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THE RETAIL CEO

PAY REPORT

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Stores



CEO Pay Rises

Retailer hikes lag S&P 500

BY PETER JOHNSTON

Retail CEO pay continues to rise. Average retail CEO compensation for companies in the Standard & Poor's 500 increased to \$8.25 million during the most recent fiscal year, a 122 percent hike.

That's a hefty gain by any measure, yet there remains a widening disparity between the salaries paid to retail CEOs and the payouts remunerated to top executives at non-retail companies in the index. The total compensation packages tallied by CEOs across a broader spectrum of businesses increased 212 percent.

These are some of the conclusions of the second annual STORES CEO compensation study conducted by Reuters Fundamentals. The survey, conducted in late 2007, examined the pay packages of the chief executives of 33 U.S. retail companies as part of a larger research project to be published by the *Financial Times* next month.

Reuters defined total compensation as salary, bonuses, exercised options, restricted stock awards, long-term incentive payout and other long term compensation and pension. Companies included in the study were those that had the same CEO for the last two years. Information was gleaned from annual reports.

Net earnings for the retail companies included in the study grew an average of 7.4 percent, and total



Topping the Pay Chart

CEO	COMPANY	TOTAL COMPENSATION LAST FISCAL YEAR
Robert Ulrich	Target	\$36,428,691
H. Lee Scott	Wal-Mart	29,672,533
Michael Jeffries	Abercrombie & Fitch	26,196,918
Ralph Lauren	Polo Ralph Lauren	25,859,764
Thomas Ryan	CVS Caremark	24,020,009

Source: Reuters Fundamentals

shareholder return (dividends plus stock price increases) grew 20 percent. By comparison, the figures in the broader study (which covered corporations across the S&P Index) reveal that net income grew an average of 12 percent and total shareholder return increased 17.2 percent.

Last year was one of mixed performance for the retail industry and several of its corner office executives. For many companies, the past 12 months were defined by retrench-



Ashwani Kaul, senior research analyst at Reuters Fundamentals. “Because compensation is still rising, the relationship of CEO compensation to earnings and total shareholder return is less clear than it was a year ago.”

While critics may be quick to judge retail CEO pay hikes as out of sync with industry performance, that view may prove to be short-sighted

In fact, the generally hefty increases in CEO pay for the last fiscal year are due, in some measure, to new SEC regulations regarding compensation disclosure that went into effect in December 2006. The details of the new regulations are complicated — the SEC document laying them out is over 300 pages long — but the net effect has been to force companies to disclose things in the compensation totals that were heretofore tucked away elsewhere in the annual report.

The new disclosure rules, which cover things like pension plans, “make it a lot more apparent what CEOs are receiving in terms of total compensation,” Kaul says.

Retail CEO compensation is often best viewed as a window into the broader make-up of a company. Target CEO Robert Ulrich was the highest paid industry executive. Ulrich, who’s held the top spot there for a dozen years, is credited with crafting Target’s unique brand and marketing image. The company continued to hit the bull’s-eye in 2007, delivering new products and

experiences and reaching new levels when it comes to giving back.

Last February, Target reached a monumental milestone in giving; the chain now donates more than \$3 million each week to help strengthen families and communities across the nation. On one day in October, Target opened 61 stores; in November, it added a new dimension to fashion by debuting the first-ever model-less fashion show and the

Bringing Up the Rear

CEO	COMPANY	TOTAL COMPENSATION LAST FISCAL YEAR
James Sinegal	Costco	454,629
Jeffrey Bezos	Amazon.com	1,281,840
John Mackey	Whole Foods Market	1,346,976
Jeffrey Rein	Walgreen	2,181,661
James Donald	Starbucks	3,007,612

Source: Reuters Fundamentals

ing and re-examining business strategies against the backdrop of a weakening economy, inconsistent consumer spending and continued industry consolidation. Still, while critics may be quick to label retail CEO pay hikes as being out of sync with industry performance, that view may prove to be short-sighted.

“Retail had a difficult year (in 2007), and earnings performance is down pretty much across the board,” says



world's first virtual fashion show.

Never one to rest on his laurels, Ulrich will cut the ribbon this summer on Target's first food distribution center – a move that signals the company's continued commitment to that portion of its business.

