

Exit the Brexit

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JLP Partnership board members

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Key challenges faced

What is the role of technology?

- ✓ Utilize AI and self-service tech in stores and warehouses

How is the job designed?

- ✓ Re-educate warehouse and shop clerks to administrative and IT employment

How to replicate signature customer service online?

- ✓ Establish live chat boxes to websites

How Brexit affects supply chain management?

- ✓ Focus on locally produced foods in food retail, automate supply chain mgmt through AI and data collection

Our recommendation

1

Automatize warehouses

2

Launch e-commerce for Waitrose

3

Utilize in-shop technology

4

Invest in education program and re-educate employees

Enjoy 4%-points increase in EBIT margin and sales CAGR of 6.5% by 2028

“JLP – your most trusted partner wherever you are”

Analysis

UK is one of the early adapters of e-commerce

- E-commerce is changing the whole retail industry rapidly, especially in Europe
- UK was among the first European countries to deploy e-channels in retail
- UK has the highest penetration rate in shopping food and groceries online

Even >30% of British people utilize e-channels in grocery shopping

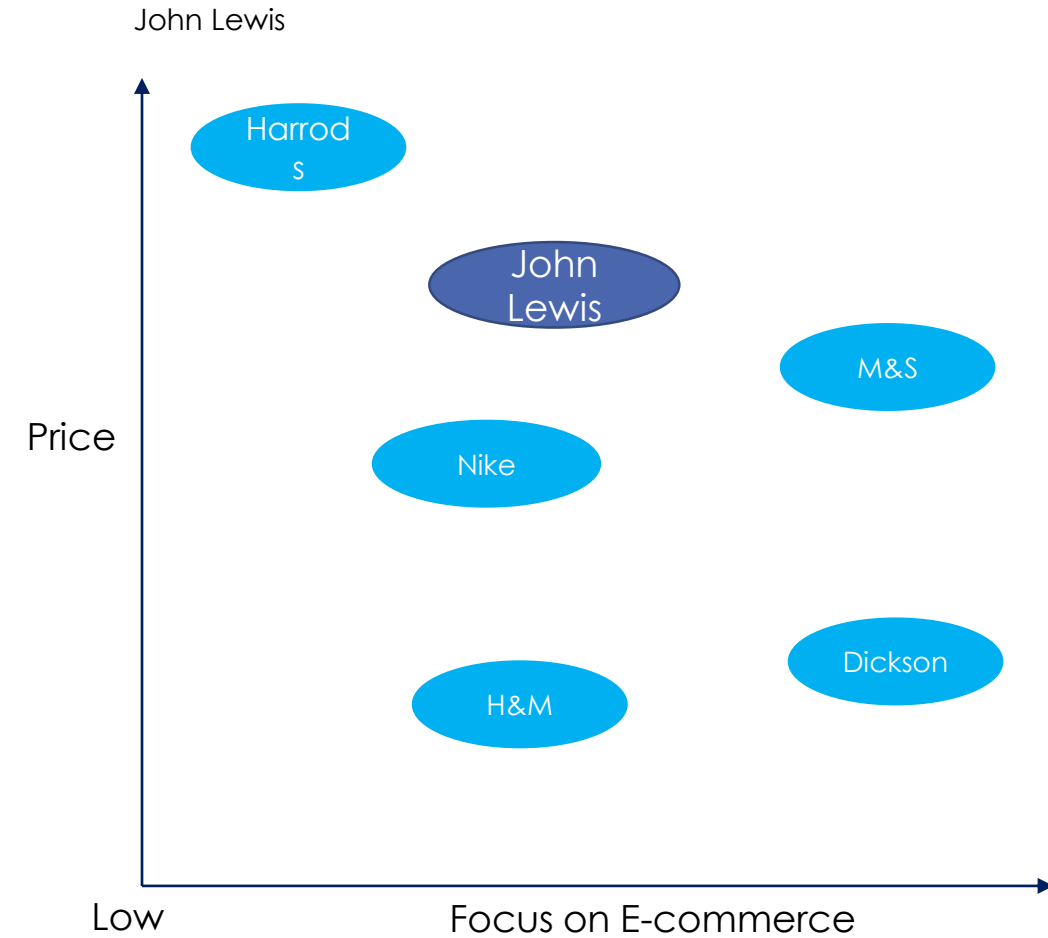
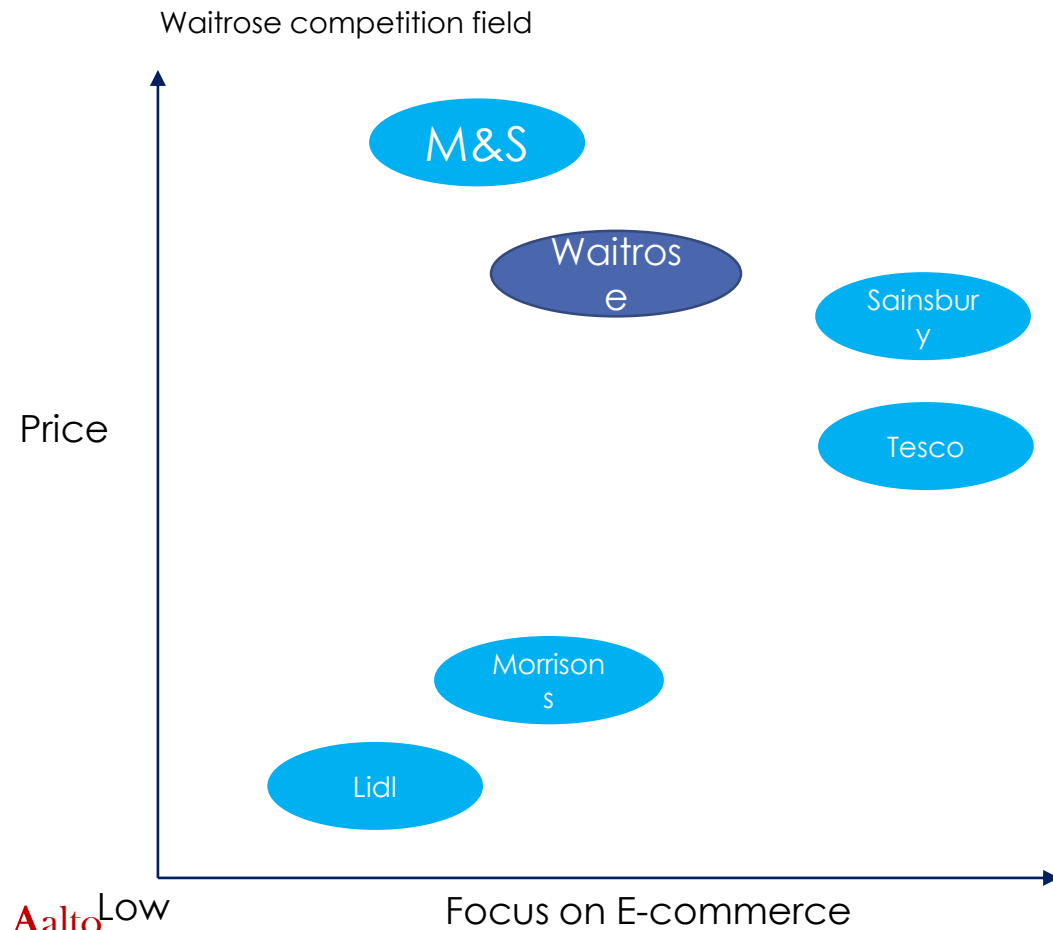
Focusing on e-channels in grocery stores seems highly beneficial in UK

