

John Lewis Partnership Innovating Operations

Sir Charlie Mayfield, CEO & Chairman

Mrs. Jane Burgess, Counsellor

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Haskayne
Consulting

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Why are we here?

- ▶ What can the John Lewis Partnership do to survive the changing retail landscape in the UK?

Executive Summary

Focus Area	Strategy	Details
Warehousing	Automate key warehouse functions	<ul style="list-style-type: none">-Install auto-sorting of retail goods-Utilize drones for inventory updates-Implement automated fork-lifts
Retail & Sales	Waitrose Supermarket self-checkout	-Install self-checkout stations to reduce cashier staff
	Implement delivery service for online orders	-Trial through outsourcing to a third part logistics provider
Supply Chain Sourcing	Increase sources outside of EU	<ul style="list-style-type: none">-Waitrose Supermarket: Investigate sourcing seasonal produce from Africa and North America-John Lewis stores: Investigate sourcing more products from China and India
Labour Sourcing	Decrease reliance on Eastern EU Workers	-Through implementing automation in warehousing and grocery checkout
	Evaluate other sources of labour	<ul style="list-style-type: none">-With a strong training program, consider hiring UK refugees to fill low level jobs-Will need to follow laws and labour regulations

Recommendation

- Improve operational efficiencies while reducing reliance on Eastern EU labour through:
 - Increasing automation at warehouses
 - Installing self-checkout cashiers at Waitrose Supermarkets
- Source new suppliers outside the EU for retail and grocery
- Remain competitive in online retail by offering home delivery for online sales

You asked we answered (1/3)

- ▶ What does leaving the EU mean relative to the costs of imported goods that JLP Sells?
 - Cost of goods are expected to increase, thus establish sources from other regions
 - Produce: Africa, North America
 - Retail goods: China and India

You asked we answered (2/3)

- ▶ Where will management recruit warehouse workers?
 - Decrease the reliance on warehouse workers by increasing automation
 - Consider looking for labour sources locally – possibly refugees in the UK
- ▶ What jobs will partners be doing in 2028 that are fulfilling work, while satisfying and paying a good salary?
 - Customer Service! Will always be customer facing and is key to JLP
 - Automation will require new skill sets among workers for maintenance

You asked we answered (3/3)

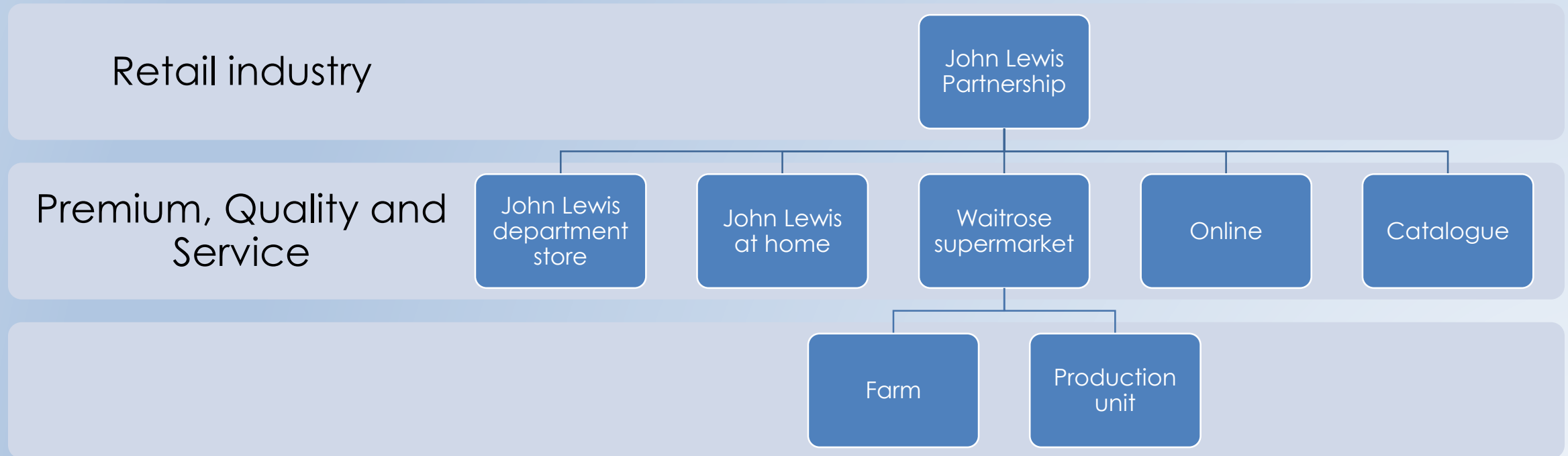
- ▶ What can they do for the partnership to remain a strong competitor in 2028?
 - Continue to innovate in technology and look outside the EU for product sourcing from the global community



Placing your order

Eva to discuss the details

What business you are in?



