how widely the financial security of individual households varies across the UK, a distinction that can get lost in average “consumer confidence” statistics. Lower-income households are being particularly careful in the way they spend, trading down and staying price conscious. “Real disposable incomes are still falling outside the M25,” comments Sir Ian Gibson, Chairman at Wm Morrison Supermarkets. “Consumers are more worried about job security than they were a year ago.” At the luxury end of the market, on the other hand, retailers who have carefully cultivated their customer base are finding more appetite for spending.

“Real disposable incomes are still falling outside the M25. Consumers are more worried about job security than they were a year ago.”

Figure 2
Does your company expect to invest more over the next twelve months?

Figure 1
How optimistic is your outlook towards the economy over the next twelve months?

Figure 2
Does your company expect to invest more over the next twelve months?

1 UK retailers’ financial positions and the UK consumer outlook. Research by Oxford Economics/BRC, February 2012.
Majestic Wine Chairman Phil Wrigley says he believes consumers are quietly resilient. “They are thinking, ‘We’ve done a damn good job of surviving four horrible years. If it stays the same, I can cope. It’s not comfortable, but I can cope.’”

Even if the economy stagnates, the Government must start sounding more optimistic, insist most chairmen. Four out of five want to see more government action to stimulate consumer confidence. That doesn’t mean holding out unrealistic hopes, but rather setting out a coherent strategy for growth to improve the national mindset.

**Business challenges confronting the retail sector**

The economic health of the UK and the EU still overshadows other concerns facing retail companies. Nearly 80 per cent of the retail chairmen believe economic factors are undermining a consumer recovery, and cite this as the number one challenge facing the sector. The UK economy is smaller now than in 2007. With nearly two-thirds of UK GDP driven by consumer spending, this is not just an issue for retail. But there are many obstacles to kick-starting the economy.
“The consumer is over-borrowed, the banks are over-borrowed and the Government is hopelessly over-borrowed,” sums up DFS Chairman Richard Baker. Only 21 per cent of chairmen believe the UK economy will grow in the next year; more than half suspect growth will elude the UK until 2015 or later. “These quasi-recessionary conditions are the new normal,” says Fat Face Chairman Alan Giles.

“When quantitative easing has worked its way through there will be growth but it will be through inflation,” is the analysis of Tony DeNunzio, Chairman of Pets at Home. Andy Bond, Chairman of both Wiggle and Republic, suggests the UK will “bump along with muted levels of growth” for at least five years.

Any recovery could also be stalled by headwinds from overseas. “We are dependent on Europe and the global situation,” one chairman points out. “We need China and India to convert to being consumers like our consumers.” As that happens, and standards of living in rapidly developing countries approach parity with the West, other shifts could follow, including, one chairman suggested, the return of more manufacturing to the West.
UK brands: the world is their oyster

It’s no surprise that luxury retailers are focusing on international expansion as a source of growth. Iconic British brands have done well in rapidly developing markets over recent years. “In some international markets we continue to be under-penetrated, providing us with the scope to grow store numbers over time,” commented Burberry Chairman Sir John Peace.

Mid-market retailers also have long-term export strategies, and an expanding circle of them see this as crucial to achieving organic growth.

The spread of target markets is wide. Some see Europe and the US as important strategic developments; others are focusing on countries with rapidly growing middle classes aspiring to more Western consumption patterns. This growth is being pursued both via store-building programmes and via the internet.

Debbie Hewitt, Chairman of White Stuff and Moss Bros, sees the UK’s global leadership in retail as an asset that could be leveraged to better advantage. “The UK is a source of talent for international retail,” she says. “The Government could use this to attract investment into the UK.”

Retailers going for multi-channel growth

Despite their gloomy economic outlook, half the chairmen predict growth for their businesses in 2013, with another quarter anticipating significant growth. One in five report a stable outlook. Only 5 per cent of chairmen think their companies will experience modest contraction.
Multi-channel retailing is seen by two-thirds as the model to drive business growth this year and in the future, as structural change in the sector takes further hold. “The shift online is inexorable, like an advancing glacier,” said Simon Burke, who is Chairman at Hobbycraft and Bathstore. “The recession may go away; online won’t.”

