DOUG STEPHENS: SHORT-TERMISM IS KILLING RETAILERS

By Doug Stephens

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Short-termism plagues the retail industry, and the global recession has only served to reinforce that tendency. You might think the financial crisis would have prompted retailers to expand their horizons, but in many respects they have hunkered down even further and lived from quarter to quarter, from fiscal year to fiscal year.

There are some visionary brands out there. **Starbucks** continually works to disrupt its current model. Whole Foods constantly challenges the status quo and its own paradigms around its business. Amazon pursues disruption relentlessly, almost to the point of distraction sometimes, and much to the chagrin of its shareholders.

Amazon makes it clear that at all times it will bet on the areas it perceives as opportunities and will aim to find the things that have traction in the future. Jeff Bezos built the business not based on the way that consumers have always shopped, but on the way they would shop in the future, and that was always his vision.

In general, however, retailers find this way of behaving very hard because they are myopically obsessed with what they sold today. That is the DNA of the industry, whether we are talking about a one-shop family operation or Walmart. At its core, this is a business that is about merchants on a day-to-day business literally seeing the money that is going in the till. To say ‘what we sell today doesn’t matter, it’s what we sell in 50 years that’s important’ is a paradigm shift, and many retailers won’t be able to adapt.

To change these patterns of behaviour, retailers first need to go back to why they do what they do. The companies that are truly out-performing don’t necessarily bring a different *what*, but they bring an entirely different *why*. Chipotle Mexican Grill is a great example. Rather than playing by **the rules set by McDonald’s**, Chipotle challenged the nature of the game, and is showing tremendous profits as a result.

Retailers that truly want to innovate and experiment outside the parameters of their current operation also have to do a lot of self-examination, and try to eliminate the habits, behaviour or structural problems that inhibit innovation.

When you examine the habits of highly innovative companies, you see that what they *don’t* do is as important as what they *do* do. For example, innovative companies don’t benchmark themselves vertically. If you are in the hotel industry, the instinct is to say: ‘We need to be better than our competitors. If I’m Sheraton, I need to be better than Hilton, or positioned relative to the Ritz-Carlton.’ I’m benchmarking myself intuitively against my direct competitors. Consumers aren’t doing that. Consumers are walking out of a Sheraton saying: ‘Why was the check-in process so difficult when I can buy a £1,300 (€1,770, $2,000) computer from Apple in about five minutes and it is enjoyable?’ Consumers are horizontally benchmarking your business against other categories.

The best companies are not necessarily those that are trying to throw their business model away to re-invent a new business mode, but those that at all times take 20% of what they believe and challenge it. It’s like the adaptive growth cycle for forests. If you have an old forest and you’re continually burning down 20% of it and letting it regenerate, it’s going to be healthier.

The companies that approach innovation in that way, deciding each year to challenge some of their core assumptions to see if they can forge a different model, are the ones that are going to be successful.

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