

John Lewis Partnership |

Pursuit of Happiness

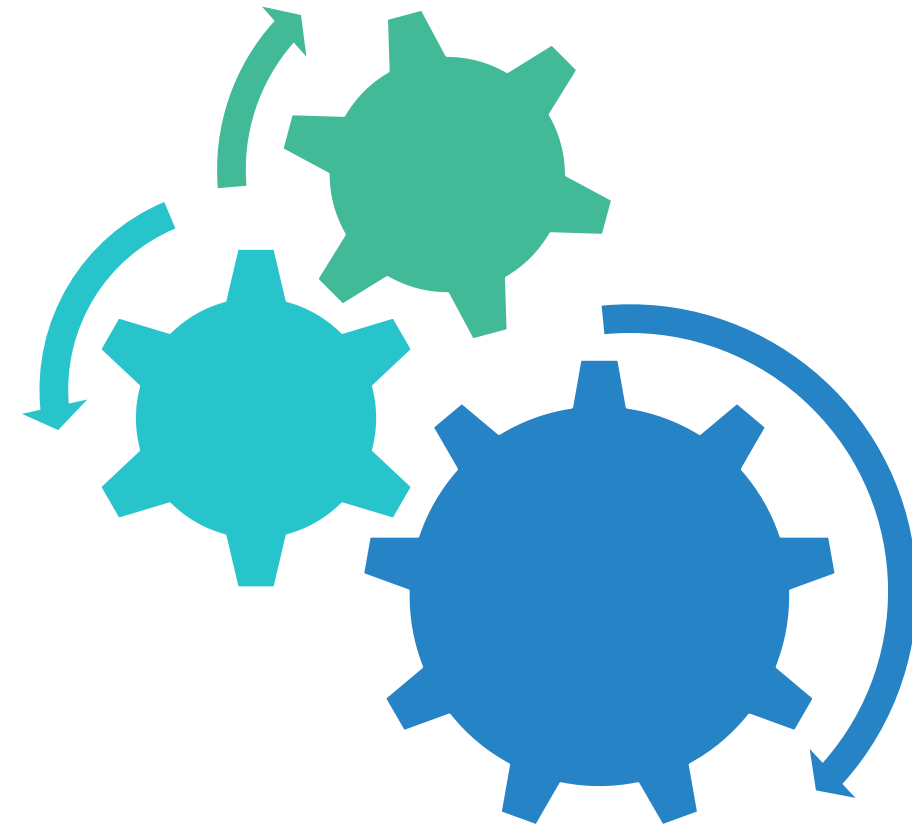
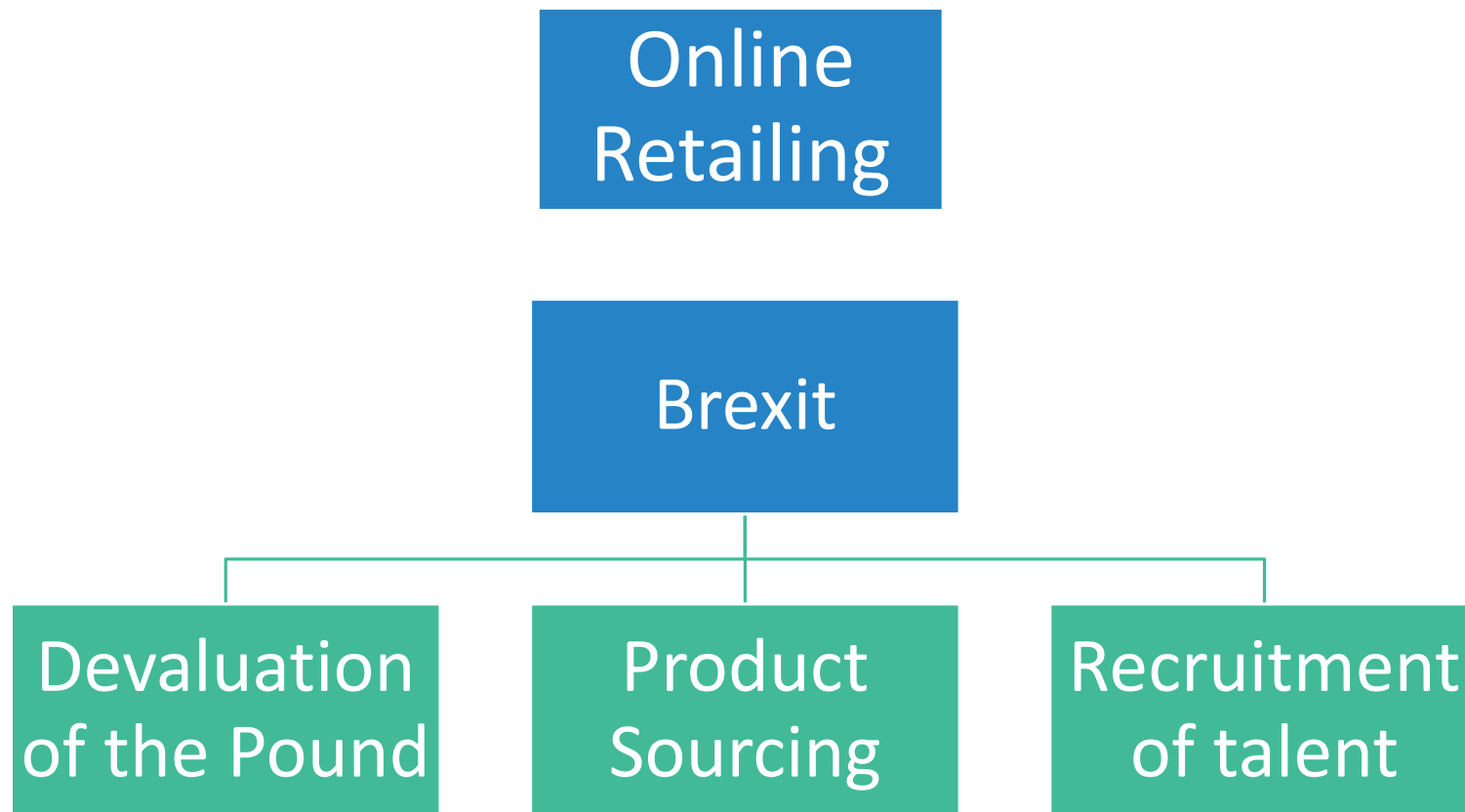
WOW CONSULTING