Long-established sources of management information no longer capture the data needed to inform strategy as retail companies ask new questions such as: How do we connect with this new kind of customer, who relates to the world through social networks and digital media, and behaves very differently as a result? Can we build loyalty through social media? Will customers come to our stores but buy from a competitor on their smart phone? Should bricks-and-mortar shops have Wi-Fi, and how can that complement the look and feel of the shop?

Mobile sales are growing far faster than traditional online sales, presenting boards with a new set of operational and technological challenges. Very few companies have mastered multi-channel retailing, says ASOS Chairman Brian McBride. “Many retailers have breathed a sigh of relief to have a transactional website that has done reasonably well,” he says. “But mobile is the next step. People will have their devices with them when in shops.” Mobile sales are the next big land-grab.

Consumers, or at least the techno-savvy ones, have acquired much greater power, driving sharper competition. Greater price transparency, particularly though new m-commerce channels, mean retailers have to find other ways to differentiate themselves. Customer expectations of service are also changing. Many still want to see products in-store. Many like the convenience of reserving online and collecting from a store. In-store terminals offer the option of ordering online for home delivery.

How long before South Korean-style touch screens are commonplace in UK transport hubs? And, more broadly, how will property portfolios be reshaped as shopping habits evolve?

The future of high streets

This revolution in retailing comes at a cost, however. Bricks-and-mortar retail has to reinvent itself to remain relevant within the new model. And high streets will be changed forever as a result.

“The concept of high streets as a retail distribution channel dates from the late medieval period and has had its day,” is the rather bleak view of Wm Morrison’s Chairman Sir Ian Gibson. But not everyone was so
certain. Nigel Northridge, who chairs Debenhams and Paddy Power, believes that “the high street will always have a role but that role will change. It will become more of a social space.”

The Government-commissioned report, The Portas Review: An independent review into the future of our high streets, published in late 2011, identified many of the same issues cited by the BRC in its 21st Century High Streets report, and by chairmen in our previous surveys. Despite the new impetus Mary Portas’s recommendations gave the national debate, chairmen are frustrated at how little has been done in the review’s wake. Greater public-sector action is needed to enable high streets to evolve—and survive. Attempting to hold back the shifting tide of consumer shopping habits is not the answer, cautions James Lancaster, Chairman at Martin McColl. “I’ve never seen a government be successful in bucking the market,” he says.

Charlie Mayfield wonders if the Government set itself the wrong exam question. “The question we should be trying to address is not ‘how do we fill empty shops?’ but ‘how do we create vibrant local economies?’”

With high streets in transition and multichannel growing, retailers are reassessing their store portfolio. Simon Burke puts the question directly: “What is the optimum size of a nationwide retail estate today? It used to be from 300 to 800 shops. Now it’s much less, and you can feel the tide receding from many retail streets as a result.”

Chairmen envisage significant changes in commercial property values and rents—and fewer local retail jobs—but more use of this real estate for entertainment, leisure and residential purposes. All of these developments will have implications for communities and local authorities, but many chairmen feel they are not being addressed to any serious degree.

**Figure 8**
Will your company increase or decrease its store portfolio?

- **Grow**: 51%
- **Maintain**: 20%
- **Shrink**: 13%
- **Not applicable**: 13%
- **No response**: 3%
Bricks-and-mortar retailers face a disproportionate property tax burden, shouldering 28 per cent of the Business Rates bill. With Business Rates escalating, more stores will be pushed into unprofitability. “Central government could persuade local government to reduce rates on high street stores and compensate them for that,” suggests Home Retail Group Chairman John Coombe. “This is not about helping retail, but helping communities.” More widely, chairmen want a more level fiscal playing field, putting competing retail models on an even footing, and recognising that for bricks-and-mortar retailers, Business Rates are just as important as Corporation Tax levels.

The picture is not all gloom. “Good high streets may even get better, for example the great shopping streets in London,” suggests one chairman, before adding, “It’s the ‘nearly high streets’ that are at risk.”

Despite the cost pressures, expanding a retailer’s footprint in desirable locations is integral to many strategies, with half of chairmen predicting that their company will add new stores.

