



Leadership in the retail, fashion and luxury sector

The challenge for the CEOs of today and tomorrow

Through a series of in-depth interviews, we asked over 50 CEOs and general managers in the retail, fashion and luxury sector about how their businesses are evolving. We asked them to reflect on their leadership style, its impact on building effective teams, and to outline priorities for succeeding in a period of rapid change.

In this era of geopolitical and economic uncertainty, leaders are faced with a unique set of challenges. Transformation is on the agenda of every company as disruptive technologies and the accelerating pace of change threaten to destabilise the industry. CEOs have to look closely at their strategy and the talent implications of these forces, address any skills deficits and oversee cultural change to ensure that their companies respond to demographic shifts both in the workforce and among consumers in different markets.

Luxury brands are dealing with greater complexity than ever before. Loyalty is eroding and social media is making it harder for brands to maintain control of their image. Developing the market without sacrificing exclusivity or alienating core consumers requires careful management. Consumer expectations are constantly growing, forcing traditional companies to enhance their online offerings into seamless omnichannel experiences.

In this digital era, every business in the sector needs to identify and nurture talented leaders with the right capabilities to navigate a shifting agenda and exploit the availability of new tools such as artificial intelligence and predictive analytics. In the midst of heightened global risk and accelerating transformation, the role and required skills set of the CEO are changing.

THE LEADERSHIP CHALLENGE — AT A GLANCE

This article explores five key areas in which leaders in the retail, fashion and luxury sector must excel if they are to gain competitive advantage:

1. Build a culture of trust, ownership and entrepreneurship
2. Put the shopper and customer at the heart of your strategy
3. Stay agile, make use of data and streamline decision-making
4. Rethink your organisational model
5. Leverage a knowledgeable and supportive board

WHAT DOES IT TAKE TO BE A SUCCESSFUL LEADER TODAY?

We believe that CEOs must embrace the complexity brought on by accelerating changes in consumer behaviour and the increasing availability of information. Data are not only valuable in supporting day-to-day operations but have a dramatic impact on strategic investments decisions.

Significant cultural changes are necessary in most businesses as they seek to adapt to economic and social change. CEOs will have to set the tone from the top. Since much of the cultural challenge falls on their shoulders, CEOs need the support of a well informed and digitally savvy board.

In recent decades, iconic leaders presided over the expansion of their brands, planting flags on previously unconquered markets. Today's leaders, by contrast, have to deal with an unpredictable ecosystem driven by technology innovation, one in which the centre of gravity has shifted towards the Asian consumer. These changing circumstances inevitably affect the capabilities and attributes that companies will look for in their future leaders.

While other sectors like hospitality, services and consumer electronics are further along the transformation path, most companies in the retail, fashion and luxury sector have more recently begun this journey. They are facing significant challenges in bringing their businesses up to speed.

CEOs must focus on creating the right strategy and assembling the most talented team around them. At the same time, they will have to question their own managerial style and adjust to innovative new businesses models.

We have identified five key ways in which leaders in the retail, fashion and luxury sector must excel if they are to gain competitive advantage:

1. BUILD A CULTURE OF TRUST, OWNERSHIP AND ENTREPRENEURSHIP

Unlike a company's vision, mission and strategy, which are explicitly articulated by leaders with the goal of guiding the organisation's activities, culture is pervasive and invisible, working silently in the background to direct how people throughout the organisation think, make decisions and actually behave. Culture represents the "unwritten rules" for how things really work in the organisation: It is the manifestation of the shared values, beliefs and hidden assumptions that shape how work gets done and how people respond to one another and to marketplace developments.

One of the primary tasks for any CEO today is to help foster an organisational culture that promotes continuous learning and instils a consumer-first perspective across the business. The leaders we talked to acknowledged the need for a better framework to help them understand their culture and how to develop or change it.

Most CEOs we interviewed recognise that their leadership style can have a significant impact on culture which, in the transformation context, is a dynamic and continually evolving aspect of the company.

How leaders behave and communicate, the effect they have on their team, will have a direct impact on the level of trust in the organisation. In successful digital pure-play companies, for example, leaders create a culture in which individuals and teams can flourish without fear – all the while maintaining a strong focus on performance and results.

