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E-COMMERCE EXPERIENCE IN THE RETAIL SECTOR: Has the importance of online shopping been ignored in boardroom composition?

DHR INTERNATIONAL, EUROPEAN RETAIL AND CONSUMER PRACTICE GROUP



Introduction

E-commerce has been the subject of heated boardroom debate for nearly two decades now, but the speed with which customers have taken to shopping online seems to have constantly outpaced the expectations of many of the biggest retailers. In the UK retail market, for example, 2016 online retail sales are expected to account for 23% of all UK retail sales, and it will not be long before the other major economies of Europe reach that figure.

Whilst many 'bricks and mortar' retailers have seen their businesses upended by online-only retailers, there is the concern that some retailers haven't reacted quickly enough to bring the skills needed for successful multi-channel operations onto their boards.

To find out the level to which e-commerce experience is permeating the boards of major retailers, we conducted an analysis of the current board composition of over 30 of the UK's, and 10 of Europe's, top retail businesses. Our aim was to see how much e-commerce experience was represented on main and management boards of retail companies.

The results of our research reveal a significant shortage of e-commerce experience on the main boards of major UK and European retailers, with a particularly notable shortage of executive directors with online experience.

At DHR International we are now seeing more clients in the consumer and retail sector accepting that individuals with a proven track-record in the e-commerce market need to be on the slate of possible candidates for key leadership roles, such as Chief Operating Officer. Persuading those highly motivated candidates to jump ship from the excitement of a fast growth digital environment to a 'bricks and mortar' retailer is the next challenge.

Executive Summary

- Only 5% of executive directors at the leading UK-listed 'bricks and mortar' retail companies have a background in e-commerce.
- Less than 2% of members on the main board of European retailers have a background in e-commerce.
- Under a tenth (8%) of non-executive directors at the leading UK retailers have significant online experience.
- 7% of members on the main boards of UK-listed high street retailers have online experience, compared to 6% of members on their management board.

E-commerce experience needed at the top

- The lack of relevant experience on their boards has slowed the adoption of e-commerce amongst traditional retailers, hampering the organic growth of their online offerings.
- Retailers have often resorted to developing their online presence through the acquisition of established online retailers or through joint ventures where in some cases retailers may have to dilute ownership in exchange for e-commerce expertise.
- The operational and marketing sophistication of many e-commerce companies is now increasingly recognised, resulting in fierce competition amongst retailers for individuals with a proven track-record in e-commerce.

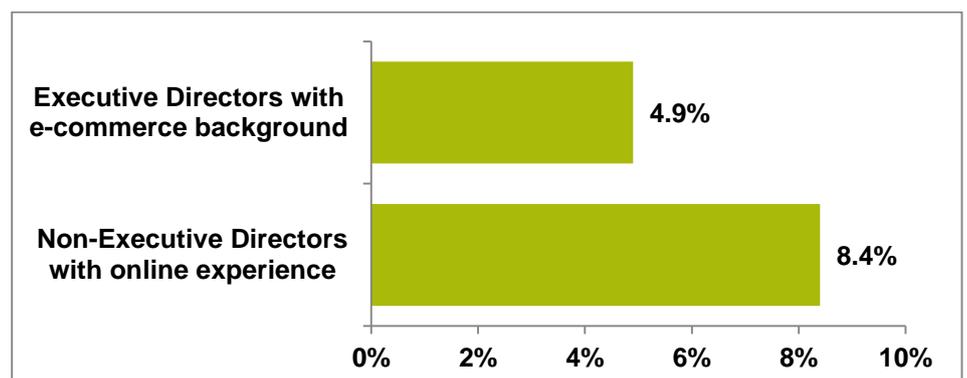
Our research found that there is a lack of e-commerce experience on the boards of major British retailers. Less than 5% of current executive directors at the leading UK-listed 'bricks and mortar' retail companies have a background in e-commerce.

Nevertheless, the need to transform traditional retail businesses to be more online-focused, including developing the necessary logistical structures and online sales architecture, has now become a significant boardroom issue. Virtually all retailers had previously recognised the need to invest in their digital operations, but more are now treating it as a core operation that affects all aspects of their businesses from branding to pricing.

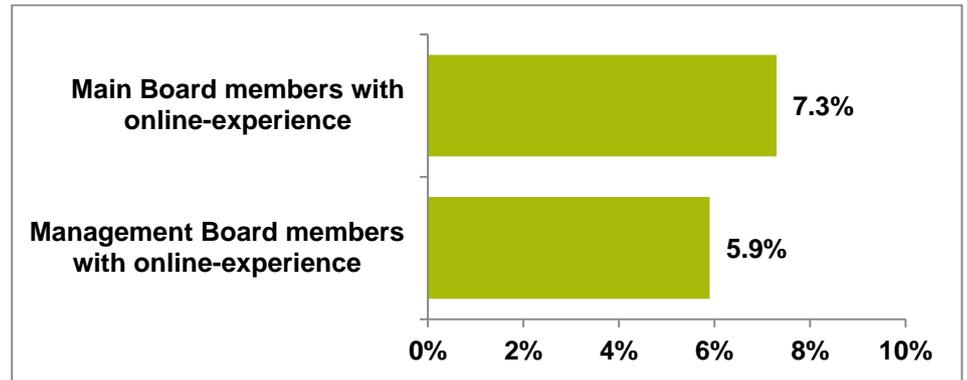
Interestingly, the rapid growth in the importance of online shopping and multi-channel offerings has often outpaced corporate expectations. Many high street retailers have only recently shifted their strategic focus towards online shopping to compete with internet-only retailers, such as ASOS, the fashion retailer, and AO World, the white goods retailer.