Yi Quan | Stephanie Langlois | Samuel McNicoll | Marc-Olivier Gendron

Why Are We Here?

How can John Lewis Partnership flourish with the political and technological disruptions?

What Are the Key Issues?



What Are the Objectives?



Maintain **financial stability**

Manage the consequences of the **Brexit**

Ensure the **happiness** of all Partnership members

What is Recommended for You?

Build a new
**automated
distribution
facility**

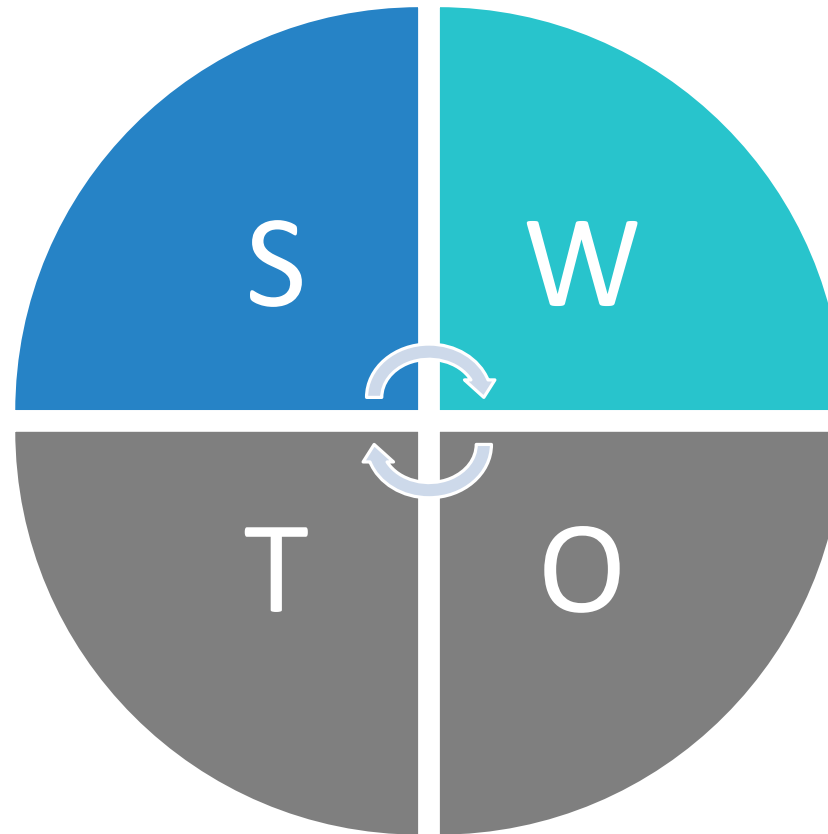
Develop and
implement
**RFID shopping
experience**

**Employee
empowerment
through
retraining
program**

What Is Your Competitive Advantage?