Brexit – what it really means to you?

People

- Currently hire 40% people from eastern European countries, no longer legal to work in UK

Goods

- Grocery sourced from EU, most department store goods are sourced outside EU
- Duty and tax impact the pricing

The status of Brexit

- UK is not official leaving EU
- Negotiation is going on for getting the best deal before leave
- Different terms are all possible to happen
- Uncertainty for your business continues

Options ahead of you

1

- Improve technology to improve efficiency and reduce

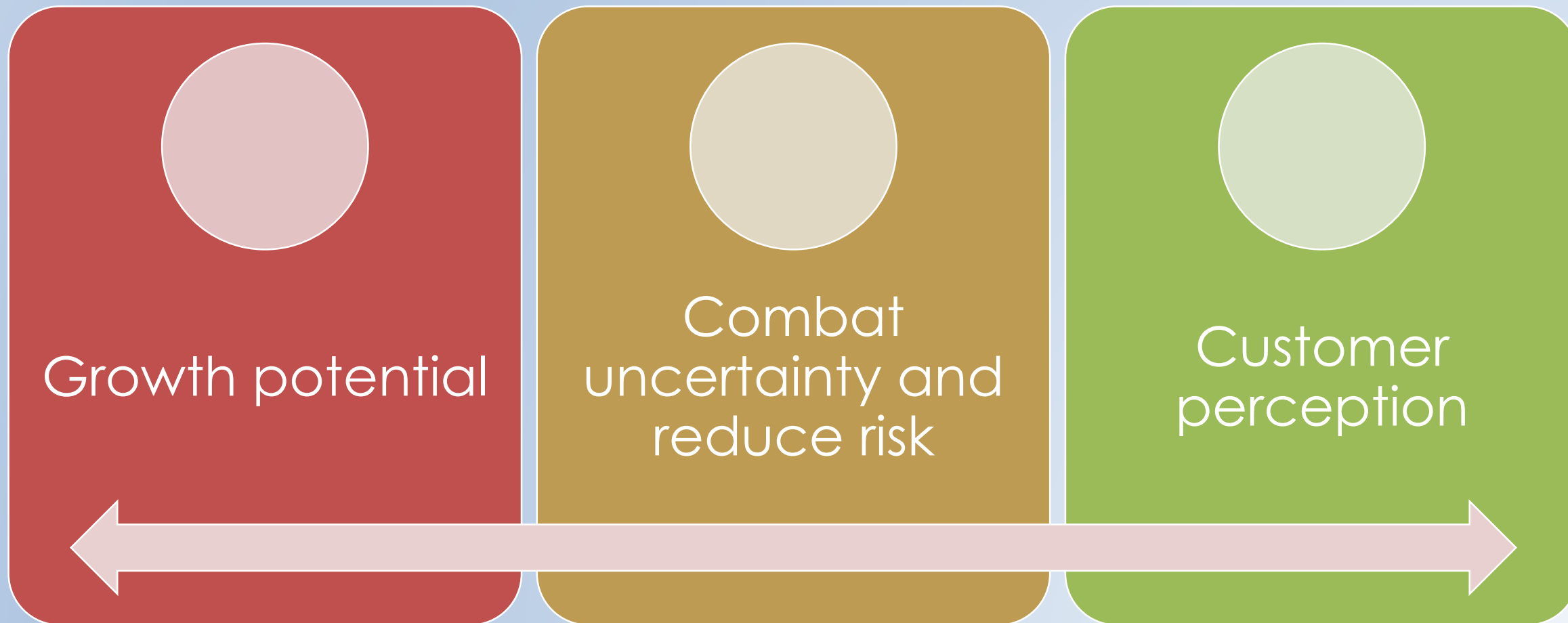
2

- Expand out of UK – open department or grocery stores in EU countries

3

- Go online completely and close department stores

Criteria for you



Options analysis

Options and criteria	Growth potential	Combating uncertainty and reduce risk	Customer perception
Improve technology to improve efficiency and reduce	✓	✓	✓
Expand out of UK	✓	✗	✗
Go online completely and close department stores	✗	✓	✗