In hindsight, many traditional retailers responded too slowly to the challenge of e-commerce, but it is now widely recognised they have to add senior people to their online operations and not just at a non-executive level.

Breakdown of main board members at UK high street retailers with e-commerce background



Proportion of board members at UK 'bricks and mortar' retailers with online-experience



Gaining the necessary e-commerce infrastructure and expertise to compete

The lack of online representations at the most senior levels has meant that many retailers have not been as proactive as they could have been in advancing their businesses' home grown digital offerings. As a result, some 'bricks and mortar' retailers have often been forced to develop their online presence through acquisitions of established e-commerce retailers.

Some major retail chains have successfully expanded their online presence, but many more are still playing catch up. Our research found examples of how companies have attempted to bridge the gap in e-commerce knowledge by acquiring established firms – see box-out below.

For those retailers that seek to buy in established e-commerce experience they need to tread carefully as acquisitions can be a higher-risk strategy in an ever-changing environment. For example, Morrisons acquired internet retailer Kiddicare in 2011 for £70 million as a strategic decision to kick-start their online platforms, only to sell it for a fraction of that value in 2014.

Significant strategic change can often take a long time to bear results, and can be difficult to predict the future shape of the market. The speed of the transition to m-commerce has wrong footed many analysts.

There is a clear need to address the challenge from online-only retailers, as they may risk the ability of high street firms to stay competitive, as the well-known example of HMV shows.

Initially, HMV was slow in responding to the digitalization of the music, film, and gaming markets and growing competition from online retailers like Amazon and music download sites like iTunes. As a result HMV entered administration in 2013. Bought by retail restructuring expert Hilco, HMV has since made a comeback with Digital Managing Director James Coughlan, former head of Vodafone's digital music business, leading the relaunch of e-commerce site HMV.com and the HMV app.

**Spotlight: high street retailers use
Acquisitions and JVs to gain e-commerce skills and infrastructure**

- In 2016 Sainsbury's is undertaking the acquisition of Argos, bringing in the expertise and logistical framework of their e-commerce operations.
- In 2013, Morrisons signed a 25-year partnership agreement with online supermarket Ocado.
- House of Fraser partnered with digital merchandising platform Elevate to manage their 'digital shelf' in real time.
- Marks and Spencer used an Amazon platform for their e-commerce offerings for seven years, finally ending in 2014 with the launch of their new website at a cost of £150m.

Despite the high competition for experienced e-commerce executives, our research also found interesting examples of best practice showing traditional retail companies that have brought individuals with e-commerce experience onto their boards – see box-out below.

Best practice spotlight: UK retailers

- The chief executive at Mothercare, Mark Newton-Jones, previously took Next online in 1998 as the director of the Next Directory. He is also a non-executive director at online fashion retailer, Boohoo.
- In summer 2015, Dunelm Group chose John Browett as their new chief executive. Previously, he had been senior vice-president of Apple's retail division and CEO of Tesco.com.
- Jon Rudoe joined Sainsbury's' Operating Board in February 2014 as Digital and Technology Director in recognition of the rapidly growing importance of the company's online and digital sales channels. Prior to this he had led marketing, user experience, trading, own-brand and supply chain at Ocado.
- Tesco's chief customer office, Robin Terrell, was vice president and managing director at Amazon, chief operating officer at Fingleaves.com, and held multichannel roles at House of Fraser.
- Majestic Wine gained board-level e-commerce experience, albeit in an unconventional way, when it acquired Naked Wines, the online wine company, and its founder, Rowan Gormley, was appointed as the new chief executive of Majestic Wine. Previously he was a co-founder of Virgin Money and was a former non-executive director at Zopa Limited, the peer-to-peer lending service.