Macroeconomic conditions in Europe

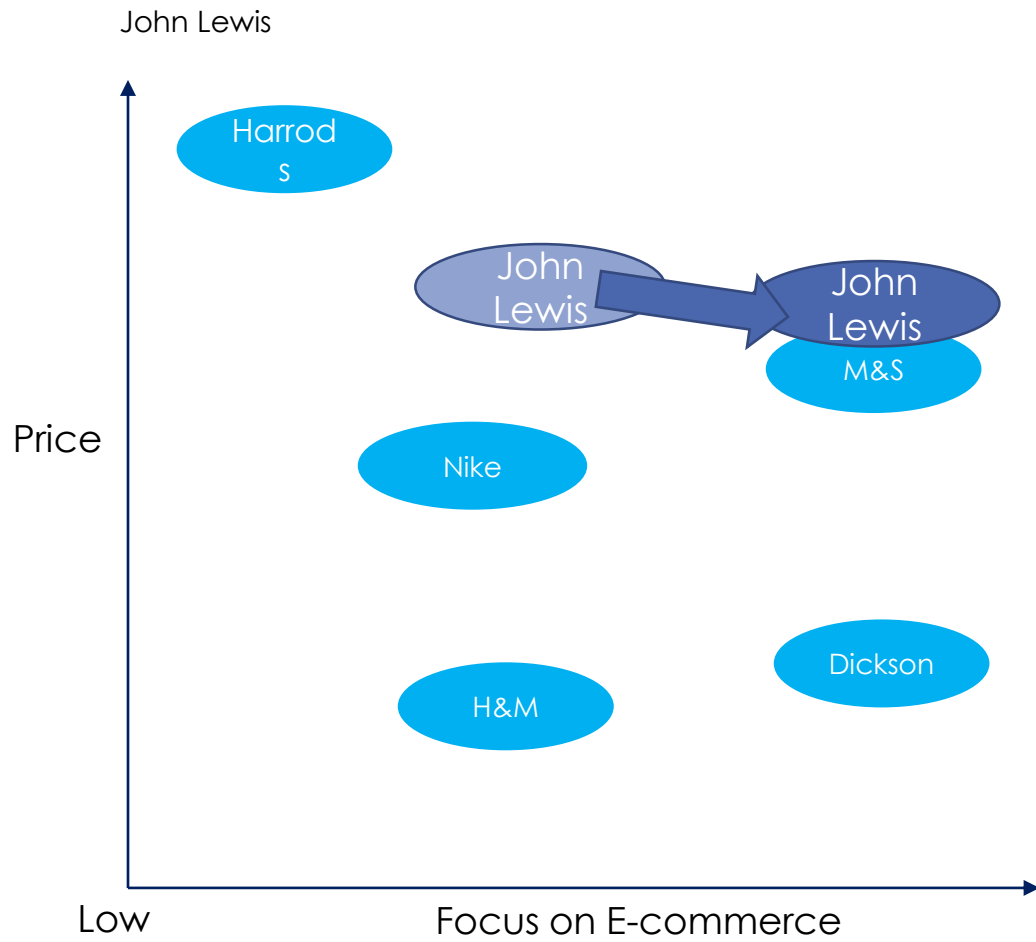
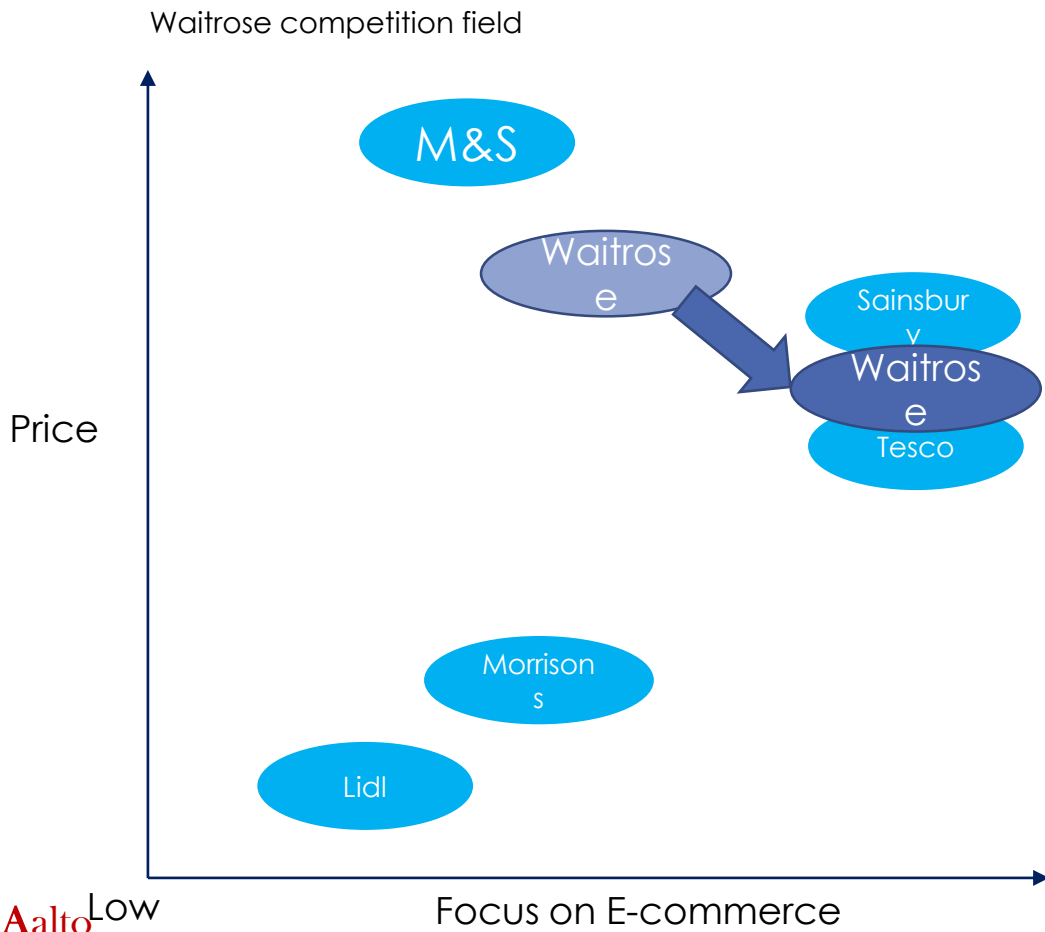
- Brexit's impact on imports, employees and prices
- Economy is recovering and growing ~2% in UK
- Locally produced fresh food is in demand
- AI is replacing human works in lower salary categories

Leverage these trends to maintain competitive advantage

JLP Positioned itself as premium brand – Leveraging its quality products and excellent customer service

