WWD

Another Year, Another Round of Bumper Pay Packages for Fashion's Top Execs

By Kathryn Hopkins

July 23, 2019

WWD's annual analysis of the highest-paid executives across fashion, beauty and retail.

Paychecks for the Regular Joe and Jolene have been slow to catch up with the rest of the economy despite a historically tight labor market — but those at the top of the career ladder aren't feeling the squeeze.

Over 80 fashion, retail and beauty executives saw compensation, including stock and option awards, of more than $5 million in the last financial year, according to WWD's analysis of compensation at companies publicly traded in the U.S.

Within that, 30 earned more than $10 million and the four corporate titans leading the list took in more than $20 million. Pay for all 84 executives added up to more than $887 million — and the majority of that came in the form of stock awards or options.

At the top of the pile with a total compensation package of $48.8 million was The Estée Lauder Cos. Inc.'s president and chief executive officer Fabrizio Freda. That was more than double the $19 million he notched in the previous financial year.

In second place, at $23.6 million, was Doug McMillon, who in his role as president and ceo presides over Walmart Inc.'s vast empire from the retailer's Bentonville, Ark. headquarters.

He was followed by Ralph Lauren Corp. founder Ralph Lauren and Gap Inc.'s ceo Art Peck, who made $22.2 million and $20.8 million, respectively. Other notable mentions include new ceo's — Lululemon Athletica's Calvin McDonald with $17 million and J.C. Penney Co. Inc.'s Jill Soltau with $16.7 million, whose sign-on packages helped them make the list of highest-paid executives in the industry.

The pay packages are certainly eye-popping, but the numbers can also be deceptive.

"The equity-based component oftentimes is not paid out. They have to record it, but for instance if it's stock options it's exactly that — an option. The executive has the option to exercise the shares, but only if those shares are vested," said Kirk Palmer, founder and ceo of New York-based executive search firm Kirk Palmer Associates.

Freda, for example, had $39 million in stock and option awards in 2018, while two Amazon executives in the top 10 — Andrew Jassy and Jeffrey Wilke — both saw their pay packages skyrocket more than 1,000 percent on the back of such awards.

As for why compensation is both so high and in most cases made up of so much equity, Palmer turned to sports to explain. "Whether it's basketball, football or baseball, you get free agents and you have supply and demand and if someone is willing to pay $150 million for a basketball player that's what they're going to do," he said.

"You only have X number of players who are going to be X number of caliber, so companies find themselves having to put in more. As they can only do so much on the cash side, they have to really load it up on the equity side."

Supply and demand is not the only reason for a large chunk of equity making it into these pay packages as boards strive to align executive compensation with shareholders' interests.

The idea is supposed to be that they make money when the company's share price rises and shareholder value increases.

"We've been trying to align the interest of the senior executives with those of the shareholders for a long time and we've moved more and more into stock options and equity grants in order to do that," said Jan Kniffen, a retail consultant.

He added that equity is a particularly attractive option for those executives who join a struggling retailer and really believe they can turn the company around and boost its share price.

Take Penney's Soltau, one of only 19 women to make the list of 84 top earners. After taking the helm of the struggling retailer in 2018, her compensation included a salary of $413,636 and bonus of $6 million, but also nearly $10 million in stock awards.

Hefty stock awards — or a lack of them — also explain perhaps the most surprising absence on the list, Amazon founder and the world's richest person, Jeff Bezos. His total compensation package added up to just under $1.7 million in the last financial year, made up of the $81,840 in salary and $1.6 million for business travel and security-related services he receives each year. (Bezos has never taken stock awards, but owns roughly 12 percent of Amazon after his recent divorce. The Bloomberg Billionaires Index places his fortune at $122 billion).

Also absent was Walmart's e-commerce whiz Marc Lore, who topped WWD's 2017 list with a total pay package of $243.9 million, which included stock awards the retailer paid to buy Jet.com. He wasn't listed in Walmart's latest list of top earners.

But while some of these retail executives may never get all the money seen in the official tallies, that is unlikely to comfort those at the bottom of the career ladder, desperately trying to get wage increases.

For two years, public companies have been required to report how pay at the top compares to that of a typical employee, but each firm used their own standard, making it hard to compare one with the next.

Perhaps a better indicator is an analysis of federal data by the AFL-CIO labor federation. It found that the average S&P 500 company ceo-to-worker pay ratio was 287 to 1 in 2018.

This varies drastically from company to company, however. The Estée Lauder Cos.' Freda, for example, makes 1,690 times the beauty group's median employee's pay. For Gap's Peck, it's 3,566 times and for Target Corp.'s ceo Brian Cornell, it's 767.

Despite the companies' measure being sometimes difficult to understand, Rosanna Lander, a researcher at shareholder advocacy group As You Sow, believes this type of reporting is starting to have an impact.

"I tweet on corporate governance stuff and in general it doesn't go anywhere," she said. But she said people pay attention when she posts that the median worker at a certain company would have to work for 1,000 years to make as much as their boss does in a year.

"There's become an increasing political awareness about income inequality. As well, many people are realizing that some of the pay-per-performance promises have not been fulfilled so shareholders are more skeptical, especially about very complex plans," she said.

Matt Vnuk, a principal at Compensation Advisory Partners, a consulting company that works with boards, added that the measure is also starting to spark other conversations surrounding pay equality in boardrooms.

"For example, we have all this data now about the workforce at large. The boards and investors want to know more about gender pay equity representation. Gender pay equity is something that has gotten considerably more attention in the boardroom in recent years and the data coming from ceo pay ratio has been a contributing factor to that," he said.

And it's not only in the U.S. that industry executives make the big bucks, although remuneration is reported differently due to different rules in various countries. At Prada, co-ceo's Miuccia Prada and Patrizio Bertelli both made 12.4 million euros, while Burberry Group's ceo Marco Gobbetti notched up 4 million pounds, Inditex's chairman and ceo Pablo Isla 9.5 million euros and Swatch's ceo Nick Hayek, 7.2 million Swiss francs.