clarity

# Hello

## Welcome to Clarity Insights.

Welcome to the Autumn edition of Clarity Insights.

As always, we're examining a number of topics that will be hotly debated in Boardrooms today as well as updating on some of our recent activities.

In this issue we ask: **Are Founders the best custodians of their brands?**

Mike Roberts offers some much-needed positivity to the **beleaguered plant-based sector.**

Emerging technologies are shaping the future of retail. Katie Hart explores why **digital skills and curiosity are a crucial component of effective executive leadership.**

Ben Williamson considers the effects of **corporate refinancing on inflation post-COVID.**

Callum Loader reflects on how **retail is adapting to the cost-of-living crisis.**

Ciara Haines covers Team participation in this year's **Prince's Trust Palace to Palace bike ride.**

We hope you enjoy this edition – thoughts and feedback welcome!

## Are founders the best stewards of the brands they created?
## Opinion is divided and so are the results!

**Fran Minogue, Founder & Managing Partner**

The Wilkinson family was recently criticised following the collapse of Wilko and the loss of 12,000 jobs. An external CEO had been appointed after a long gap, but one could argue that this was too late and there was a lot of churn at the top, leading to uncertainty and a lack of a consistent vision and direction. Was this caused by the family's continuing to have too much say in how the business was run? And is this true of other companies where founders bring in experienced leadership but then tie their hands or meddle in decision making?

Anita Rodrick dreamed of have 10 shops and running the business from her kitchen table. Body Shop went on to float on the LSE and open 1600 stores around the world - owned and franchised. Although some professional management was hired, the Roddicks stayed heavily involved and Anita certainly had strong views on product development, marketing and campaigning. I think it's fair to say the company never lived up to expectations as a public company and, having grown to over 2000 shops, was ultimately sold to L'Oreal in 2006 and then to Natura with 3000 stores in 2017 and it's back on the block again 6 years later.

Julian Dunkerton initially had great success with the Superdry brand - worn by celebrities and coveted by the consumer. Again the lure of public markets - and the wealth opportunity- was too great to resist and an IPO took place in 2010. A formal board was constituted, which subsequently decided that Julian was not the best person to run a plc and one of the NEDs, Euan Sutherland, took over. A very public battle for control ensued, which Dunkerton won by a slim margin and for the last 4 years he has very much been back in charge, but performance has continued to deteriorate and the business now has well publicised liquidity issues.

Matt Moulding is another high profile founder/CEO who enjoyed the financial windfall of flotation, but not the scrutiny or accountability. He firmly believes he is the best person to run the company, despite a slump in revenues and profit and a relatively new, heavyweight Chair and Board failed to persuade him that buying City AM was at best non core and at worst a folly.

Other founders have decided early on what they are good at and what should be left to more experienced managers.

Chrissie Rucker is a classic example. As founder of the White Company she embodies the essence of the brand and collaborates with creative teams, getting involved in product development and the look and feel of shops, the website and catalogue and is certainly the face of the brand in marketing activity. But Chrissie modestly decided long ago to focus on areas where she can add real value and bring in professional leaders to drive the commercial agenda. Current CEO, Mary Homer, has now been in place for 6 years and has continued to deliver strong year on year increases in sales and profit.

"I concentrate on the product and ensure that it remains true to our brand values and then look for leaders who can fill my skill gaps and take the company to the next stage of growth. We've had different CEOs according to the needs of the time and they have developed brilliant teams and become friends and mentors."

Peter Williams, former SID at Asos and ex Chair of both Boohoo and Superdry believes that founders do a fantastic job in 'creating something from nothing', but eventually 'run out of road' and lack the experience to establish a professional structure. "They should be praised for creating the brand, but ultimately need to hand over the reins to a different set of leaders to take it to the next stage."

He credits Nick Robertson as a self aware founder who knows his strengths and weaknesses; "he was good at growing the business initially and realistic about his own tenure in the CEO role. He remains on the Board as a touch point and shareholder and is a very reasonable and supportive NED".

Ben Francis MBE, founded Gymshark in 2012 and acted as CEO until 2015, when he brought in the highly experienced Steve Hewitt to run the business. Over the next 6 years Ben worked across all the key consumer facing functions including brand, marketing and product and in his own words was "free to fail without consequence" while he learnt to broaden his leadership skills. He then took the reins again in 2021, with Steve stepping back to a non executive role.

