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John Lewis staff bonus shrinks as group profits fall to £353m

Employees awarded 14% payout, down from 18%

First cut in three years after tough trading in 2011

Zoe Wood

The staff bonus at the John Lewis Partnership has become the latest casualty of the high street downturn after falling annual profits reduced the size of payouts to workers in its department stores and supermarket chain, Waitrose, for the first time in three years.

Its 81,000 staff will get an extra seven weeks' pay in this month's pay packet, compared with the nine-week boost they picked up last year.

Profits at its department stores, in particular, were battered by ferocious discounting elsewhere on the high street. With group profits down 4% at £353.8m, the bonus pool shrank and staff received a bonus equal to 14% of annual salary compared with 18% in 2011.

John Lewis chairman Charlie Mayfield said that after the toughest year for retailers since the onset of the financial crisis it was not surprising the bonus was "somewhat lower". He said: "The bonus does go up and down. It's very important it does, otherwise it would not reflect the performance of the business." The average bonus payment for the last five years is 15%, but it has fallen as low as 4% in 1954.

Mayfield said the retailer was grappling with structural change in the retail market as sales moved from its stores to the internet. Although sales via John Lewis's website surged more than 26%, takings at all its department stores barring Peter Jones in London's Sloane Square were down.

Despite the cut, staff celebrated at the Waitrose in Stratford, east London

"Profound changes are taking place in the retail sector and importantly this was a year when we upped the pace of innovation and investment," Mayfield said. "That came at the price of some short-term profit but leaves us in a good place at the start of this year." Consumer spending had also been reset on a "different trajectory", he added, with no expectation of a return to the retail boom that preceded the credit crunch.

The partnership's annual results are a red-letter day for staff and there were no grumbles among the 800 John Lewis workers at its newest branch, in the Westfield Stratford City shopping centre that backs on to the Olympic park in east London. The figure was greeted with applause and whoops of joy as summer holidays and shopping sprees were brought within reach. John Lewis partner Adam Richardson said: "A bonus is a bonus. I'm not disappointed in the slightest as we can see that other retailers are struggling."

Wendy O'Mahoney, who was unemployed for four years before getting a job at the centre's Waitrose branch when it opened last year, said: "It's more than I expected. I am really happy, it's my first bonus so I am really chuffed."

John Lewis's managing director, Andy Street, said the department store's "never knowingly undersold" pledge, which sees it match rivals' promotions, had cost it almost £24m during the year and was a big factor behind its weak financial performance, with profits down £40.5m to £157.9m on sales of £3.3bn in the year to 28 January.

Its larger sister chain Waitrose, with annual sales of more than £5bn, fared better, although profits still fell 5% to £260.6m. The decline was blamed on heavy investment in 29 new branches as well as a so-called "dark store" in London that is not open to the public but instead used to pick internet orders. Its market share edged up 0.2% to 4.1% during the year with the grocer, aided by successful tie-ups with Delia Smith and Heston Blumenthal, ringing up an extra 400,000 transactions a week.

After a grim 2011 Mayfield was "cautiously optimistic" the trading environment would pick up this year as events such as the Queen's diamond jubilee and the London Olympics buoyed the spirits of consumers. In the five weeks since the end of the reporting period both chains had enjoyed like-for-like sales rises of more than 2%.