You have loyalty customers inside UK, other countries have lower margin of retail and more competitive. Online retail can not replace brick store retail, your customers are buying high quality and premium products

Options analysis

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Improve technology to improve efficiency and reduce	✓ 	✓	✓
Expand out of UK	✓	✗	✗
Go online completely and close department stores	✗	✓	✗

Brexit is uncertain, but you have to do business for long term planning

Benefit of using technology to improving operating efficiency:

- Employee less low skill workers to mitigate the risk of immigration policy change from Brexit
- Short term: more spending on technology
- Pay off long term: less employee and faster system to operate

Improve technology for your operation

Warehouse: current labor intense operation

- Adopt automated forklift to unload, move inventory
- Drones to check inventory level, scan barcode

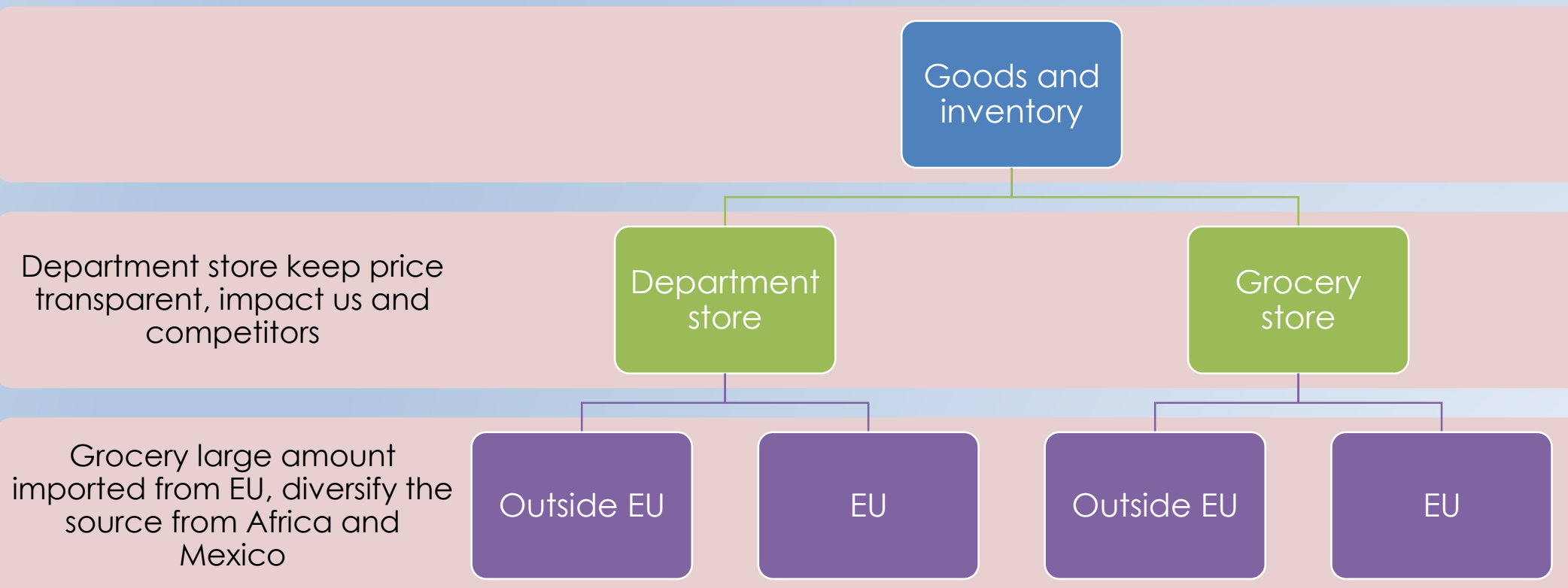
Storefront in grocery stores

- Implement more self checkout
- Not for department stores

Delivery upgrade

- Currently: Online orders from department store are to be picked up at the grocery store
- Keep the same but implement delivery from online orders by outsourcing delivery to a third party company
 - Improve customer service by giving different options

Sourcing goods



Sourcing people and talent

- ▶ Refugees are willing to work and live a life in their new home country
- ▶ If regulations allows, recommend you to provide training in English and basic skills for them to secure the first job