Wal-Mart CEO H. Lee Scott ranked second on the list, pulling in \$29.7 million last year. Scott has steered Wal-Mart through a difficult 12-month period – arguably its most challenging in at least 27 years. Yet while company sales took it on the chin, Scott championed one of the most

What They Make/How They Perform

CEO	COMPANY	TOTAL COMPENSATION MOST RECENT FISCAL YEAR	TOTAL COMPENSATION PRIOR FISCAL YEAR	TOTAL COMPENSATION % CHANGE	MOST RECENT FISCAL YEAR	
					INCOME GROWTH	TSR
Robert Ulrich	Target	36,428,691	10,110,752	260.30%	15.74%	13.01%
H. Lee Scott	Wal-Mart	29,672,533	15,009,936	97.69	0.47	1.60
Michael Jeffries	Abercrombie & Fitch	26,196,918	5,054,153	418.32	26.41	20.53
Ralph Lauren	Polo Ralph Lauren	25,859,764	20,542,814	25.88	30.16	45.77
Thomas Ryan	CVS Caremark	24,020,009	25,688,784	-6.95	11.77	17.75
Robert Keegan	Goodyear	17,313,118	5,317,488	225.59	-244.74	20.77
Margaret Whitman	eBay	15,741,036	3,101,067	407.60	4.03	-30.43
Terry Lundgren	Macy's	15,647,117	3,499,513	347.12	-29.23	25.21
Ronald Sargent	Staples	13,711,035	5,877,023	133.30	24.18	10.34
Andrea Jung	Avon Products	13,320,565	1,494,267	791.44	-43.65	18.18
James Skinner	McDonald's	12,709,492	3,429,800	270.56	36.20	34.43
David Novak	Yum! Brands	12,432,093	5,214,375	138.42	8.14	27.13
Jeffrey Noddle	SUPERVALU Inc.	11,896,091	5,924,552	100.79	119.20	19.94
Myron Ullman	JCPenney	10,383,614	4,755,438	118.35	5.97	46.40
Lew Frankfort	Coach	9,865,503	4,126,806	139.06	34.27	58.49
Leslie Wexner	Limited Brands	9,379,185	4,232,099	121.62	-1.02	22.91
David Dillon	Kroger	8,254,537	3,145,893	162.39	16.39	41.61
Christopher Connor	Sherwin-Williams	7,353,018	5,260,969	39.77	24.35	42.18
Michael Kowalski	Tiffany & Co.	7,036,945	3,139,058	124.17	-0.31	6.27
Steven Burd	Safeway	7,003,993	3,534,000	98.19	55.16	46.91
Robert Niblock	Lowe's	6,600,370	7,840,409	-15.82	12.30	7.09
Steven Temares	Bed Bath & Beyond	6,424,045	3,531,002	81.93	3.74	8.81
Bradbury Anderson	Best Buy	5,596,904	3,856,543	45.17	20.79	-13.17
Mike Jackson	AutoNation	4,513,617	2,668,659	69.13	-36.17	-1.89
William Dillard	Dillard's	4,381,516	1,612,149	171.78	102.14	35.82
R. Lawrence Montgomery	Kohl's	4,218,153	1,646,877	156.13	31.67	59.28
Clarence Otis	Darden Restaurants	3,855,766	3,789,258	1.76	-40.45	30.10
Howard Levine	Family Dollar Stores	3,900,911	3,059,941	27.48	24.50	13.28
James Donald	Starbucks	3,007,612	2,697,382	11.50	14.14	35.93
Jeffrey Rein	Walgreen	2,181,661	2,040,149	6.94	16.61	-8.99
John Mackey	Whole Foods Market	1,346,976	942,000	42.99	49.41	-10.73
Jeffrey Bezos	Amazon.com	1,281,840	1,181,840	8.46	-47.08	-16.31
James Sinegal	Costco	454,629	497,971	-8.70	-1.85	31.68

Source: Reuters Fundamentals

heralded “green” efforts of any global company and continued to move forward despite endless media bashing.