Strengths

- High standards of **customers service** across businesses
- Very attractive employee **benefits and HR** practices
- Ability to offer **unique high quality** products
- Successful **Brick-and-Click** model



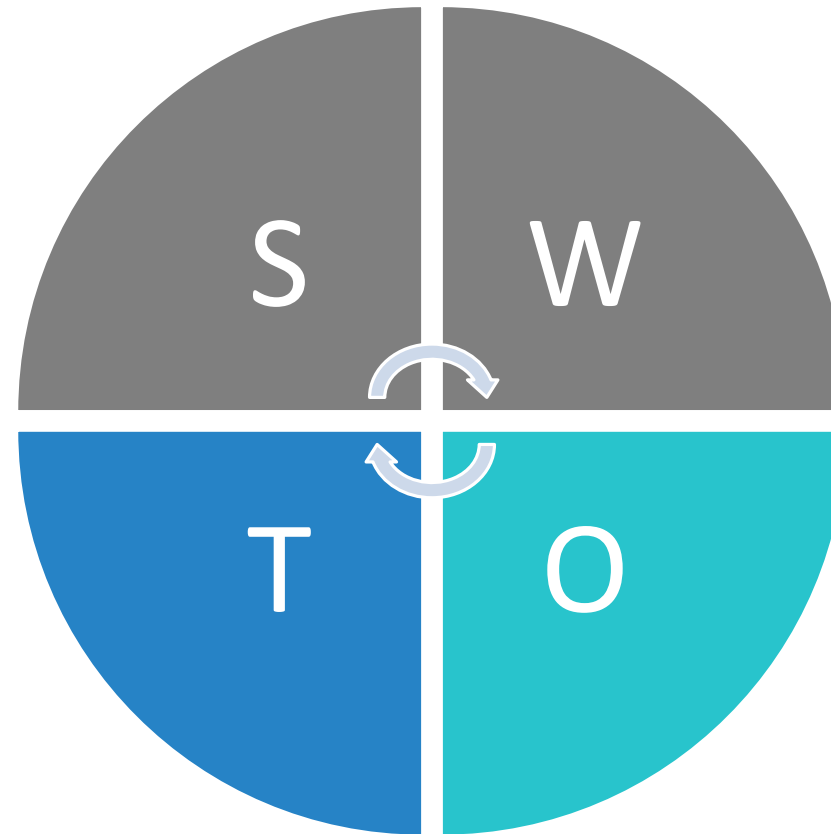
Weaknesses

- Heavily reliant on **imported** products
- **High HR costs** due to extensive benefits
- Large organization which makes them **less agile**
- **Expensive hiring** practices due to an emphasis on prestigious schools

What Is Your Competitive Advantage?

Threats

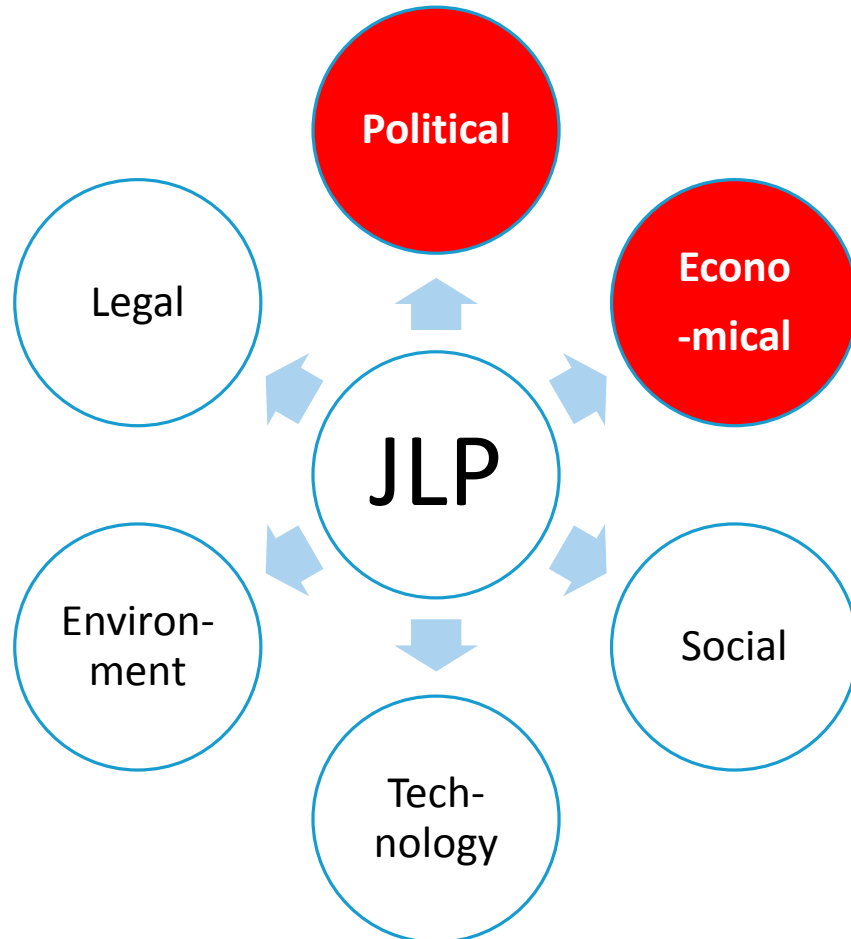
- **Traditional retail** is less prevalent
- Overall impact of **Brexit**
- **Dense** competition within the grocery industry