The most effective leaders benchmark themselves against best-in-class companies outside the sector. They get the most out of individuals when they focus on coaching rather than exercising authority (especially noticeable in small and mid-cap companies). These leaders seek to remove the limits from people's thinking, creating a less defensive, risk-averse environment in which entrepreneurial initiatives and innovation can flourish. They also assemble cross-functional teams and move some of their most talented people into areas of the business where they have no previous expertise.

“Culture is the engine that keeps the business going.”

“We believe in the power of collective intelligence and in maximising employee initiative to achieve transformation.”

CEOs must be willing to adapt and lead the change, but they cannot do it alone. They need to identify ‘cultural influencers’ within the organisation, as well as appoint outsiders as change agents who embody the desired culture and values. Success is built on new ways of working, and CEOs must learn the art of delegating and empowering staff. They must also pay close attention to transparency and communication to build a sense of common purpose and thereby raise motivation levels.

It is vital for leaders to stay abreast of emerging roles (such as that of chief data officer or chief digital officer) in case such appointments would accelerate change within the organisation. In Spencer Stuart’s experience, legacy businesses run the risk of tissue rejection when hiring a change agent, so that person must be carefully assessed from a cultural perspective and bring the right combination of domain knowledge, drive, sensitivity and influencing skills.

Priorities & actions

Building a culture of trust, ownership and entrepreneurship

- » Define the brand culture, heritage and legacy.
- » Determine the brand singularity.
- » Set up a model for better collaboration across the organisation.
- » Align a clear and distinctive set of values and leadership behaviours with the brand culture.
- » Create a sense of ownership, pride and belonging within your team.
- » Practise inclusive leadership, not command and control.
- » Assemble diverse teams with wide-ranging skills to collaborate on innovation.
- » Create conditions that allow the imaginative storytellers to work alongside operational teams.
- » Adopt a test-and-learn attitude, making informed bets, learning from them and making quick adjustments.
- » Develop the ability to read and learn from consumer response in real time.

Leadership attributes

Enabling authenticity in others

Embracing diversity

An attitude of trust and support rather than command and control

Coaching others and leading by example

Focusing on excellence rather than perfection

Able to create enduring partnerships

Constantly questioning what has been done

Not being risk averse, but willing to take risks (which may be well rewarded)

2. PUT THE SHOPPER AND CUSTOMER AT THE HEART OF YOUR STRATEGY

In recent decades, companies in the luxury segment have concentrated on brand image and creativity. Designers and CEOs have worked together, constantly reinventing the brand story and generating a unique emotion with each collection. While using the high-end segment as an inspirational source, retailers have also disrupted the traditional model based on seasonality, moving to fast fashion instead. The brand has been the boss, directing how people should live and consume.

Today, it is consumer behaviour that drives brand strategy. In our discussions with CEOs, we found a renewed focus on creating tailor-made, differentiated consumer experiences and innovating around every point of contact.

The distinction between global and local consumers is blurring. Companies need to provide a consistent message across markets and consumer segments, while tracking individual preferences and presenting customised offerings.

In order to build their proposition around the consumer experience, companies have to invest in analytics and maintain the agility to change direction quickly to meet consumer expectations. Staying relevant to consumers means paying close attention to the space where they shop, whether in-store or online, and ensuring they have an outstanding experience before, during and after the sale.

Today's consumers are less loyal and base their decisions on information from multiple sources. They want to access products and services on their own terms and in ways that are convenient to their lifestyles. All the more reason for companies to create organisational models that are geared towards meeting consumer expectations. This may require a cultural shift with an emphasis on the vital importance of first-rate customer service.

The new generation of CEO needs to act as the Chief Energy Officer, bringing a new vitality to the organisation and focusing it on colleagues who have the greatest impact on the consumer. Not only does this motivate them, but it demonstrates the kind of energy you want them to bring to your consumers.

“Digital forces you to be more authentic with your customer.”

“Consumers want everything now, and that means making quick decisions and thinking globally.”

For most executives, the mantra “consumer first” has to mean “employee first.” They may have very little contact with consumers, but they can act as role models and set the tone for how their organisation will relate to consumers. Employees who do not feel engaged, empowered and valued are unlikely to engage with and care for the consumer in the way you want them to.

Priorities & actions

Putting the consumer first

- » Capture data on consumer behaviour and market trends.
- » Develop close collaboration with global and local consumers.
- » Include the voice of the consumer in the decision making process.
- » Stimulate brand desirability with constant innovation and product/service improvement.
- » Ingrain a sense of service and dedication to consumers.