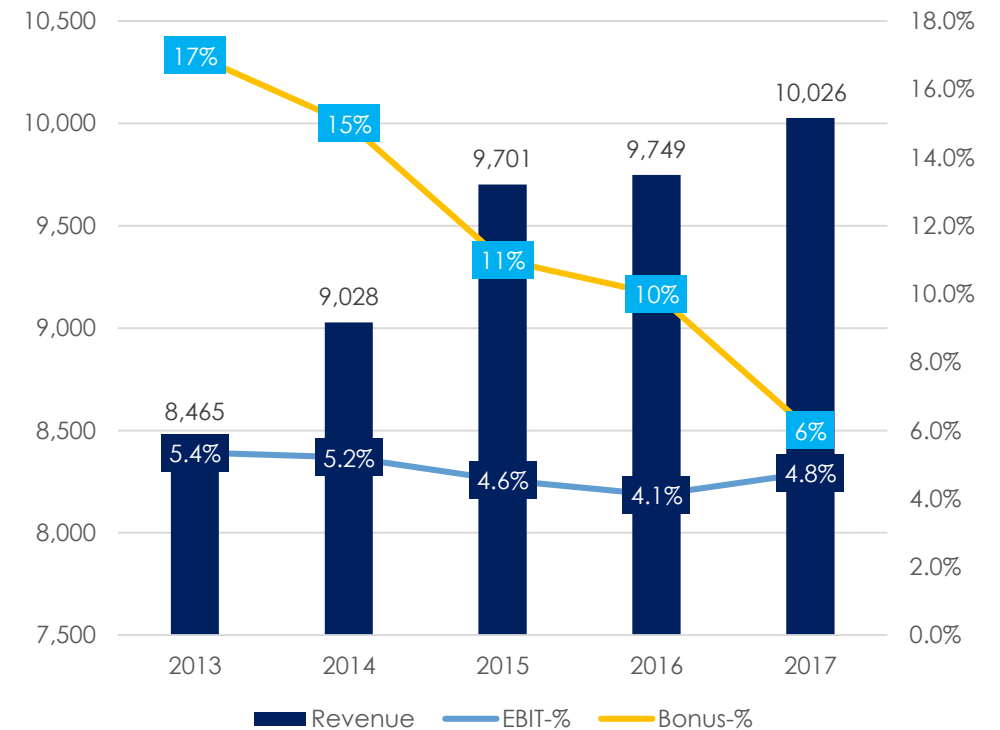


Shift the focus more on e-commerce



Margin and bonus-% has been decreasing

Income statement					
GBP m	2013	2014	2015	2016	2017
Gross sales	9,541	10,172	10,943	11,019	11,374
Waitrose	5,764	6,112	6,509	6,461	6,633
John lewis	3,777	4,060	4,434	4,557	4,741
Revenue	8,465	9,028	9,701	9,749	10,026
Waitrose	5,416	5,754	6,135	6,086	6,246
John lewis	3,049	3,274	3,566	3,663	3,781
EBIT	453	471	441	401	478
Waitrose	292	310	237	232	253
John lewis	217	226	250	250	243
Group and other	(56)	(65)	(46)	(81)	(19)
Profit for the year	101	102	144	223	354
<i>EBIT-%</i>	5.4%	5.2%	4.6%	4.1%	4.8%
<i>Profit-%</i>	1.2%	1.1%	1.5%	2.3%	3.5%
Partnership Bonus	210.8	202.5	156.2	145	89.4
<i>Bonus-%</i>	17%	15%	11%	10%	6%
<i>y-o-y growth</i>	n.q.	7%	8%	1%	3%



Alternatives

Screening approach



Leverage technology and trends in retail business to grow

Ensure happiness of partners and customers

How to tackle risks arising from Brexit

Identified alternatives

1

Expand to EU area with department stores first to get foothold

2

Divest the department stores and focus solely on food retail with e-commerce first

3

Focus on e-commerce, self-service and automation

Alternative 1: Expand to EU area with department stores first to get foothold

Pros

- Hedge against risks arising from Brexit
- Diversified geography and customer base
- Recovering economy in Europe

Cons

- Under-utilisation of the well known brand in UK
- Lack of expertise outside UK
- Difficulties with food retail

We see that staying in UK is more feasible strategy, especially due to long history and local connections

Alternative 2: Divest the department stores and invest to “farmers to homes strategy”

Pros

- Decrease Brexit risk through decreasing imports
- Decrease competition with major players such as M&S
- Emphasis of local farmers

Cons

- Decrease number of revenue sources
- Supply chain mgmt problem

Supply chain problem and under-diversification of revenue sources imply not executing this strategy