Opportunities

- Customers' desire to buy **ethical and green** products
- Potential of technology to help **lower costs**

What Forces Are You Facing?



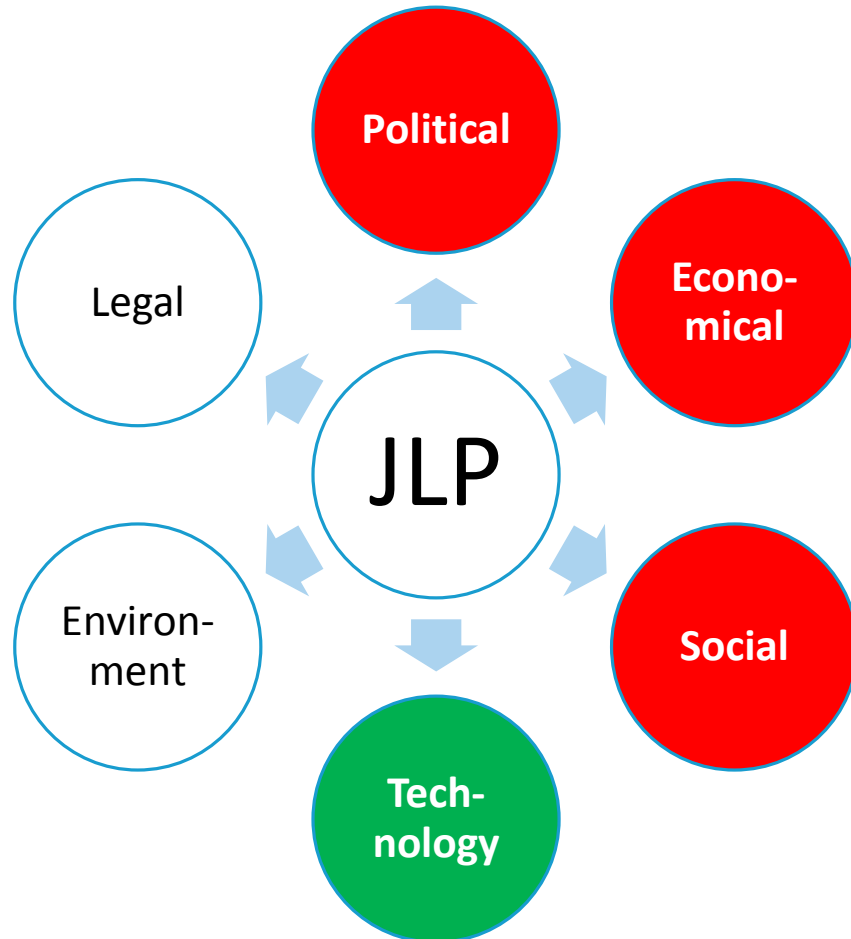
Political

- Scotland recently voted to leave the UK
- Strong ties with other Commonwealth countries
- With Brexit, there are uncertainties surrounding the British Pound

Economical

- Brexit brought on an initial drop in the British Pound which is likely to be even more significant once finalized
- Foreign goods are more expensive to import
- Cheap labour force is in high demand

What Forces Are You Facing?



