

It's your business 2028

John Lewis Partnership

Presenting to:

David Jones - Group Development Director

Date:

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What to tackle?

How to deal with the challenges of Brexit and technological change to secure the partners` business in the future?

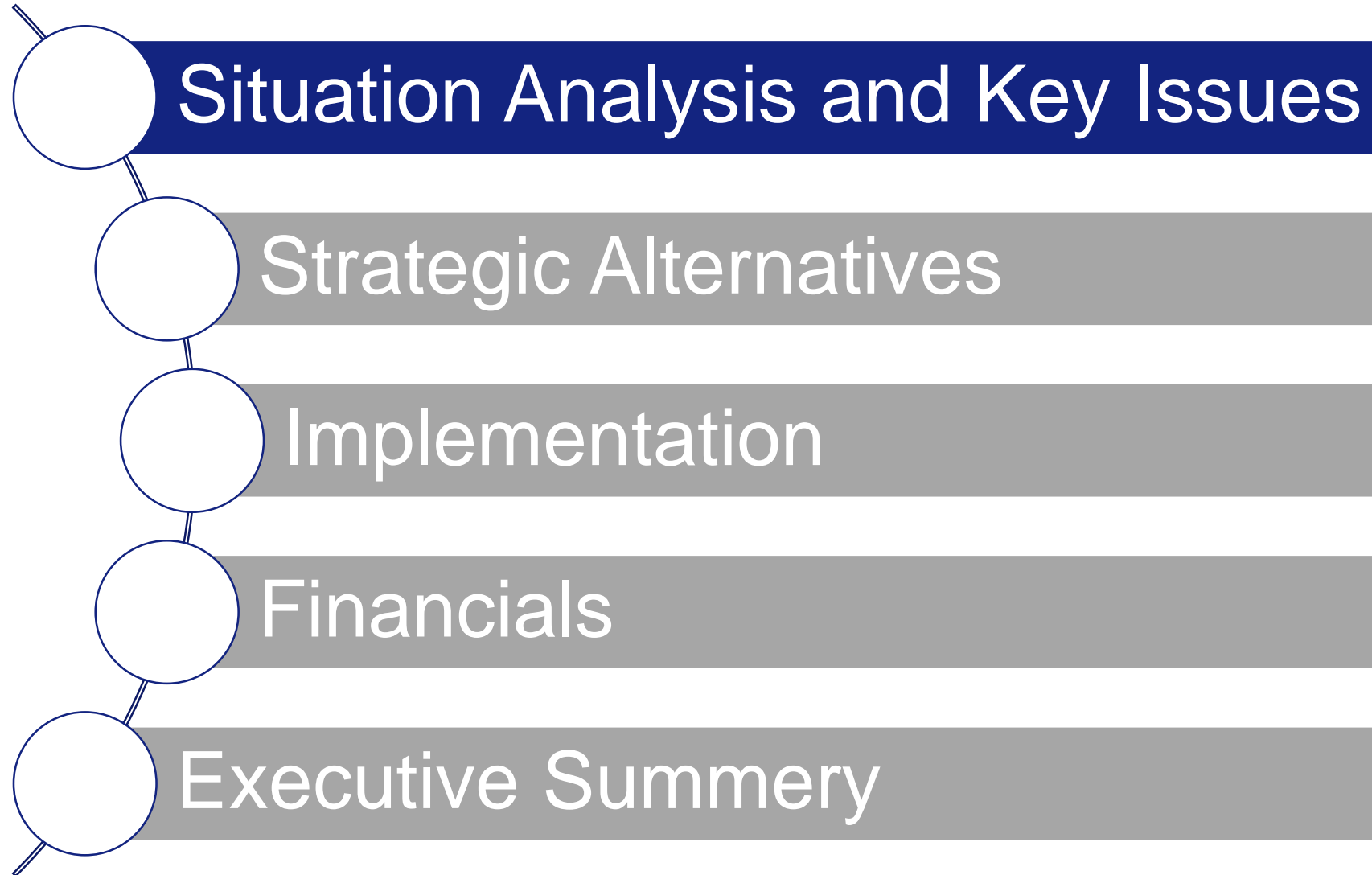
What to tackle?

How to deal with the challenges of Brexit and technological change to secure the partners` business in the future?