For some, this could mean more—but smaller—stores in carefully chosen locations.

So what will high streets look like in future? There will surely be different solutions in different places. “Each town needs its own strategy,” according to Marks & Spencer Chairman Robert Swannell. But in all cases making it easier to trade on high streets is crucial to their ongoing health.

**Government, retail, and growth**

Chairmen are becoming increasingly frustrated with the UK Government’s handling of the economy. While a third of chairmen think the Government has been doing “quite well” since taking office, half believe it “could do better”, and one in five describe themselves as “indifferent” to the Coalition’s performance.

Overall, confidence in the Government has waned considerably. Last year four out of five chairmen believed the Government were doing well or reasonably well.
Retailers have little expectation of direct support from Government, but despite this are nearly evenly split between ‘indifferent’ and ‘ineffective’ in rating how the Government has benefitted the sector.

“Retail should be the barometer for government. Government should stay close to retail trends to understand the real mood of the nation,” advises Robert Bensoussan, Executive Chairman of LK Bennett. Retail is, after all, a leading indicator for the economy.
So what should the Government do about growth?

Commenting ahead of the Chancellor’s Autumn Statement on 5 December 2012, chairmen identified a number of areas where the Government could and should act to steer the economy toward growth. Along with the aforementioned need to inspire more consumer confidence, two issues, debt reduction and infrastructure investment, had been identified last year also as key areas for action.

**Apply sound financial management.** As in 2010 and 2011, the chairmen exhort the Government to get its financial house in order. N Brown and Poundland Chairman Andy Higginson sums up his feelings about what should be the Government’s top priority: “Handling the nation’s finances and restoring a degree of sanity.” There is wide agreement on stabilising the budget, but the speed and depth of cuts is more controversial. Some want to see more, sooner. Others see a dilemma in trying to promote economic expansion and reduce the deficit simultaneously. Debbie Hewitt feels a twin approach is both necessary and achievable. “Get on with the cuts,” she says, “but ensure that the plan for growth is equally well articulated.”

**Invest in the future.** “Invest in infrastructure, which creates jobs, and initiatives with long-term value,” says J Sainsbury Chairman David Tyler. As well as an immediate stimulus to construction and engineering, such a move eases unemployment and produces enduring productivity gains for the economy as a whole. But chairmen are frustrated that large investment projects get caught up in bureaucracy and take too long to move from concept to functioning asset. This is seen as a particularly British problem. “Other countries seem to find a way through,” points out the Co-Operative Group Chairman Len Wardle. “Why do we lack resolve?”

Given the constraints on the public purse, the private sector could take a significant role in providing capital as well as expertise in delivering these projects, some suggest. Government for its part should encourage such infrastructure investment through tax breaks.

Another critical area for investment is skills. The sector already plays a role in helping carers or the long-term unemployed move back into the workforce. It also offers one million young people a start in their careers. But more can be done. Outgoing BRC Chairman Rob Templeman comments, “Retail and government should work together in creating apprenticeships and providing training.” Chairmen are keen to
collaborate with government on re-inventing the apprenticeship system into one that reflects the dominant role of the service sector in a modern economy. They also eagerly support, and are willing to play a part in, reforming the education system.

Access to talent will be a competitive issue as multi-channel operations demand new and constantly changing skill sets. Big demographic challenges loom, too. “How do we look after the four generations of employees aged from sixteen to seventy-five, and give them all fulfilling roles to play?” poses Charlie Mayfield, Chairman of John Lewis Partnership.

**Streamline bureaucracy and regulations.** There are firmly held opinions on deregulation and whether the Government’s Red Tape Challenge has delivered on its promise of eliminating burdensome regulations. Some would like to see a moratorium on new legislation, particularly related to small businesses. Innovation and investment, both vital to any plan for growth, need to be freed from stifling bureaucracy so that private enterprise can move quickly to seize new opportunities. There were consistent calls for the Government to step out of the way as retailers make the shift to multichannel, invest in new stores, and try to attract shoppers from non-EU countries.

Where regulation is necessary, chairmen want as much consistency as possible, saying that national or local variations are counter-productive.