Alternative 3: Focus on e-commerce, self-service and automation

Pros

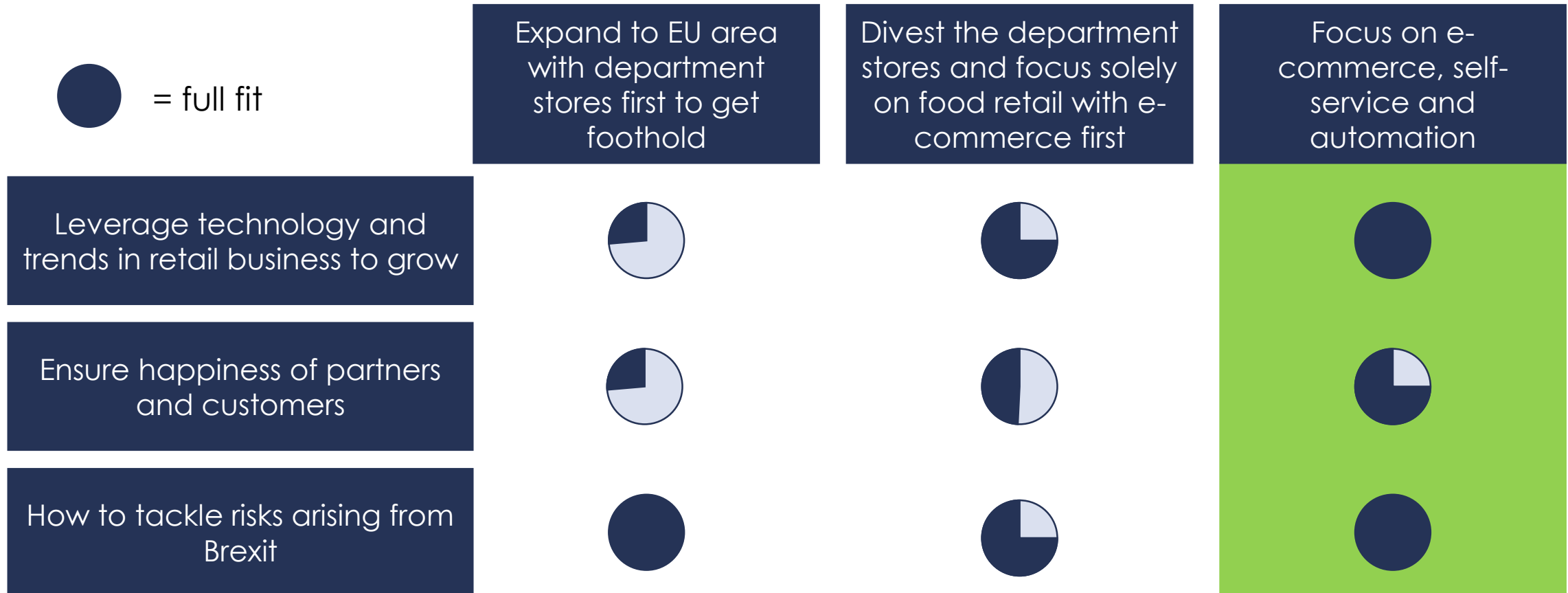
- Utilization of increasing e-commerce adaption
- Decrease cost-structure
- Role of technology emphasised
- Enhance customer experience through data utilisation

Cons

- Technological risk attached to automation

We suggest to stay in UK with focus on e-commerce, self-service and automation

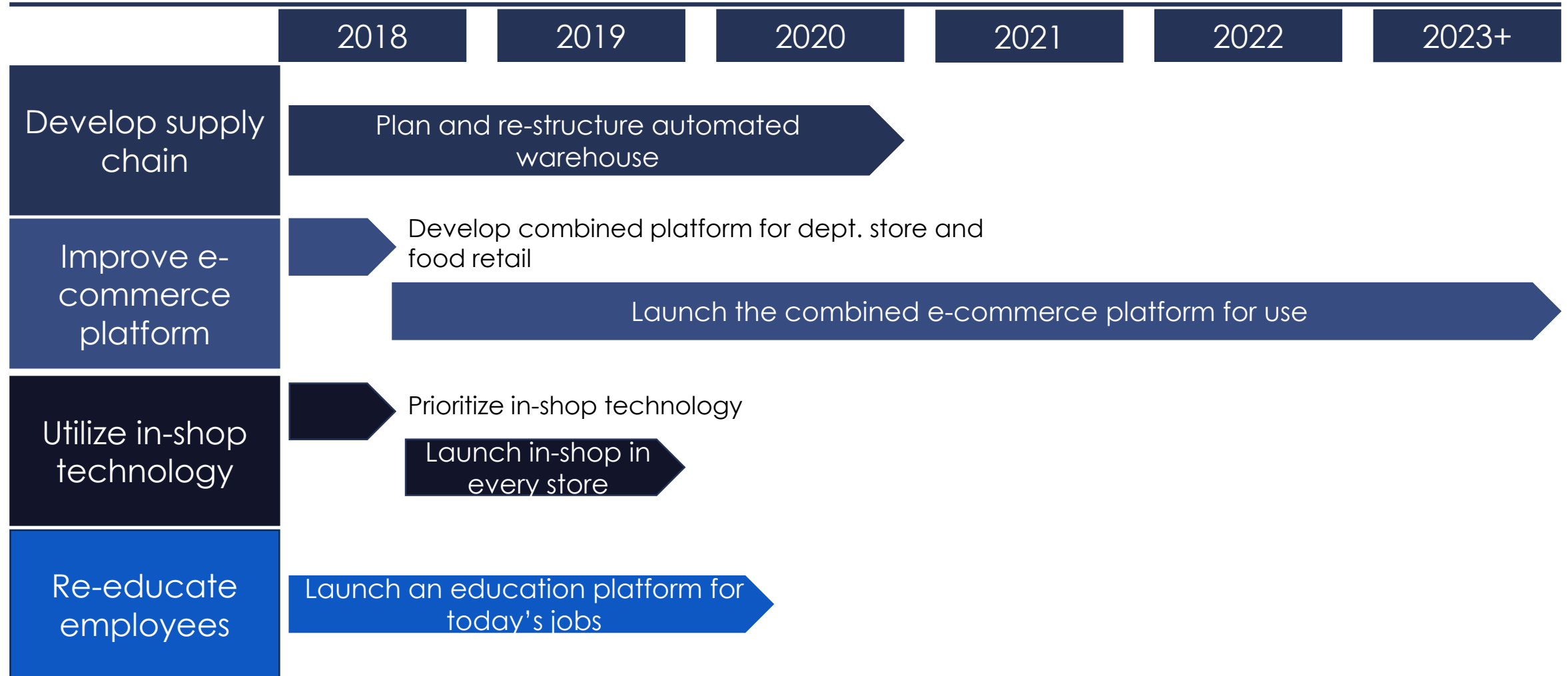
Alternatives summary



We suggest to stay in UK with focus on e-commerce, self-service and automation

Implementation

Implementation plan and indicative timeline



Develop supply chain

Hire 3rd party project team to plan and re-structure the warehouse technology

Close 30 supermarkets and establish 60 new pick-up locations

Gradually automatize all warehouses

Enjoy enhanced supply chain management through data usage for e.g. inventory prediction