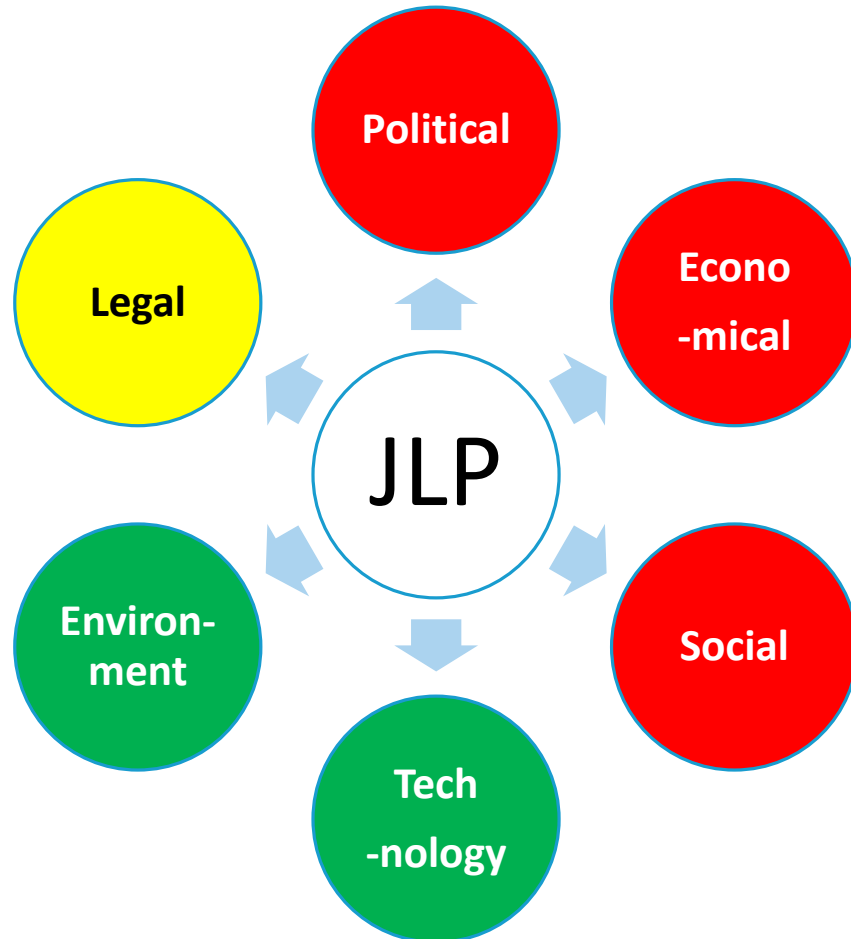
Social

- Strong concern about job loss to foreigners helped influence the Brexit vote
- Peak levels of illegal immigrants in the UK

Technology

- Consumers are buying more and more online
- Amazon is a major competitor to most online retailers
- In both grocery and retail warehouses there is a growing trend of automation
- The applications of RFID is growing rapidly

What Forces Are You Facing?



Environmental

- Customers have a growing interest in environmentally friendly, fair-trade and, local products

Legal

- Despite Brexit, the legal environment remains stable
- The introduction of new trade agreements could lessen the impact of Brexit

“And we make decisions for the long-term rather than taking knee jerk reactions for the short-term”

Simon Fowler, former Partnership Registrar

How Can You Face the Disruptors?

	Workforce training and education	Improve logistics	Divest brick-and-mortar to focus online business	Vertical integration of supply chain
Help you position against Brexit threats	Green	Green	Yellow	Green
Help you position against online threats	Green	Green	Green	Green
Better align you with core competencies	Green	Yellow	Red	Red
Capital intensiveness	Yellow	Red	Yellow	Red
Does it align with the Constitution principles?	Green	Yellow	Red	Yellow

How Can You Improve Logistics?

	RFID implementation	Self-check out	Automated distribution centre
Long term ROI	Green	Yellow	Green
Impact on customer satisfaction	Green	Red	Yellow
Consistent alignment with company values	Yellow	Red	Yellow
Generate competitive advantage	Yellow	Yellow	Green

What Is Recommended for You?

**Build a new automated
distribution facility**

**Develop and implement
RFID shopping experience**

**Employee empowerment
through retraining program**

How to Implement the Automated Distribution Centre?