**Listen more to retailers.** Retail leaders agree that the sector needs to speak with one voice to the four UK governments if it is to be heard and its needs met. There is a clear message on the need to identify the most important, long-term issues, with many chairmen commenting on the role of the BRC as the most effective vehicle to address these on the sector’s behalf. “Credit to the BRC for neutralising [the Government] and preventing any harm. Lobbying is very important. The BRC is one of the best lobbying groups in business,” praises Robert Walker, Chairman of Travis Perkins.

As Ian Cheshire takes the helm at the BRC from Rob Templeman, and Stephen Robertson gives way to Helen Dickinson as Director General, there are many challenges facing the organisation’s very broad retail membership. The support of retail chairmen will be essential in putting the sector’s case to Ministers.
The main messages from retail chairmen to the Government

Each chairman was invited to offer a single piece of advice to the Government on where its focus should lie, and these are outlined below:

Value the retail sector

“Retail is an economic national treasure—don’t put it at risk by looking the other way while its world is changing.”

“Be totally pro-business in everything you do because sustainable wealth creation is at the heart of this country.”

“It may be difficult politically, but don’t bash business—you can’t kill the goose or you’ll end up with nothing. Business is part of society.”

“Try not to waste the wealth and energy we have….Recognise that investment in town centres will benefit everyone.”

“The UK has a very successful retail sector. It has had a tough time since the financial crisis. Help us to strengthen and enable the sector to grow.”

“The industry is under pressure—we have the challenges of new channels to deal with. We need a joined up policy around high streets and recognition that we employ in large numbers.”

“Listen more and be more in touch.”

“We need real long-term thinking—what will retail look like in ten years?”

Get going on economic growth

“We need an agenda for growth, not just for austerity.”

“Improve the mood of the nation. They need to change the ‘gloomy message’ record.”

“Do what you can to stimulate consumer demand, train more people and keep inflation down.”

“Be more radical about achieving growth.”

“Put as much energy into growth as you have done into deficit reduction. Create a project plan.”

“Find an effective way to deliver economic stimulus.”

“Stay the course on public finances, but demonstrate you are serious about industrial strategy and have a plan for economic growth.”

“Make sure the economy remains firm, and take measures to support business and job generation.”

“Create an environment that encourages growth. (I’d rather be here than Spain or Greece at any rate.)”
Cut business costs

“Minimise regulation. Create the right economic environment. Invest in infrastructure to drive growth.”

“Cut red tape.”

“Business rates are really unfair. They should be based on the contribution to GDP.”

“Review and revise UK rent practices.”

“Help us lower our costs.”

Keep your distance

“Get out of the way. Leave me alone. Perhaps more of you should go on ‘I’m a Celebrity’.”

“Keep out of the way.”

Invest for the future

“Having stabilised the UK’s finances, invest for long-term growth through infrastructure. We have so many natural advantages. We should be thinking global.”

“Invest in infrastructure, specifically broadband.”

Hold your nerve

“Be brave and park your differences because when problems are challenging, compromise and procrastination won’t solve anything.”

“Create certainty—not just for business but for everyone. Are we in Europe or out of Europe? Are we going to have a new airport or not?”

“If you’re not prepared to do something, don’t engage. Work with reality.”

“Be more assertive with the policies created. Prosecute harder and faster.”

“Be more statesman-like. Focus on the main issues at hand. Stop getting waylaid in the peripheries.”

“Do what you think is right, not necessarily what’s popular, so that confidence in the programme is maintained.”

“Keep going… but execute faster. Is there a way for people with money to invest to lend to small businesses that can’t get funding outside our failed banking system?”

“It’s time now, given what’s not happening in the rest of the world, to look at self-help measures to get the UK economy back on its feet.”
Foreword

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A range of evidence shows the scale of the retail sector’s actual and potential contribution as a wealth creator, tax payer, jobs provider and innovator. But that contribution cannot be taken for granted.

The chairmen are impatient to see meaningful action that will really make a difference and help retailers deliver growth. As you’ll read, they are united in their call for robust measures now to build consumer confidence and to provide businesses with the certainty they need to invest and grow.

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Chairman
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About the authors

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