Leadership attributes

Learning continually from market transformation and consumer behaviour

A personal affinity with consumers

Embodying the new standards

Attention to detail and desire to provide a unique service

Avoiding arrogance and certainty

3. STAY AGILE, MAKE USE OF DATA AND STREAMLINE DECISION-MAKING

The availability of vast amounts of data and breakthroughs in predictive analytics, cognitive computing and machine learning are changing the relationship between brands and their consumers.

Many companies are investing heavily in data acquisition and analytics, acquiring both technology and skills, in order to better understand consumer behaviour. The pace and rhythm of interactions between companies and consumers have changed – faster and better decisions are made when intuitive thinking is supported by data from these interactions.

“Agility and adaptability are the antidotes to disruption.”

Technology has changed the competitive landscape. Speed has become as important as size in determining success and this calls for new ways of working. As a result, CEOs and senior management teams must personally embrace change and be willing to adopt an attitude of continuous learning. Without their collective commitment to becoming more agile, the best attempts to innovate in a fluid, flexible and collaborative way will run into trouble.

More than ever, leaders need to connect the dots, break down silos and make it possible for innovation to emerge from anywhere in the world. Executives need to be well networked across the organisation and learn to think and act laterally.

Leaders of the future will need to be ambidextrous and culturally agile, with the sensitivity to pick up on cultural nuances. For example, there is no substitute for having lived and worked in different countries, something that will be expected of the next generation of leaders.

Leaders who want an agile and learning organisation have to display a growth mindset themselves. They have to be role models for agility, willing to try new things, failing at times and then learning and adjusting.

“Every single function in the company has to plan for the impact of digital.”

Priorities & actions

Being agile and reaching decisions faster

- » Develop an ecosystem with real-time information.
- » Master data analytics.
- » Define a clear strategic vision, but be prepared to adjust to market conditions.
- » Develop collaborative, cross-functional task forces.
- » Fail fast and learn.

Leadership attributes

Curiosity and open-mindedness; exploring the world outside your comfort zone

Intuitive

Ability to inspire and communicate a clear vision

Pragmatic and tactical, taking realistic steps to achieve goals

Agility – essential for maintaining a leading market position

Belief in people and the power of collective intelligence in creating sustainable growth

4. RETHINK YOUR ORGANISATIONAL MODEL

Retail, fashion and luxury businesses have embraced the challenge of digital to varying degrees, although some form of transformation is on the agenda of nearly every company. Disruptive technologies and the accelerating pace of change are constantly threatening to undermine legacy businesses. Even pure-play companies that were among the earliest technology disrupters are now being forced to re-evaluate their strategies.

“Our organisational model must evolve in synch with consumer expectations.”

“I expect the next generation of leadership talent to come from companies that have been exposed to the digital tsunami.”

“We are seeing the ‘death of arrogance’ among leadership teams and greater empowerment of young people to make decisions.”

Large brands are seeking to replicate the success of smaller, more nimble organisations in getting closer to consumers, speeding up the innovation cycle and decision-making process, and reducing the time it takes to respond to changing market conditions.

From our interviews it was clear that leaders are rethinking their organisational models, adopting flatter structures and creating dedicated taskforces to tackle challenging projects. Less hierarchy leads to more transparency, better sharing of information and greater autonomy for teams.

It is a major undertaking to embed a collaborative mindset in an organisation. The CEO of one global brand has abandoned its hierarchical structure, taking people out of individual offices and creating open spaces to encourage better communication. “I am testing the ability of my team to work differently and across generations,” said one CEO. “If a goal is particularly difficult, I will personally sponsor the project leader.”

Ensuring that the workforce is prepared for change is one of the most critical tasks for any leader. If there is to be a lasting and effective transformation, the CEO must work closely with the head of human resources to rethink their traditional approach to talent strategy. Their single most important task is to develop, attract and retain the next generation of talent. They should consider two fundamental questions:

- » Do we have the internal talent to pivot and make this transformation, or do we need to go external?
- » Are the roles we have today relevant for the next 3 to 5 years?

Many of the CEOs we spoke to have tried wherever possible to develop talent from inside the business, while others have recruited high-quality, digitally native executives from outside to set the standard for future hires. Wherever the talent comes from, it is important to find new ways to motivate them and to plan for career advancement opportunities that did not exist previously.