0-6
months

- Partnership with one of the top automated distribution centre designer and operator
- Prospect land for future distribution centre (Birmingham)
- Define project scope

6-24
months

- Construction phase
- Start uploading JLP product information into database
- Start to buy machinery and equipment to refurbish regional warehouses for fresh produces
- Provide employee training on new equipment

How to Implement the Automated Distribution Centre?

24-36
months

- Finish installation
- Ramp up operation
- Begin refurbishing regional warehouses as products are transferred to the new distribution centre

36-48
months

- Finish refurbishing regional warehouses
- Optimize the automated distribution centre

What About RFID?

Next generation inventory tracking device

Compatible with new payment trends

0-24
months

- Find partnership for RFID technology with the help of consultants in the specialist field
- Hire new internal IT team for R & D new technology (20 employees)

24-36
months

- Hire implementation team (100 employees)
- Launch the RFID to ALL department stores
- Continue develop RFID for fresh products

36-72
months

- Hire implementation team
- Launch the RFID to the grocery store products
- 40 stores converted

What Are the Steps to Prepare the Employees?

Identify new roles to be filled

- Understand the traits and characteristics ideal for these positions

Hire change management consultants

- Leverage their expertise to help create a communication plan

Present communication plan

- Messaging to employees from their direct managers
- Official announcement via email

Organize a partners meeting

- Present the strategy formally

Start identify for Phase I of retraining program

- Phase I will be composed of warehouse workers to complement the RFID project
- Objective: retrain 16% of the employees each year

What Else Can You Do?

Lobby the government

- Ensure first hand information is obtained for Brexit

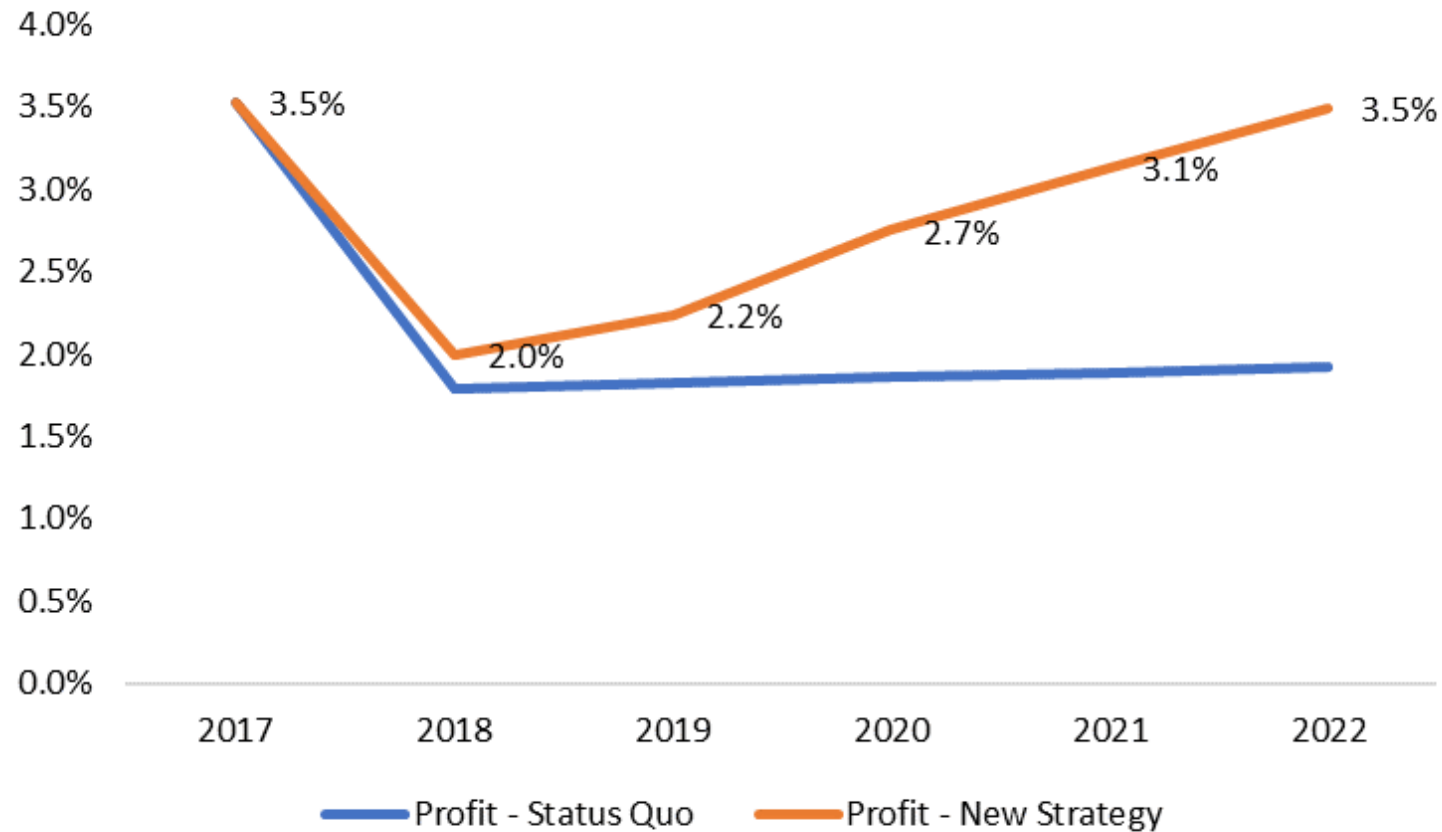
Start relationships with suppliers from Commonwealth