Improve e-commerce platform

Improve existing e-platform to serve both John Lewis' and Waitrose's customers

Develop an interactive live chat box to enhance online customer experience

Enhance customer experience through the usage of e-channels and interactive online service

Utilize in-shop technology

Waitrose

- Implement self check-out counters
- Implement self-scanning technology
- Position with local products

Jon Lewis

- Launch an app to improve the experience (QR scanning linked to online store)

Improve operations and cross-selling through technology

Re-educate employees

Launch an education program of today's jobs

Re-educate employees that are replaced by automation

Ensure the happiness of partners

Financials

Assumptions

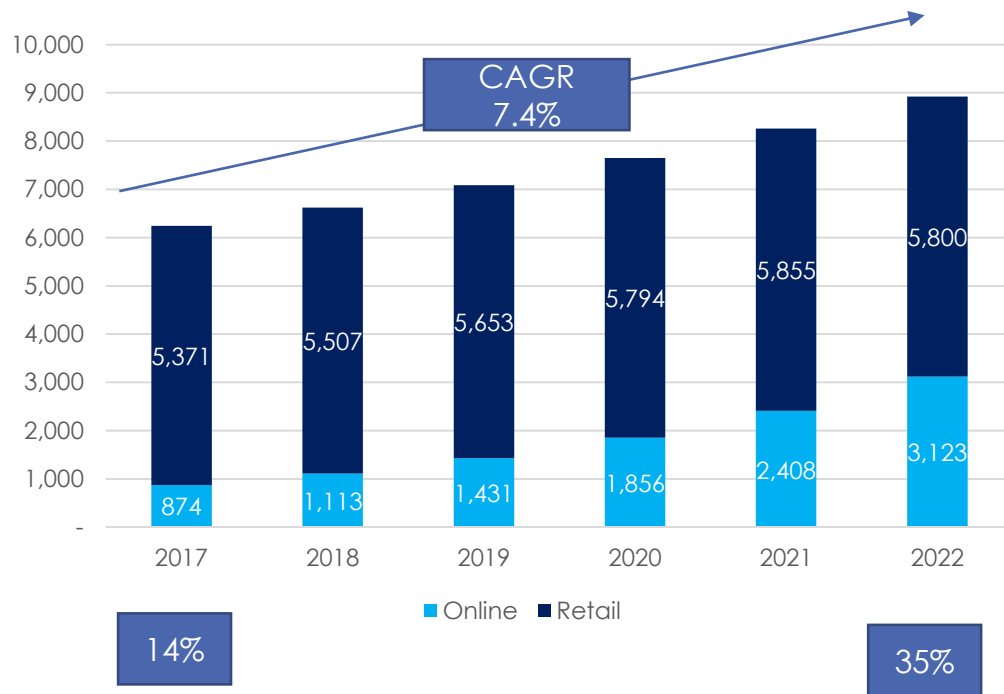
- All figures in GBP millions
- Average convenience store size 7000 square meters. Average sqm price 40 GBP
 - Close 35 convenience stores
- Average pick-up location size 350 square meters. Average sqm price 40 GBP
 - Open 60 convenience stores
- Reduction of warehouse workers by 10%. Average salary 33,000 GBP annually
 - 5% of warehouse workers educated by year. Education cost 50,000 GBP
- Warehouse automation estimate based on previous automation cases
 - Winebox automation (Complex and precision required automation)
 - Large European retailer warehouse automation
- 10 year forecast is based on linear growth after 5 years
- 5 year forecasts takes into account costs of the strategy and trends
- Margin growth based on:
 - Better margin in online sales
 - Warehouse automation reduces labour intensive manual work