Calculating the total purchase price

Bharath to discuss the financial data

Assumptions

- ▶ Currency in GBP
- ▶ Compounded growth rates
 - Current CAGR – 4.5%
 - Future CAGR – 6%
- ▶ Future sales split will stay the same over both supermarket and department stores

High returns at John Lewis locations

Business	Gross sales	Net sales	Returns
Waitrose	6633	6245	6%
John Lewis	4741	3781	20%

Industry average for physical store returns is less than <9%

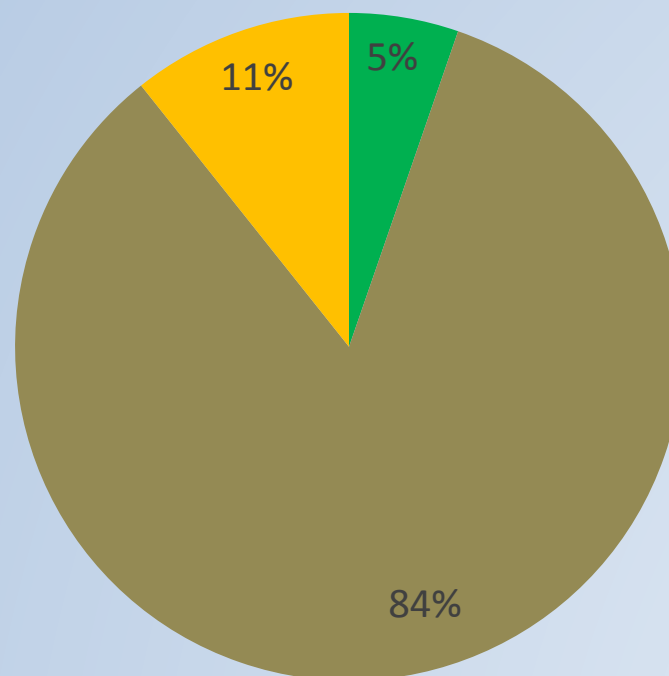
Use your customer service strengths to bring the returns down to industry average

Current bonus trend for partners

Period	2004 - 2013	2014 - 15	2016
Bonus	15.90%	11%	6%

Reflecting on their performance; Need to evaluate reasons for decreasing performance