This humility and self awareness is part of what makes Ben such an inspirational leader and also incredibly successful entrepreneur.

Is he the exception that proves the rule? Founders rarely make effective long term CEOs and those who survive and thrive over the long term tend to focus on the creative side, working in harmony with strong commercial and financial leaders.

Chris Owens, tech entrepreneur and founder of Paddle recently said:

*"This is my first actual job. I've learnt everything that I've learnt about running this business while running the business. What I do know is that I don't enjoy risk compliance and governance meetings. I get that they're important, but I don't love them. I also don't particularly enjoy the annual budget cycle."*

# Sustainability and Plant-Based Foods: Time For A Reset

**Mike Roberts, Partner**

For naysayers around plant-based foods, this year has poured a lot of fuel onto the fire, with the very public collapse of 'unicorn' businesses, a high-profile and credible backlash against processed foods and a cost-of-living crisis that has sent consumers flocking back to buy four Asda Quarter-Pounders for £3.50. However, in the words of Mark Twain, reports of the death of plant-based food have been greatly exaggerated.

The share price slump of Beyond Meat and the collapse of Meatless Farm will no doubt become Harvard case studies and entertaining Netflix documentaries, but they in no way tell the whole story about the state of the category. It appears that Meatless Farm experienced a fatal combination of poor management, unsustainable overheads and twitchy investors, and, while there has of course been a slow-down in the category, the consumer tailwinds are still strong. Given the current economic climate, the increased focus from VC and private equity firms on, say it quietly, profitable growth, not just growth, is also forcing a much-needed reset from companies that were previously hell-bent on over-ambitious land-grabbing.

Product quality has also been a challenge. A category will never become self-sustaining until it gains enough repeat customers and many plant-based foods have fallen down on taste and texture comparisons. They have also struggled to dispel the notion that they are ultra-processed and therefore unhealthy, with ingredients more befitting a chemistry lab rather than artisan food production. The publication of Chris van Tulleken's excellent book, Ultra-Processed People, while not majoring on the plant-based industry, has heightened the public's awareness of industrial substances and additives to avoid.

However, most of these issues are just the natural growing pains of any maturing category. There are also hugely exciting food developments everywhere you look – lab-grown (cultured) meat alternatives are starting to provide a serious challenge to traditional proteins; vertically grown salad from one of our clients, untouched by human hands until the consumer opens it and using 94% less water in production, has appeared for £1.50 a bag in Tesco, and overall investment in new agtech ventures is at an all-time high, with c. 20 times more capital deployed than 10 years ago.

There is clearly significant pressure, driven by climate change and a ballooning population, to build a more sustainable future for agriculture and nutrition. No doubt many more innovative food businesses will go to the wall, but those that survive will be reaching massive scale in a few years' time. New eating habits will be more fully engrained, new categories will be more mainstream and truly transformative agriculture, for example growing wheat or soy without the current drain on environmental resources, will be here. A golden age of food beckons!

# Digital Skills - A Crucial Component of Effective Leadership in the Modern Retail Era

**Katie Hart, Consultant**

In a recent conversation with a senior leader, we got onto the topic of AI and the potential opportunities for retailers and their customers. When discussing the reasons behind cautious adoption and experimentation we pondered if there was a prevalent culture of 'learned helplessness' in leadership teams with respect to digital. There is often an assumption that the Chief Information Officer or Chief Digital Officer will oversee all digital aspects, but this means opportunities are missed. Yes, the CIO will provide the technical expertise, but the rest of the executive team must exhibit curiosity and an intent to embrace a digital future.

From artificial intelligence and augmented reality to automation and data analytics, emerging technologies are shaping the future of retail. The adoption of these technologies by leadership teams is not merely a choice but a necessity and digital skills have become integral across all functions. Understanding how to navigate this landscape and make informed decisions is a shared responsibility among the Exec. This approach fosters a strategic pursuit of creating business value from digital technologies, moving beyond a narrow focus on IT infrastructure and back-office operations.