Michael Jeffries of Abercrombie & Fitch, Ralph Lauren of Polo Ralph Lauren and CVS Caremark’s Thomas Ryan round out the top five highest-paid CEOs in the study.

Jeffries spent the better part of 2007 beating profit predictions and won kudos for the opening of a flagship Abercrombie & Fitch store on London’s famed Saville Row in March. This year, the much anticipated “Concept 5” will be unveiled. Given Jeffries’ track record, industry watchers expect to be wowed.

The concept of pay for performance has been a hot-button issue for decades, and the retail arena came under particular scrutiny last year when former Home Depot CEO Robert Nardelli became the poster child for pay/performance imbalance. While disparities remain, pay and performance continue to be more closely aligned in retail than in other sectors.

Lauren received a 25.9 percent raise as the company’s earnings rose 30 percent. Ryan took a 7 percent cut (making him one of only three executives in the study to suffer this fate) even as CVS earnings rose nearly 12 percent. Lowe’s Bob Niblock also took a cut (16 percent) as earnings rose 12.3 percent.

SUPERVALU’s Jeff Noddle doubled his compensation as company earnings rose 119 percent. The SUPERVALU case is interesting. In last year’s study, the company had suffered a loss and was identified as struggling. The change in its fortunes seems to indicate two things: that a plan can take more than a year to execute,

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EPS Pacesetters

CEO	COMPANY	COMPENSATION GROWTH %	NET INCOME GROWTH %	TSR%
Jeffrey Noddle	SUPERVALU	100.79%	119.20%	19.94%
William Dillard	Dillard s	171.78	102.14	35.82
Steven Burd	Safeway	98.19	55.16	46.91
James Skinner	McDonald s	270.56	36.20	34.43
Lew Frankfort	Coach	139.06	34.27	58.49

Just a year ago, SUPERVALU made the list of EPS laggards as it struggled to digest the 1,100 units it acquired from Albertsons — a move that catapulted it from ninth to third place among U.S. supermarket companies. CEO Jeff Noddle’s plan to build a “very locally tailored chain” is obviously bearing fruit, as are the company’s activities as a major food wholesaler.

Family-controlled Dillard’s also has bounced back. Sandwiched between Macy’s and the discount chains, Dillard’s has successfully defended its niche, selling name-brand and private-label merchandise to middle- and upper-middle-income women in the Sunbelt and central United States.

Steve Burd of Safeway, Jim Skinner of McDonald’s and Lew Frankfort of Coach also earned their paychecks last year, successfully growing well-established brands in the face of relentless competition.

Jockeying for Position

CEO	COMPANY	COMPENSATION GROWTH %	NET INCOME GROWTH %	TSR%
Robert Keegan	Goodyear	225.59%	-244.74%	20.77%
Jeffrey Bezos	Amazon.com	8.46	-47.08	-16.31
Andrea Jung	Avon Products	791.44	-43.65	18.18
Clarence Otis	Darden Restaurants	1.76	-40.45	30.10
Mike Jackson	AutoNation	69.13	-36.17	-1.89

Though it might appear, at first glance, that Goodyear’s Bob Keegan has hit a patch of black ice, the company actually has fairly good traction. In 2007, Goodyear absorbed the brunt of a United Steelworkers strike which, coupled with a declining domestic tire market, heavily punished the bottom line. The blimpmeister had a very good third quarter and is looking forward to 2008.

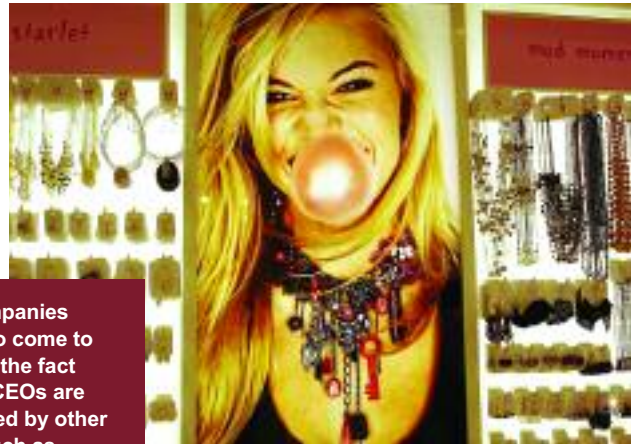
Jeff Bezos of Amazon, meanwhile, is pursuing the same vision he’s been pursuing for years — that of robust profitability as a giant, broad-spectrum online retailer. The question, still, is whether the market is willing to wait for him to get there.