Current Market Share

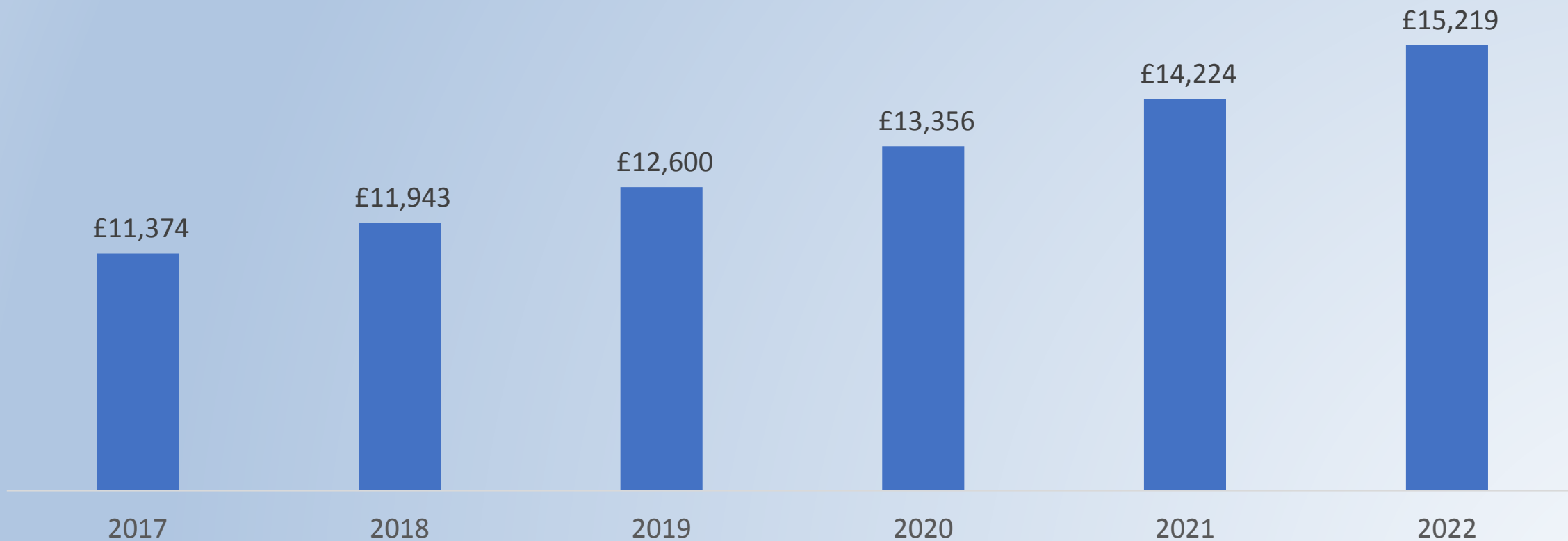


■ Waitrose ■ Other UK companies ■ Aldi & Lidl

Growth comes from increased gained market share from the German owned stores

Growth ahead

Consolidated revenue in £MM



Cash flows

	2017	2018	2019	2020	2021	2022
Gross Sales	£ 11,374	£ 11,943	£ 12,600	£ 13,356	£ 14,224	£ 15,219
Revenue	£ 10,026	£ 11,107	£ 11,718	£ 12,421	£ 13,228	£ 14,154
Profit before bonus & tax	£ 370	£ 444	£ 527	£ 621	£ 661	£ 708
Strategy Costs		£ 10	£ 70	£ 40		
Cash flow	£ 370	£ 434	£ 457	£ 581	£ 661	£ 708

Implementation costs

- ▶ Automation implementation team - £3MM
- ▶ Changes to website for online delivery - £5MM
- ▶ Drone technology - £30K X 400 - £12MM
- ▶ Automation Technology acquisition - £20MM
- ▶ Self Checkout machines £60K X 350 - £32MM
- ▶ Forklifts £100K X 400 - £40MM

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Alternatives



Expand out of the UK



Go completely online and close the stores

Expand out of the UK


- ▶ You do not have existing distribution and supply chain network outside of UK
- ▶ Oversea retail industry is very competitive
- ▶ Customers differ from country to country



Go completely online and close the stores

- ▶ Key strength is in customer service
- ▶ Amazon and other giants exist in this market
- ▶ High return rates for online purchases (>1/3rd)
- ▶ Brick support the clicks. Over 60% of people who come for returns purchase some item at the store





Implementing the new delivery system

Nicole will talk about the implementation plan

For future consideration...

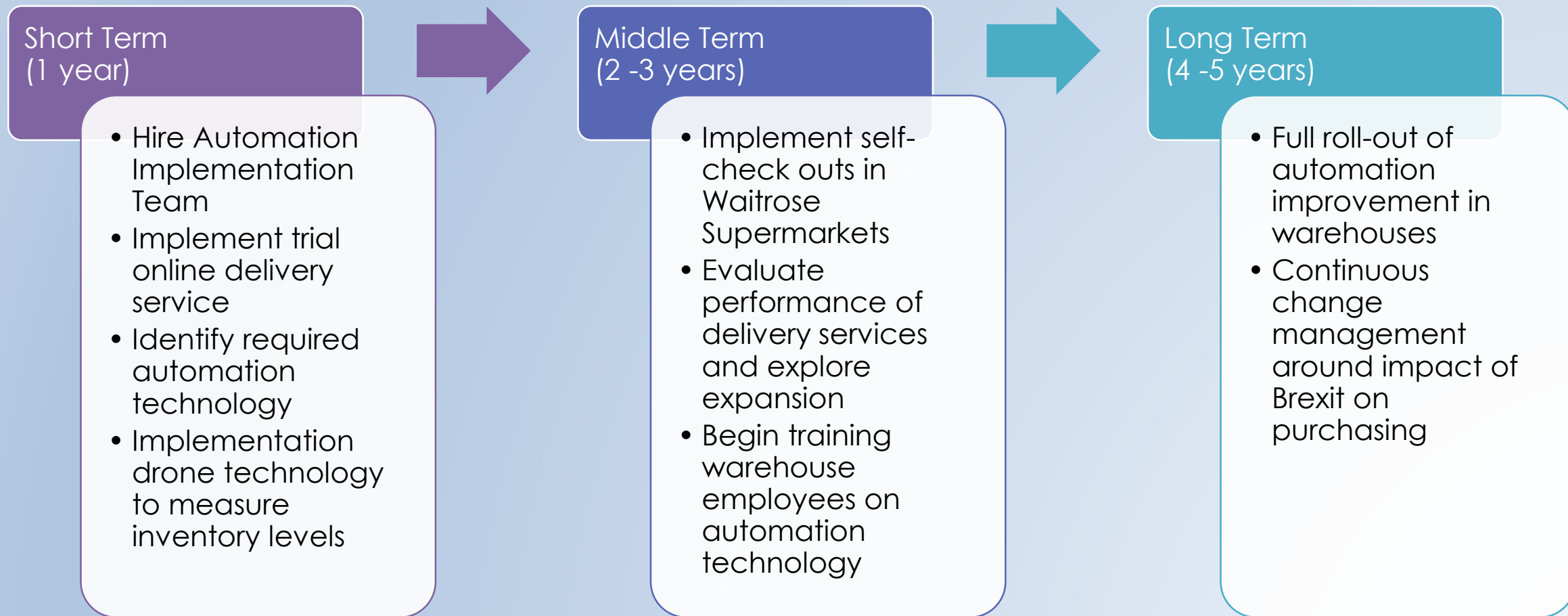
► “Out of the box” thinking...