- Tap into Commonwealth capabilities, specifically to establish network with grocery suppliers

Keep improving the online platform

- Explore how to further leverage the automated distribution centre

Projected Net Profit Margin



Budget (in million of £)

	2018	2019	2020	2021	2022		2018	2019	2020	2021	2022
RFID						Fresh Products Warehouse					
R&D						Renovations	5.0				
Lead engineer	0.1	0.1	0.1	0.1	0.1	Equipment	10.0				
Staff (20)	1.2	1.2	1.2	1.2	1.2	Maintenance		0.1	0.1	0.1	0.1
Equipment	1.0	1.0	0.2	0.2	0.2	Consulting	1.0				
Consulting	1.0	1.0					16.0	0.1	0.1	0.1	0.1
Implementation											
Director			0.1	0.1	0.1	Employee Training (16%/y)					
Staff (100)			5.0	5.0	5.0	Directors (2)	0.2	0.2	0.2	0.2	0.2
Equipment			10.0	10.0	10.0	Managers (12)	0.7	0.7	0.7	0.7	0.7
Consulting			0.5	0.1	0.1	Trainers (consultants, 120)	9.6	9.6	9.6	9.6	9.6
	3.3	3.3	17.1	16.7	16.7		10.5	10.5	10.5	10.5	10.5
Witron Automation						Website					
Land	20.0					Director	0.1	0.1	0.1	0.1	0.1
Building	70.0					Additional staff (10)	0.6	0.6	0.6	0.6	0.6
Equipment	100.0					Equipment	0.1	0.1	0.1	0.1	0.1
Consulting	10.0						0.7	0.7	0.7	0.7	0.7
Support & Maintenance		2.0	10.0	10.0	10.0	Total costs	230.5	16.6	38.4	38.0	38.0
	200.0	2.0	10.0	10.0	10.0	Financing					
						Corporate bonds 4%, 10y	200.0				
						Cash or reinvested profit	30.5	16.6	38.4	38.0	38.0
							230.5	16.6	38.4	38.0	38.0

Metrics - RFID

	2018	2019	2020	2021	2022
RFID					
Cost savings					
Depreciation (taxes)	0.3	0.6	3.6	6.6	9.6
Number of employees	0	0	1,250	2,500	3,750
Average total reward	£26,382	£26,910	£27,448	£27,997	£28,557
	0.3	0.6	37.9	76.6	116.7
Costs	3.3	3.3	17.1	16.7	16.7
Cash Flow	-3	-3	21	60	100
Payback Period	3.1				
NPV	112				
ROI	306%				

Metrics - Witron

	2018	2019	2020	2021	2022
Witron Automation					
Cost savings					
Depreciation (taxes)	44	44	44	44	44
Number of employees	0	0	1000	1000	1000
Average total reward	£26,382	£26,910	£27,448	£27,997	£28,557
	44	44	71	72	73
Costs	200	2	10	10	10
Cash Flow	-156	42	61	62	63
Payback Period	3.9				
NPV	27				
ROI	31%				

Metrics - Warehouse

	2018	2019	2020	2021	2022
Fresh Products Warehouse					
Cost savings					
Depreciation (taxes)	1.5	1.5	1.5	1.5	1.5
Number of employees	0	500	500	500	500
Average total reward	£26,382	£26,910	£27,448	£27,997	£28,557
	2	15	15	15	16
Costs	16	0.1	0.1	0.1	0.1
Cash Flow	-15	15	15	15	16
Payback Period	2.0				
NPV	29				
ROI	284%				

What Should You Watch Out For?