Charts: Reuters Fundamentals

and that what appears to be a mismatch between pay and performance — Noddle received a 52 percent boost in 2006 as his company’s earnings dropped by nearly the same percentage — may not be as extreme as it might appear.

Perhaps the most startling disparity occurred in the case of Andrea Jung of Avon Products. Year over year, Avon’s net income declined 43.6 percent, but Jung’s total compensation increased 791.4 percent. This is less extraordinary than it seems, however. Avon is in the midst of a major restructuring, in the course of which Jung took a 90 percent pay cut between 2005 and 2006. Even with the current adjustment, she’s still making less than she did two years ago.

As several experts have pointed out, an important determinant driving up CEO pay is the demand for talented ex-



Public companies have had to come to terms with the fact that retail CEOs are being wooed by other options, such as private equity firms

ecutives. Many contend that hiring the best person they can find to lead a company in today’s complex global economy is worth every penny. To be sure, the skills and responsibilities that come with the top job are intense — and the number of people who can fill these roles is limited.

Movin’ on Up . . .

CEO	COMPANY	TOTAL COMPENSATION LAST FISCAL YEAR	TOTAL COMPENSATION PRIOR TO LAST FISCAL YEAR	TOTAL COMPENSATION % CHANGE
Andrea Jung	Avon Products	13,320,565	1,494,267	791.44%
Michael Jeffries	Abercrombie & Fitch	26,196,918	5,054,153	418.32
Margaret Whitman	eBay	15,741,036	3,101,067	407.60
Terry Lundgren	Macy’s	15,647,117	3,499,513	347.12
Howard Levine	Family Dollar Stores	3,117,263	799,929	289.69

By far the heftiest pay increase — 791.4 percent — went to Andrea Jung of Avon Products, but it marks a return to earlier levels of compensation following a 90 percent reduction in 2006. Avon, the subject of a fair amount of “will-they-make-it-or-not” speculation, is still in the throes of a major restructuring that began in late 2005. By effectively restoring Jung’s compensation to its 2005 level, the board may have been signaling “all clear” — a bit prematurely, perhaps, given the company’s earnings performance last year.

Mike Jeffries was rewarded for steering Abercrombie & Fitch to 20 percent sales growth and 26.4 percent net income growth in 2007.

. . . And Movin’ on Down

CEO	COMPANY	TOTAL COMPENSATION LAST FISCAL YEAR	TOTAL COMPENSATION PRIOR TO LAST FISCAL YEAR	TOTAL COMPENSATION % CHANGE
Jeffrey Rein	Walgreen	2,181,661	2,040,149	6.94%
Clarence Otis	Darden Restaurants	3,855,766	3,789,258	1.76
Thomas Ryan	CVS Caremark	24,020,009	25,688,784	-6.95
James Sinegal	Costco	454,629	497,971	-8.70
Robert Niblock	Lowe’s	6,600,370	7,840,409	-15.82

Judging by the numbers, none of the companies run by these CEOs is in trouble. Lowe’s is up in both sales and profitability, as are Costco and CVS Caremark. Darden Restaurants’ earnings are off 40 percent, but Walgreen is doing fine.

This cluster of companies does provide an interesting look at the variability of CEO compensation, however. In terms of sales and profits, Walgreen is a larger company than CVS Caremark — yet Jeff Rein’s compensation is an order of magnitude smaller than that of Tom Ryan.

Charts: Reuters Fundamentals

In addition, public companies have had to come to terms with the fact that retail CEOs are being wooed by other options, such as private equity firms. In nearly every instance the PE firms are capable of paying more and providing a wider swath of incentives — not to mention dimming the white hot spotlight of Wall Street.

Another bone of contention when assessing CEO pay is the use of options and equity awards to reward executives when the company’s share price rises, rather than when its operations improve. Earnings for Limited Brands fell by a little more than 1 percent last year, but total stockholder return increased 22.9 percent; sales at Darden Restaurants were off slightly and earnings were down 40 percent, but TSR rose 30 percent.