Companies in the retail, fashion and luxury sector tend to employ a high proportion of Millennials who have a strong sense of social purpose and a desire to make an impact. They have different expectations about how they should be managed and this is prompting some leaders to rethink their leadership style. According to one CEO, leading Millennials “has a lot to do with attitude and soft skills. It is like managing volunteers. They have a choice. You have to make it a great place to work every day.”

Priorities & actions

A new leadership model is required

- » Keep restating the business purpose and objectives to your team.
- » Simplify structure, challenge its efficiency and performance.
- » Be open to innovative organisational design and encourage engagement.
- » Facilitate more interaction and co-working.
- » Create workshops with a project owner and dedicated team.
- » Assess people's capabilities and potential against desired outcomes and their ability to deliver.
- » Identify new leaders based on talent not seniority.
- » Identify missing competencies and either develop them or recruit for them.
- » Reward success.

Leadership attributes

Ability to be a change agent and work closely with the leadership team

Willingness to challenge established principles, organisational design and rules of the game

Ability to think out of the box and act differently

Delegating and empowering others

Communicating and taking tough but fair decisions

Willing to reward innovation through collaboration

5. LEVERAGE A KNOWLEDGEABLE AND SUPPORTIVE BOARD

During a period of turbulence, the board needs to be fully engaged, understand the nature of the disruption and have an informed view about the actions that need to be taken. It is particularly important that the skills and experiences around the boardroom table should remain relevant to the challenges faced by the business and the management team.

In the retail, fashion and luxury sector, board members' understanding of digital implications can lag reality. It is essential that the entire board engages in a robust discussion about the impact of technology and trends in consumer behaviour, and the implications in terms of risks and opportunities for the business. The most important way in which the board can support management is in the area of investment decision-making, since funding is one of the biggest levers it has.

Many chairmen wrestle with the question of whether to have a technology or digital expert in the boardroom. One of the greatest advantages of an expert is that he or she can help educate the rest of the board. However, functional expertise alone may not help boards reap the full benefits — leadership skills and business knowledge are integral in helping other directors understand the connection between technology and the business. Some boards appoint expert advisors to help them get up to speed, or even assemble an advisory board that is unencumbered by governance duties.

One thing is certain: diversity in the boardroom is critical. Not just in terms of gender, but also in terms of background, experience and age. As companies go through transformation, the generational gap can become a problem – most board members throughout Europe are more than 55 years old. Over the next five years companies will need to address their board composition in a way that reflects the changes that lie ahead.

One of the key tasks of the board is to prepare carefully for leadership succession. In the words of one CEO: “In 10 years’ time the profile of the CEO will be completely different from what it is today. The board’s responsibility is to build a succession plan that will allow this new generation of leaders to arise.”

While the primary purpose of the board is to represent the interests of shareholders, it is also there to oversee the management of risk and ensure the sustainability of the organisation. A board’s shareholder-first and risk-management orientation can sometimes make it less focused on consumers or indeed employees. Creating an agile, sustainable organisation means having an engaged culture, one that keeps pace with the changing consumer environment. The board needs to reflect on how it can engage effectively with the company’s culture, with its employees and with the consumer experience.

Priorities

Leverage a supportive and knowledgeable board

- » The chairman must ensure that board composition reflects the company’s challenges and transformation agenda.
- » Bring together experienced change agents and digital experts.
- » Create an atmosphere of collaboration and trust on the board.
- » Challenge management on whether the business model is competitive.
- » Prepare a CEO succession plan.

CONCLUSION

Gaining competitive advantage from the digital opportunity will be one of the biggest challenges facing CEOs over the next few years. Leaders will need to keep their organisations focused on the consumer, pay close attention to creating the right organisational culture, and thereby attract and retain the best people. They will have to move away from traditional approaches to talent strategy, develop new types of career path and new roles, and make changes to how their people work together. What's more, we believe that all CEOs should be prepared to ask themselves: "What change do I have to go through myself in order for transformation to take root in my organisation?"

THREE QUESTIONS CEOS SHOULD ASK THEMSELVES IN AN ERA OF TRANSFORMATION:

Do we have the right support from the board to initiate this transformation?

- Some boards are up to speed with the changes, others less so. Board composition may need to change substantially over the next five years.

Do we have the right organisation, talent and mindset to realise our goals?

- Preparing the workforce for transformation means being open to hiring from outside the industry, introducing new competencies and allowing people to work differently.

What makes the singularity of our brand and our culture today?

- CEOs must foster an organisational culture that promotes continuous learning to adapt to the shifting landscape.

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