Given the transformative nature of many digital shifts, collaboration across functions becomes imperative. A network of teams harnessing the capabilities across the business and working towards a common purpose is needed to execute projects successfully at speed, scale and with agility. A broad business lens and diverse expertise are crucial for deciphering the risks and rewards associated with emerging technologies. When the responsibility is shared, decisions are made with a holistic understanding of the organisation's goals, resources and potential challenges. Sharing digital leadership also promotes knowledge transfer within the executive team. Members learn from each other's experiences and diverse customer perspectives are considered. Coupling training with collaboration and knowledge sharing encourages the exchange of ideas and develops a collective learning culture.

Building complex, differentiated digital capabilities requires bold thinking, strong decision making and enthusiasm from an aligned leadership team. Leaders must function as both strategists and executors, advocating for innovation while remaining grounded in the company's identity. Adopting new technology often requires cultural and behavioural changes, requiring leaders to be open-minded, always striving to learn and adapt. Resistance to new ways of working is a significant barrier to unlocking a company's full digital potential. Fostering a culture of innovation and creativity enables the exploration and testing of digital strategic shifts, inspiring teams to excel.

As we navigate the complexities of the digital age, the integration of digital skills into leadership teams has become imperative. Leaders who embrace and cultivate digital literacy in themselves and their teams are better equipped to drive innovation, make informed decisions and navigate the ever-evolving consumer landscape. In essence, digital skills are not just a desirable asset but a crucial component of effective leadership in the modern retail era.

# The Cost of Doing Business

## Ben Williamson, Associate

Few can deny that the aftermath of COVID-19 and the escalation of the Russo-Ukrainian War were the principal causes of heightened inflation and the resulting cost-of-living crisis we face today. Few, however, have cited the extraordinary rates at which companies refinanced themselves during COVID as a heavily contributing factor.

With non-essential brick-and-mortar businesses forced to shut up shop during lockdowns, there was a clear distinction in performance between businesses with eCommerce capabilities and those without. Between February 2020 and February 2021, online sales increased from 19.7% to 37.5% of all retail sales – digitally-savvy businesses were altogether in a much happier state than their less future-proofed counterparts. Private equity firms were also in a good spot. With enough businesses performing sufficiently well to make investment worthwhile and interest rates hovering at nearly an all-time low, they splashed the cash and UK PE deals increased from 1,117 in 2020 to 1,545 in 2021. Equally, high-performing businesses which did not obtain equity financing flocked en masse to purchase debt of their own – in 2022 in the UK, SMEs took out £65.1 billion in debt financing, the second highest level in over a decade. On the other side of the equation, businesses which were performing badly needed to stay afloat. The government's three business interruption and bounce-back loan schemes proved popular, with over £79 billion of debt being approved between March 2020 and March 2021.

By 2022, all seemed well and good – the FTSE 100 was booming, private equity was thriving, many businesses which may have otherwise collapsed had stayed afloat and GDP had overtaken pre-pandemic figures. But global inflation levels were starting to creep up, Putin was flexing his muscles and Liz Truss's mini-budget was on the horizon. It became clear that interest rates would not merely return to 'normal' levels and instead they rose to their highest levels since 2009. Loan repayments and input costs spiralled, and the consumer has literally paid the price. The massive spike in CFO hiring over the past twelve months suggests a level of burn-out we have rarely seen, as companies struggled to refinance.

So, should businesses have had a more cautious outlook with regards to their financing activities? Did the Bank of England mistakenly set a monetary policy that incentivised companies to indebt themselves? Possibly.  Neither party could have predicted some of the external events that have shaped the last year. For consumer companies approaching the "Golden Quarter" and preparing to battle for Christmas shoppers, there is at least a hold on interest rates and signs of falling inflation. However, they are still needing to invest significantly to keep prices at competitive levels and, come the New Year, we are likely to see strong companies getting stronger and weak companies being weeded out.

# Coping with Low Consumer Confidence: Strategies for Retail Resilience in 2023

Callum Loader, Associate

**Gfk Consumer Confidence**

The Gfk Consumer Confidence Score measures how optimistic or pessimistic consumers are regarding their expected financial situation. It is a monthly survey asking consumers to rate the relative level of past and future economic conditions (including personal finance, climate for major purchases, savings level and overall economic situation). This produces an overall score with 0 indicating a neutral feeling and positive / negative scores meaning consumers are optimistic / pessimistic. The record high since the index began in 1974 is +10 points in June 1987; the record low was achieved in September 2022 at nearly -50. It is currently at -25; confidence is very low but it is significantly better than at the start of this year.