- Entering the tourism business using your existing sailing and farm facilities to hold events and provide a traditional UK experiences

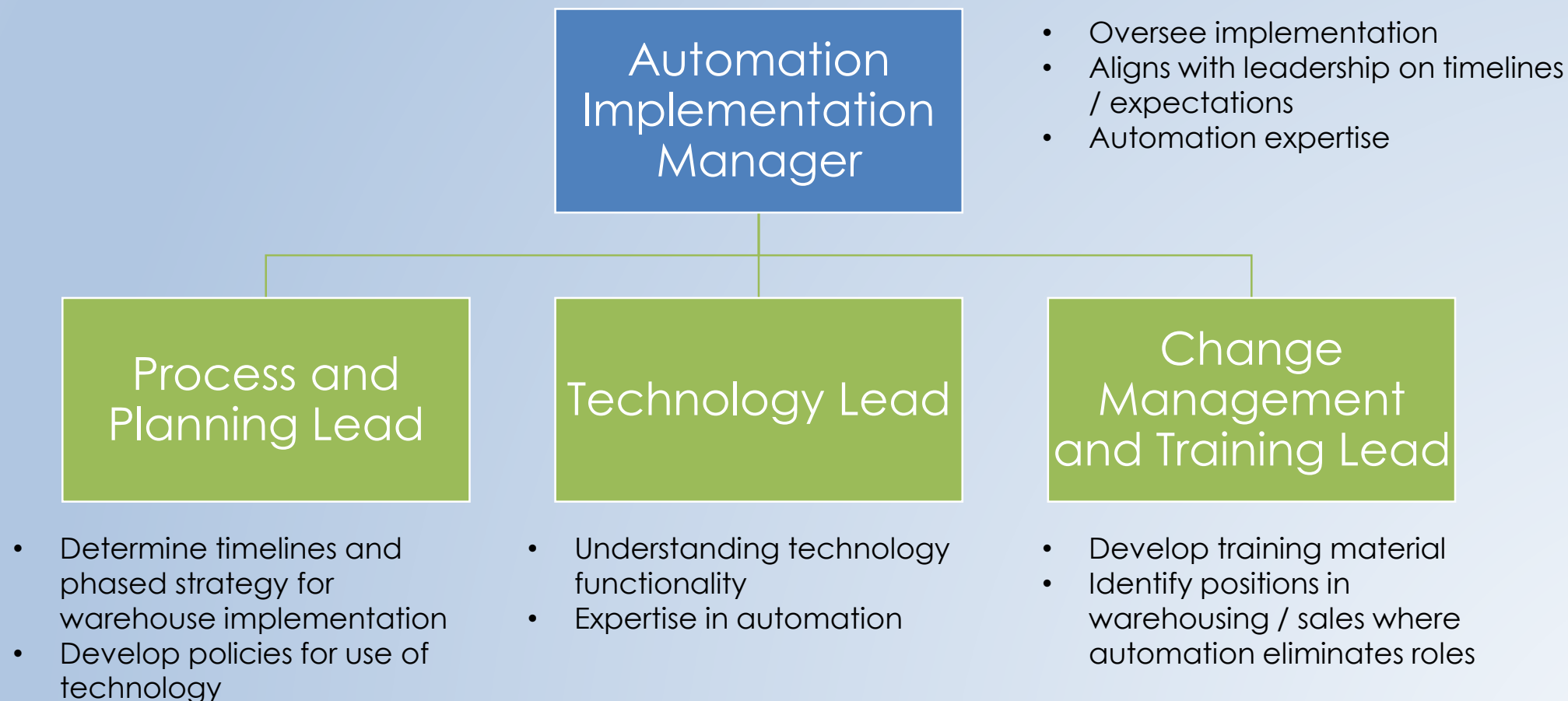
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Implementation timeline



Who will make all of this happen?