Costs and benefits

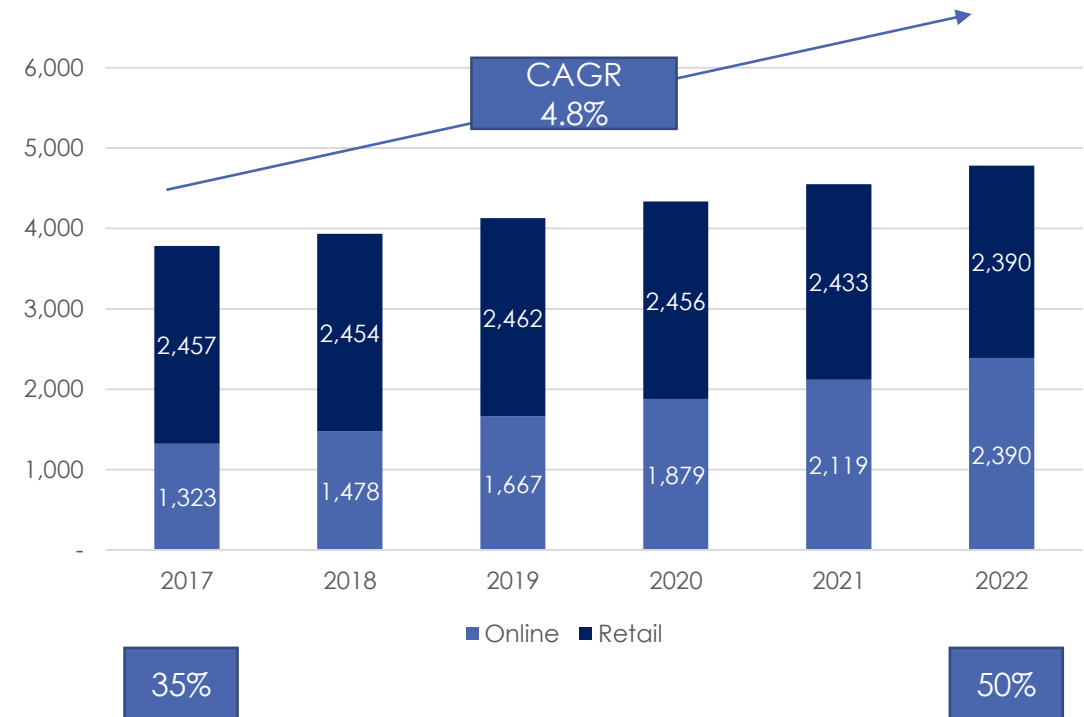
Costs and Benefits					
GBP m	2018	2019	2020	2021	2022
Costs	(65.8)	(60.8)	(49.3)	(47.3)	(46.3)
Warehouse automation	(15.0)	(10.0)	(2.0)	(1.0)	(1.0)
Checking scanner & Scanner app	(2.0)	(2.0)	(0.5)	(0.5)	(0.5)
Check-out counter	(2.0)	(2.0)	(0.5)	(0.5)	(0.5)
Education of employees	(45.0)	(45.0)	(45.0)	(45.0)	(45.0)
Chatbox	(1.0)	(1.0)	(0.5)	0.5	1.5
Pick-up locations	(0.8)	(0.8)	(0.8)	(0.8)	(0.8)
Benefits	21	48	92	92	92
Closed stores	4.8	6.7	9.5	9.5	9.5
Warehouse workers	17	41	83	83	83
Total	(45)	(13)	43	45	46