The stock market was not universally kind, however. eBay showed a slight earnings increase (4 percent), but its lagging stock price caused TSR to drop 30 percent. eBay, incidentally, is a great example of the market’s capriciousness: As of early December, its

The Hand of the Market

CEO	COMPANY	TOTAL COMPENSATION % CHANGE	LAST FISCAL YEAR NET INCOME GROWTH	LAST FISCAL YEAR TSR
R. Lawrence Montgomery	Kohl's	156.13%	31.67%	59.28%
Lew Frankfort	Coach	139.06	34.27	58.49
Steven Burd	Safeway	98.19	55.16	46.91
Myron Ullman	JCPenney	118.35	5.97	46.40
Ralph Lauren	Polo Ralph Lauren	25.88	30.16	45.77

CEO	COMPANY	TOTAL COMPENSATION % CHANGE	LAST FISCAL YEAR NET INCOME GROWTH	LAST FISCAL YEAR TSR
Jeffrey Rein	Walgreen	6.94%	16.61%	-8.99%
John Mackey	Whole Foods Market	42.99	49.41	-10.73
Bradbury Anderson	Best Buy	45.17	20.79	-13.17
Jeffrey Bezos	Amazon.com	8.46	-47.08	-16.31
Margaret Whitman	eBay	407.60	4.03	-30.43

At some point, the ability of the CEO to affect his or her company's fortunes simply dissipates, and nothing in this study better illustrates that than total stockholder return (TSR).

If TSR were a measure of executive performance, then Larry Montgomery, Lew Frankfort, Steve Burd, Myron Ullman and Ralph Lauren are great CEOs and Jeff Rein, John Mackey, Brad Anderson, Jeff Bezos and Meg Whitman are – something else. Fortunately for the latter group, it isn't.

If you look at the performance figures for these two groups (and screen out Amazon, which for purposes of this discussion is something of a statistical distraction), you find only one major difference. The average swing between the 52-week high and low stock prices for the leading five is nearly 71 percent; the average 52-week fluctuation for the bottom five is less than 40 percent. That, more than anything else, drives the difference, and —as any market-battered executive will attest — it happens for a whole host of reasons, most of them beyond the control of the C-suite.

Charts: Reuters Fundamentals

stock was selling at a price-to-earnings ratio of 281 – meaning it is being valued for reasons not very closely related to its actual performance. (If Wal-Mart had that kind of P/E ratio, its stock would be selling at \$868.50 and it would have a market cap in excess of \$3 trillion.) Presumably aware of all this, the eBay board nevertheless awarded CEO Meg Whitman a compensation increase of 408 percent.

It's interesting to examine the retail CEOs whose names are at the bottom of the list. Dead last is Jim Sinegal of Costco, something that comes as no surprise to anyone who closely follows this industry. Sinegal has no problem with earning a fraction of what most other Fortune 500 chief executives receive – perhaps because he owns more than \$150 million in company stock.

What's ahead for CEO pay in 2008? Increases may be a *fait accompli*, but additional scrutiny by shareholders and others with a say in corporate governance may be, as well.

“With the market not performing well, 2008 is widely expected to be a difficult year,” Kaul says. “CEO compensation is going to receive more scrutiny from investors and boards of directors. There's certainly going to be more resistance to increases, and we may very well see some reductions.”

STORES

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Study Methodology

The Retail CEO Pay chart is a derivative of an expanded research project produced for the *Financial Times* by Reuters Fundamentals. In order to be included, retail companies had to appear in the S&P 500 index and have had the same CEO and filed annual reports for the past two years.

In all, 33 retail companies appear on the list. The companies operate across multiple channels and sell a variety of goods. Compensation figures are derived from company proxy statements and include the most recent fiscal year and the prior fiscal year figures, understanding that most — but not all — retail companies begin the fiscal year in February. Total compensation includes salary, bonus and other compensation, plus long-term compensation.

CEOs are ranked by total compensation figures for the most recent fiscal year. All calculations are based on total compensation and compiled by Reuters Fundamentals.





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