**Other Economic Indicators**

- Core inflation falling (6.7% in Sep) but still high:
- Interest rates held at 5.25%, ending a run of 14 consecutive increases
- Rising average weekly earnings
- Weak growth: 0.8% forecast in 2024, the weakest in the G7

**Consumer Behaviour in 2023**

Two consumer behaviours tend to be prevalent in times such as these: trading down and the delaying of major purchases.

One of the easiest ways for consumers to trade down is to replace brands with own label equivalents. In the current climate, the mainstream media has been full of direct product comparisons – even Panorama has been jumping on the bandwagon, with a recent report suggesting a £4,000 saving on an annual £10,000 food bill. The latest data from market researchers NIQ show that sales of private label products have been growing twice as quickly as branded (14.1% vs 7.1%).

Trading down generally occurs in products whose purchase consumers cannot delay, such as food or other household essentials. However, purchases of durable, more expensive goods, such as sofas or cars, can be delayed for months or even years. Since their purchase is not urgent, consumers tend to delay the purchase of these goods when confidence is low. According to a recent Yougov poll, half of all consumers have put off big purchases and only 21% said they have not.  This has only been exaggerated in this period of low confidence, with even relatively cheap purchases being delayed; the CEO of the British Retail Consortium, Helen Dickinson, said "Clothing and footwear saw weaker growth as families held back spending on children's uniforms and other back-to-school goods until the last minute."

**How Are Retailers Responding?**

Retailers have been quickly adapting to these new consumer behaviours. While confidence is still extremely low, retailers have struggled to rebuild their margins, fearing a loss of market share and public goodwill. However, they have been taking a couple of positive steps:

**Loyalty Schemes:**

Tesco has the king of loyalty schemes, but Sainsbury's is the pretender to the throne. Clubcard- and Nectar-only prices have quickly cemented themselves into the consumer psyche. With advancements in data science (AI/Machine Learning etc), customer data is more valuable than ever. Sainsbury's has said that the Nectar360 loyalty and marketing business could add an additional £90m in profit over five years. Tesco's boss Ken Murphy commented that retail media could be a "meaningful contributor to profit" within three years, which Clive Black at Shore Capital interprets as perhaps £200-300m in the 2027 financial year.

**Investment:**

With rapid progress in automation, there is huge potential for enhancement of the customer experience and for efficiency savings. Amazon Fresh was the first to roll out 'Just Walk Out' technology, in which customers are automatically charged for goods put in their basket. Other supermarkets have rushed to get in on the act, including Sainsbury's SmartShop, which uses Amazon's technology. Checkout-free stores and automation of processes such as stock-takes is starting to drive down costs and enable retailers to keep competitive prices in the longer term. Whilst investment in new technologies may seem counter-intuitive in uncertain times, the flipside is that retailers who fail to invest risk losing market share and seeing higher costs in the long term.

**Conclusion:**

In a challenging economic landscape, retailers have been trying to remain flexible and responsive to the ever-changing dynamics of consumer behaviour. Necessity is the mother of invention and tough times have forced retailers to be both more tactical, for example on pricing, but also more innovative, in areas like technology. Both approaches are helping them not only weather the current storm but also position themselves for long-term growth.

## Palace to Palace

### Ciara Haines, Research Analyst

With relatively little traffic on Sunday morning it was a lovely ride out of London starting at Buckingham Palace, cycling past landmarks including Westminster, Tate Britain and Battersea Power Station on our way along the river towards Windsor.

Once again the Clarity team was taking part in the 45 mile Palace to Palace ride to support the incredible work of the Prince's Trust and make a positive impact on the lives of young people in need.

The Prince's Trust believes that every young person, regardless of their background or the challenges they face, deserves the opportunity to succeed. They are dedicated to empowering individuals from disadvantaged communities and those facing significant adversity. By equipping them with essential life skills, The Trust enables young people to live, learn, and earn.

Many of you have already been incredibly generous and so far we have raised over £5,000.

If you haven't had the opportunity to contribute but would like to support this meaningful cause, we invite you to visit our JustGiving page JustGiving page

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