What does the implementation look like?

- ▶ Hire the Automation Implementation Team
 - Plan out the phases / strategy around warehouses to tackle in a logical order
- ▶ Develop metrics to help evaluate performance
 - Adoption is extremely important
- ▶ Understand and consistently respond to employee concerns and questions
 - Engagement is extremely important

How do you manage the change?

Tasks	Outcome	Responsible	Timeline
Use The Gazette to inform employees of coming changes	Transparency with changes will keep consistent with culture	Charlie / Change Management Lead	Immediately
Answer feedback openly around changes	Provide clarity	Charlie	Continuously
Evaluate how jobs changing	Understand impact to current structure	Change Management Lead	6 months
Discuss changes and plan with Partners and Key Staff	Provides transparency on what to expect	Change Management Lead / HRM Team	1 year
Develop training material	Provides learning opportunities	Change Management Lead / HRM Team	1 year

If Brexit happens...

- Explore suppliers outside of the UK for supermarket seasonal products
 - Africa or North America
- Explore additional workforce requirements with refugees
 - Provides additional workers if EU workers are not eligible
 - Will require additional training and support

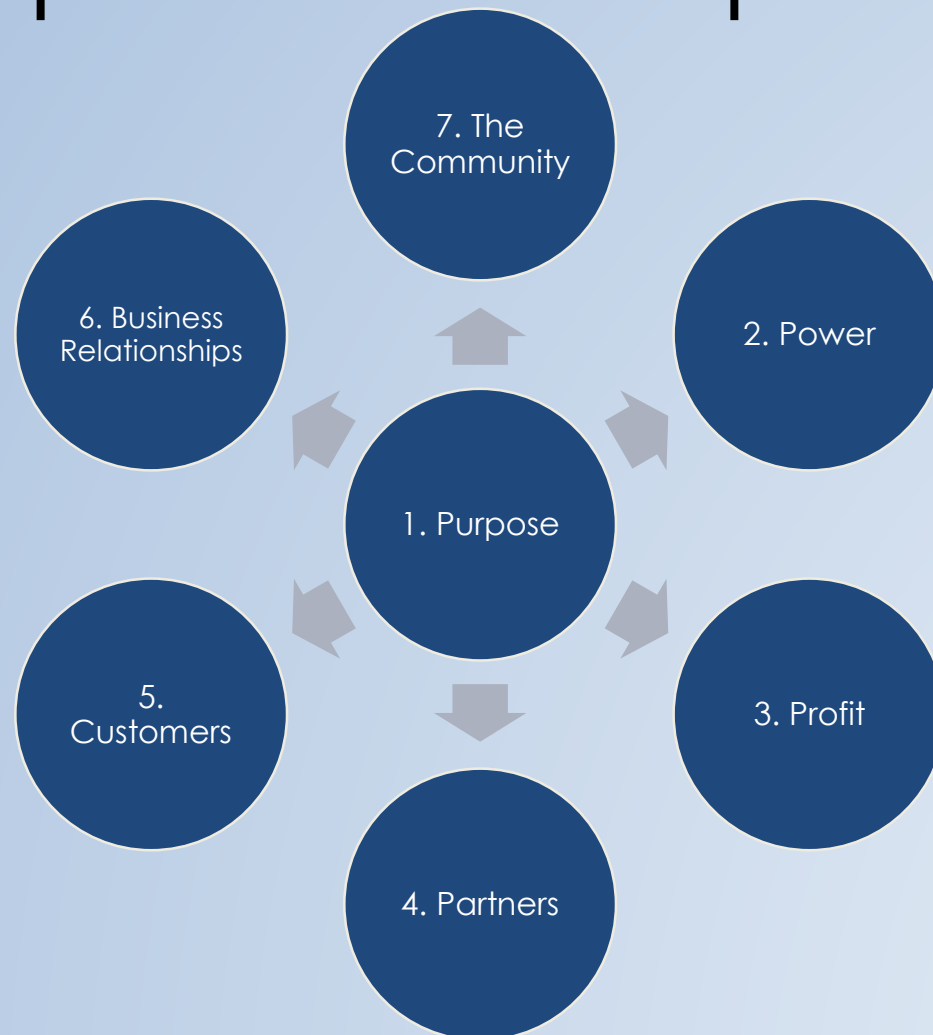
If Brexit doesn't happen...