Risk	Mitigation	Contingency	Likelihood	Impact
Employee go on strike after the announcement of the automation	Provide assurance of no layoff and continuously inform the upcoming plans	Give training and development for new skills and opportunities	Medium	High
Automated warehouse building goes over budget	Hire consultants for comprehensive planning	Obtain loans and additional funding	Low	High
Unable to find suitable land	Look for land early and keep options open	Repurchase and renovate an old factory	Medium	Medium
RFID implementation increases product prices	Decrease cost through automated processes	Give customers superior shopping experience	High	Medium
Expensive to source seasonal produce due to Brexit	Lobby the government to encourage trade agreements	Focus on sourcing from local producers	High	High
Unable to find talents to fulfill human resources	Leverage technology to reduce labor demands	Increase hiring budget to attract skilled workers	High	Low

What Are Your Takeaways?

Build a new automated distribution facility

Significantly lower hiring needs, all while leveraging the existing talent



Develop and implement RFID shopping experience

Focus on developing a cutting-edge long-term solution



Employee empowerment through retraining program

Increase employee satisfaction without further increasing benefits

3 projects are highly **profitable** over our 5 year plan.
Better profit margin at **3.5%**



Assumptions

Financial Projections - Status Quo (in million of £)

	2017	2018	2019	2020	2021	2022
Revenue						
Waitrose	6,246	6,433	6,626	6,825	7,029	7,240
John Lewis	3,781	3,932	4,089	4,253	4,423	4,600
	10,026	10,365	10,715	11,077	11,452	11,840
Operating profit						
Waitrose	254	257	265	273	281	290
John Lewis	243	256	266	276	287	299
Group and other	-19	0	0	0	0	0
	478	513	531	549	569	589
Net finance costs	-108	-111	-115	-118	-122	-125
Exceptional items	171	0	0	0	0	0
	63	-111	-115	-118	-122	-125
Partnership Bonus	-89	-89	-88	-87	-86	-85
% of eligible pay	6%	6%	6%	6%	6%	6%
Taxation	-99	-127	-133	-139	-145	-151
Profit	354	185	195	206	216	227
Profit (in %)	3.5%	1.8%	1.8%	1.9%	1.9%	1.9%
Number of employees	86,700	85,657	84,627	83,609	82,603	81,610
Full time employees	63,300	62,539	61,786	61,043	60,309	59,583

Financial Projections - New Strategy (in million of £)

	2017	2018	2019	2020	2021	2022
Revenue						
Waitrose	6,246	6,433	6,626	6,825	7,029	7,240
John Lewis	3,781	3,932	4,089	4,253	4,423	4,600
	10,026	10,365	10,715	11,077	11,452	11,840
Operating profit						
Waitrose	254	257	265	273	281	290
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Group and other	-19	0	0	0	0	0
	478	513	531	549	569	589
Net finance costs	-108	-111	-115	-118	-122	-125
Exceptional items	171	0	0	0	0	0
Extra costs	0	-25	-16	-28	-28	-28
Cost savings	0	46	60	125	164	205
	63	-90	-71	-22	15	52
Partnership Bonus	-89	-89	-88	-84	-78	-72
% of eligible pay	6%	6%	6%	6%	6%	6%
Taxation	-99	-127	-133	-140	-147	-155
Profit	354	207	240	304	358	414
Profit (in %)	3.5%	2.0%	2.2%	2.7%	3.1%	3.5%
Number of employees	86,700	85,657	84,127	80,365	75,398	69,241
Full time employees	63,300	62,539	61,421	58,675	55,049	50,553

Assumptions

Last 4 years employees growth	-1.20%	WACC	4.4%
Last 5 years Waitrose revenue growth	2.89%	Debt (net of taxes)	2.8%
Last 5 years John Lewis revenue growth	4.39%	Equity (assuming 0.8 Beta)	7.6%
Operating profit, Waitrose, % of revenue	4.00%	% of debt	67%
Operating profit, John Lewis, % of revenue	6.50%	Risk premium - RFID	6%
Full time employees as a % of total	73.01%	Discount rate - RFID	10.4%
2017 average total reward per employee	£25,864	Risk premium - Witron	4%
2017 average salary per employee	£17,000	Discount rate - Witron	8.4%
Benefits costs per employee (%)	34%	Risk premium - Warehouse	4%
Tax rate	30%	Discount rate - Warehouse	11.6%

Analysis

Alternatives

Recommendation

Implementation

Financials

Risks