**Major European
retail boards falling
behind UK
counterparts**

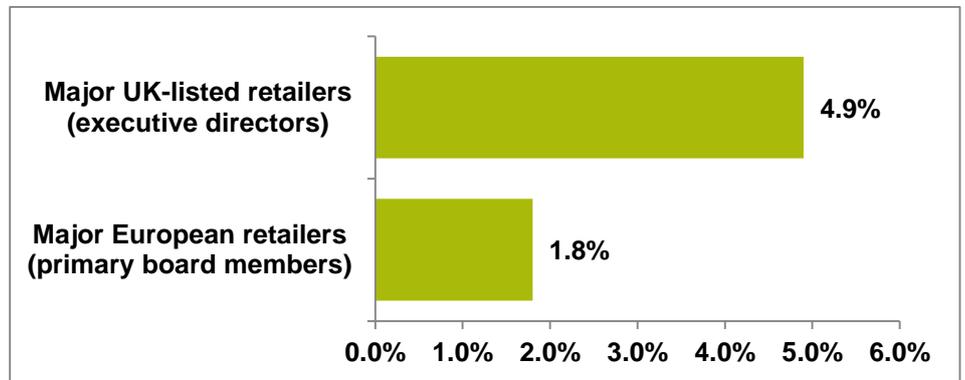
Interestingly, our research found that the leading European retail companies have significantly less e-commerce experience on their board of directors than their UK competitors. Only 1.8% of members of the main boards of European retailers have a background in e-commerce.

However, lower rates of e-commerce penetration within European markets are an important reason for the lower levels of online experience on European boards. For many retailers on the continent, it is not yet seen as a necessity.

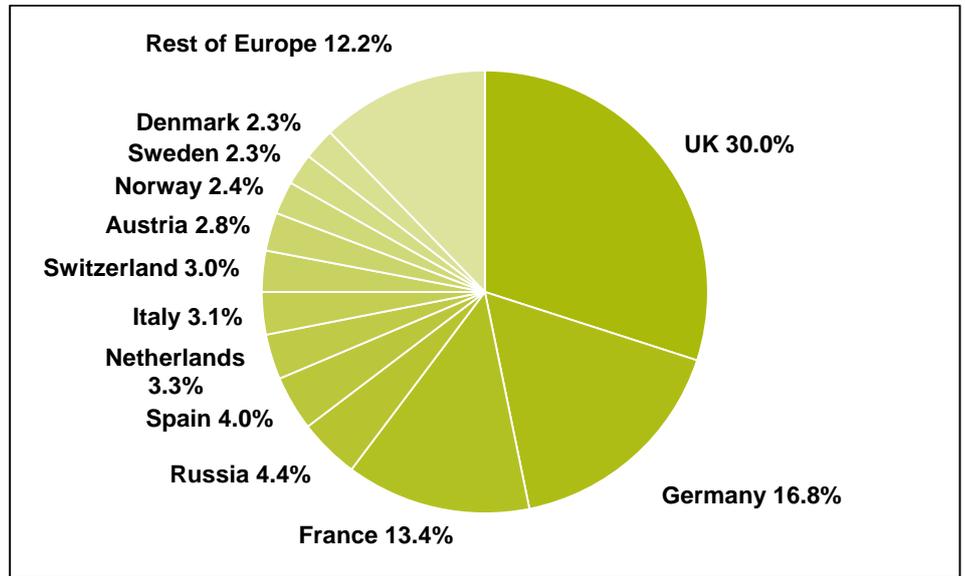
Currently, the UK is the world's third largest e-commerce market. Furthermore, the UK represents 30% of the entire European e-commerce market, while Germany and France represent 17% and 14% respectively.

While the e-commerce market is not yet as important to European retailers as it is to British companies, the situation is likely to change rapidly in the near future as online shopping continues to rapidly grow in the European market. European 'bricks and mortar' companies now have the opportunity to act early, bringing in relevant e-commerce experience and increasing their online focus, so that the importance of online shopping does not outpace their expectations as it did with their UK counterparts.

Percent of board members of major retailers that have a background in e-commerce: Europe trails the UK



E-commerce penetration in UK market substantially ahead of European rivals*



* Source: Ecommerce Foundation, 2015

Conclusion

Our research found that for Europe's major retailers, e-commerce is still not well represented at board level, despite online retail continuing its march to take market share from the high street.

Some traditional retailers are still seen as struggling with fundamental e-commerce issues such as creating an online service that delivers a positive customer experience, a well-functioning and cost effective infrastructure and marketing to customers across the different sales channels.

Without in depth board level e-commerce experience retailers are going to struggle to address these key challenges.

To bring those talented e-commerce executives on board will require retailers to provide e-commerce executives with the proper mandate and freedom to scale up their online businesses. But without that commitment 'bricks and mortar' retailers may have even bigger gambles in the future.

Appendix

DHR International reviewed the main board and management board of the following retailers for this research:

Ahold	Kingfisher
Auchan	Laura Ashley
B&M European Value Retail	Majestic Wine
Bonmarche	Marks & Spencer Group
Card Factory	McColl's Retail Group
Carpetright	Metro AG
Carrefour	Migros
Conviviality	Morrison Supermarket
Coop	Moss Bros Group
CVS Group	Mothercare
Darty	Next
Debenhams	Pets at Home Group
Delhaize Group	Poundland
DFS Furniture	Rewe
Dixons Carphone	Sainsburys
Dunelm Group	Signet Jewelers
Groupe Casino	Sports Direct
Halfords Group	Ted Baker
Home Retail Group	Tesco
Inditex	Topps Tiles
JD Sports Fashion	WH Smith



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