- ▶ Still proceed with making changes in automation of warehousing and point-of-sale systems
 - Reduction in costs will help with long-term sustainment

Risks and Mitigation Strategies

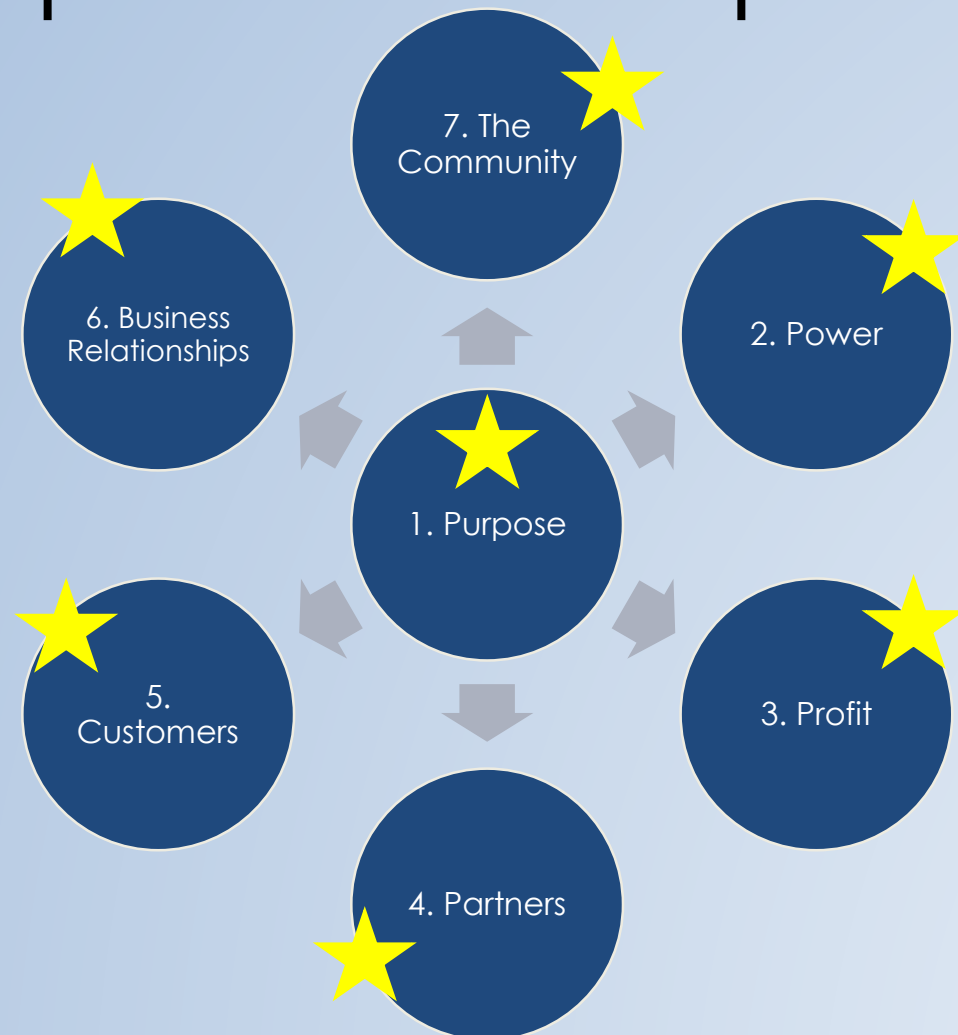
Risk	Mitigation	Likelihood (H/M/L)	Impact (H/M/L)
Cybersecurity	Use automation team to help discover and protect against threat	M	H
Department store industry continues to decline	Evaluate downsizing department store locations	M	L
Foreign Exchange	Use financial instruments (ie. Hedging)	M	M
Employees unhappy about changes and leave	Re-evaluate rewards program and look at retention	M	M

Seven Principles that Empower JLP



All seven of these principles are abided through this recommendation

Seven Principles that Empower JLP



All seven of these principles are abided through this recommendation



Your delivery has arrived!

Derek to bring everything together

Recommendation

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