Development of Online & Retail sales split

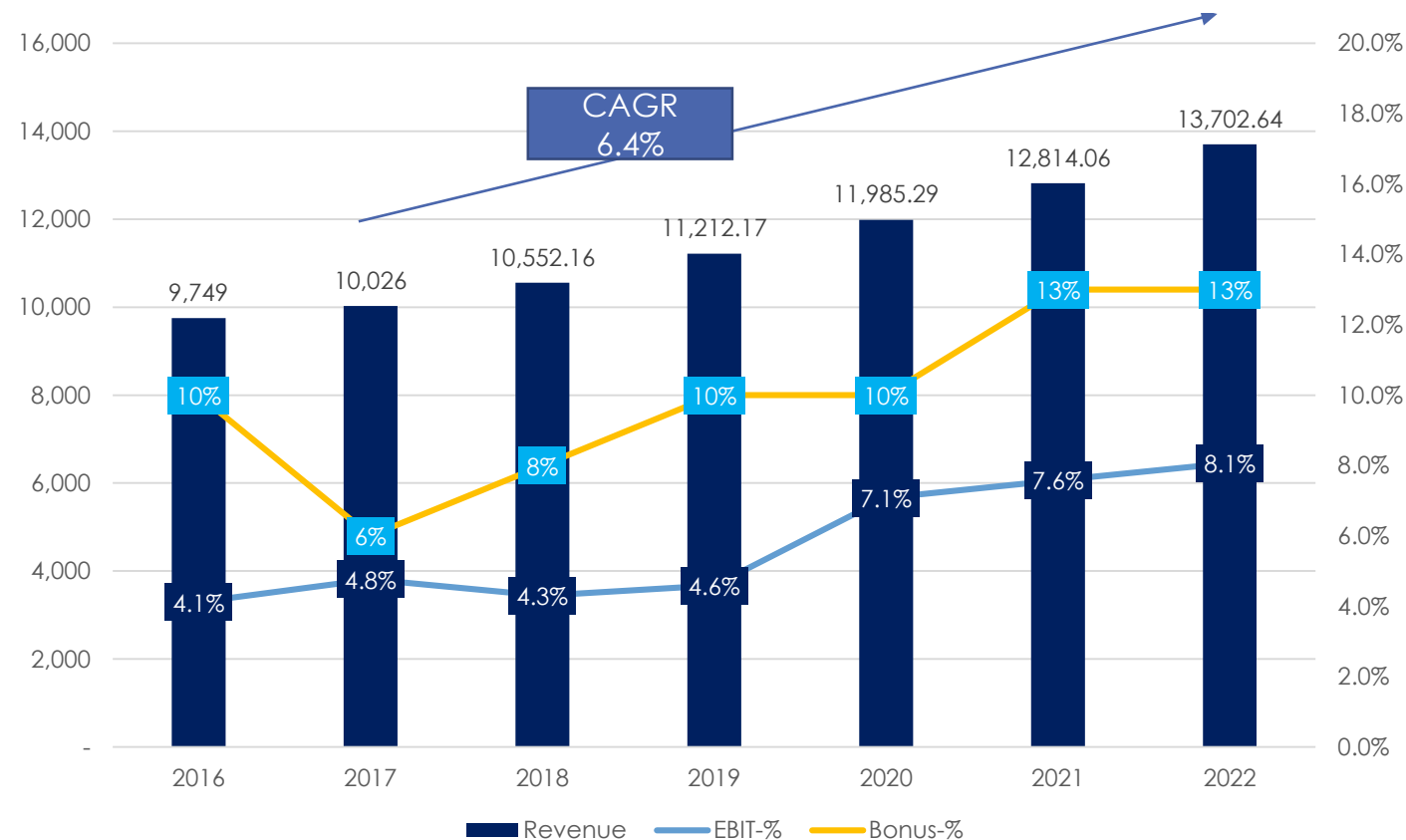
Waitrose sales split



John Lewis sales split



Five year forecast – Stable growth with higher margins



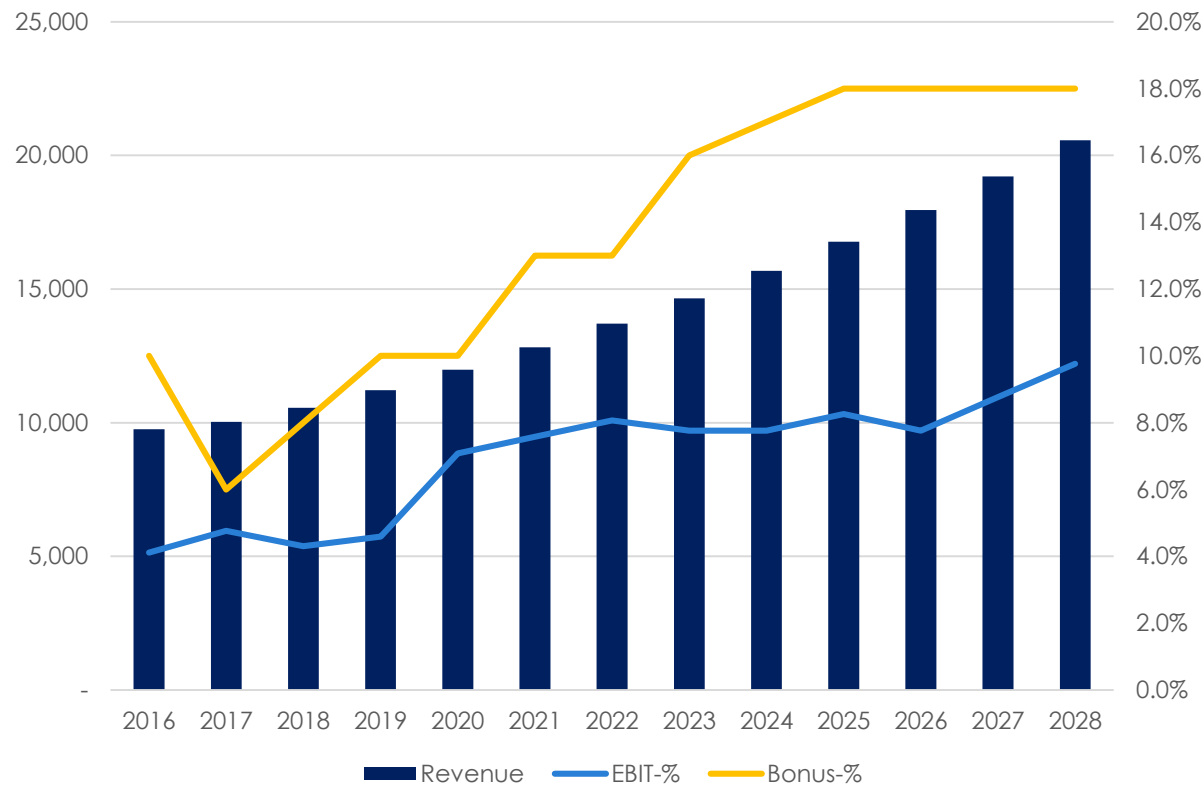
Revenue

GBP
13.7 m

EBIT

GBP
1.1 m

Double the revenue by 2028



Revenue 2028



Risk mitigation

Key risks and actions to mitigate them

Identified risk	Probability	Magnitude	Actions to mitigate
Demand for e-channels less than expected	Low/mid	Mid	<ul style="list-style-type: none"> Keep brick & mortar stores in place and utilize in-shop technology Emphasise convenience of e-tailing
Partners unwilling to re-educate/change employment	Mid	Mid	<ul style="list-style-type: none"> Invest to education program Emphasise the benefits of new employments
Compiling inventory and failing supply chain mgmt through AI	Low/mid	High	<ul style="list-style-type: none"> Change the technology gradually Name IT specialists responsible for the implementation

Conclusion

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