

## These are turbulent times but retailers have good track record of adapting to change

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Special report: Retail is in the biggest period of transition since the invention of the supermarket as the dire economic backdrop and onward march of technology combine to both challenge retailers and provide great opportunities.

Speaking at the BRC Annual Retail Lecture 2012 in London Charlie Mayfield, chairman of John Lewis Partnership, suggested the last 10 years and the next 10 will be regarded as seismic in terms of their impact on consumer behaviour and that this has “massive implications” on businesses – from which big opportunities can arise.

“It requires adaptation but also offers big opportunities and retail has been a big adaptor [in the past]. We are seeing change happen in real-time but if you choose not to see this then there is a real danger,” he says.



He cites the growing levels of disposable incomes between the 1970s and 2000 and the growing impact of the internet in the 1990s as having brought big changes to retailers but he forecasts that there will likely be an “acceleration of the internet’s impact”.

Mayfield says this is due to the downturn in the economy, which has highlighted how rising costs during the five years prior to 2007 ultimately proved unsustainable for retailers’ models, and technological advances that “march on regardless of the economy”.

The internet was initially regarded as just a means of communicating but with innovations around mobile and broadband he says the impact is now being really felt. The challenge for retailers, he suggests, is to “be brave enough to adapt and embrace” change and the trick is to always have one eye on the next potential disruptive change.

Mayfield says a really big one could be 3D printing, which he reckons could revolutionise how things are made and how these things are then distributed to the end-user. Whatever the next disruptors are Mayfield says the retail sector has a “pretty good track record” of embracing as it is home to some of the best commercial talent around.

One of the major constituents to successfully adapting to change is recognising what capabilities your business needs to be learning. He cites Amazon (achieving a 2% return on sales) and Apple (hefty 38% return on sales) as examples of businesses that are useful to study for crystal ball gazing insight.

“If you take these as two extremes then there are clues in both businesses of the capabilities that we’ll need in the future,” says Mayfield, who highlights how the areas of systems and supply chain were once seen as a backwater but are now fundamental to successful retail operations.

John Lewis is using this forward-thinking to consider how products might be produced differently in the future – 3D printing maybe – and how this will change the necessary capabilities of the company’s buyers.

Mayfield says there is also thought being put into how the business invests in new stores: “If we spend £10 million on a shop then we’ll attract 100% of the people into it but probably make returns from only 20% of these customers in that store. In the future we’ll need to spend more of the £10 million on the 20%.”

The question is how does the company spend more of its capital expenditure on its most valuable customers? One answer is to acquire greater insight into its customers, which is something that Mayfield is addressing.

“We need to know more about our customers and to look at customer profitability. We need to make more of an investment here. With mobile payments [widely adopted] then there’s the potential that better customer knowledge can arise from that,” he explains.

This highlights yet another technology that will likely impact heavily on retail. And from past experience Mayfield says there will no doubt be a tendency to adhere to the rule of ‘overstating the impact of technology in the short-term and understating its impact over the long-term’.

Against this backdrop he says retailers need to “plan and act to position their businesses for the future: “However hard this is to achieve in tough times we’ll serve our shareholders and people better by fighting to create space to think about the changes we need to make and to generate opportunities from these changes,” he says, adding that thankfully the retail industry is among the best in the world at adapting to change.

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