How to solve

1. Embrace digital change with leveraging on the instore knowledge
2. Reduce risk implied with Brexit through subsidiaries outside the UK





High uncertainty due to political situation and technological changes expected in the future

Political

Brexit leads to high uncertainty regarding employment and imported goods

Economic

Higher costs for imported goods

Social

Happiness of partners is key for business model

Technological

Major changes in job design and increased importance of online shops

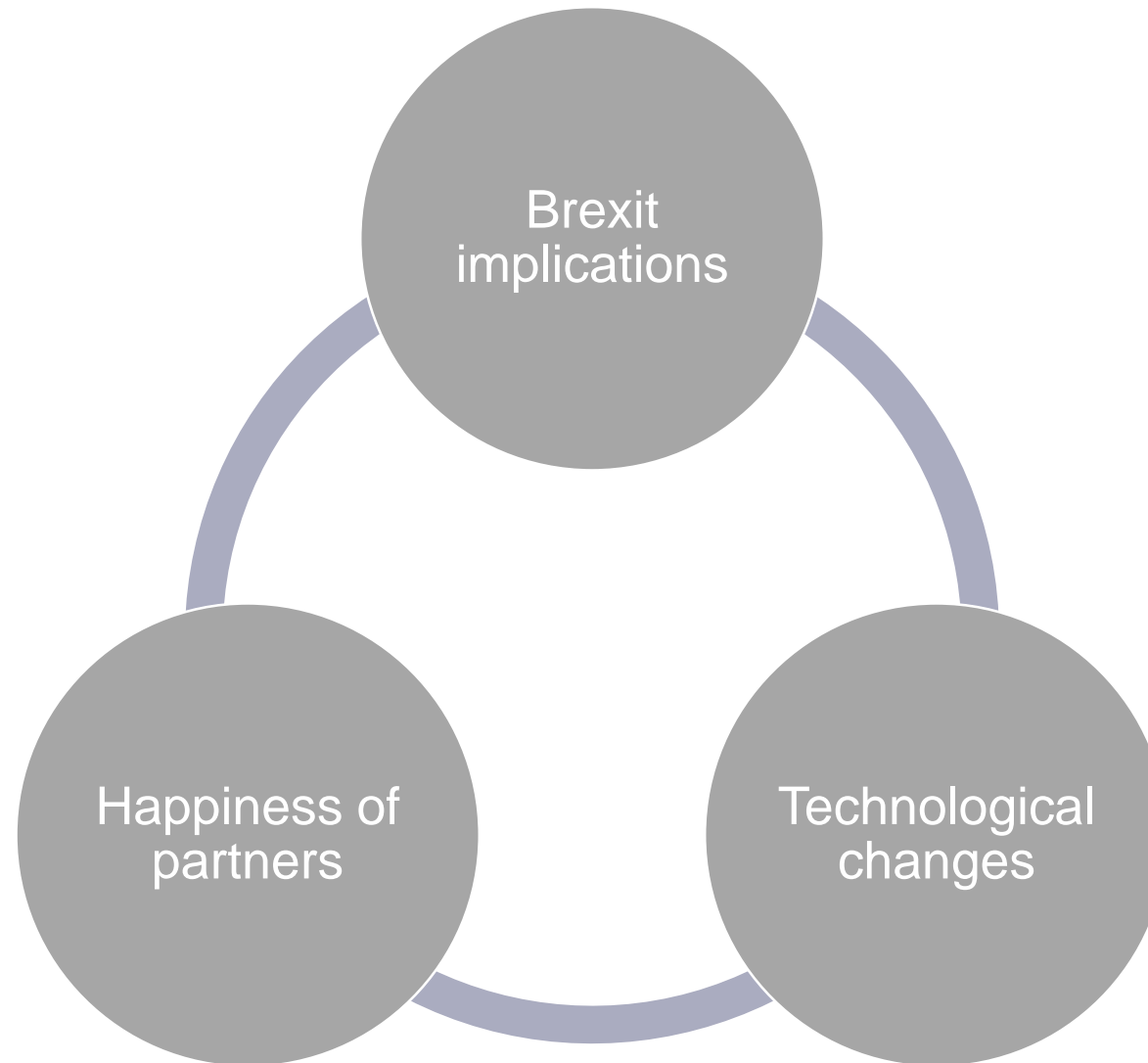
Ecological

Sustainable sourcing of goods

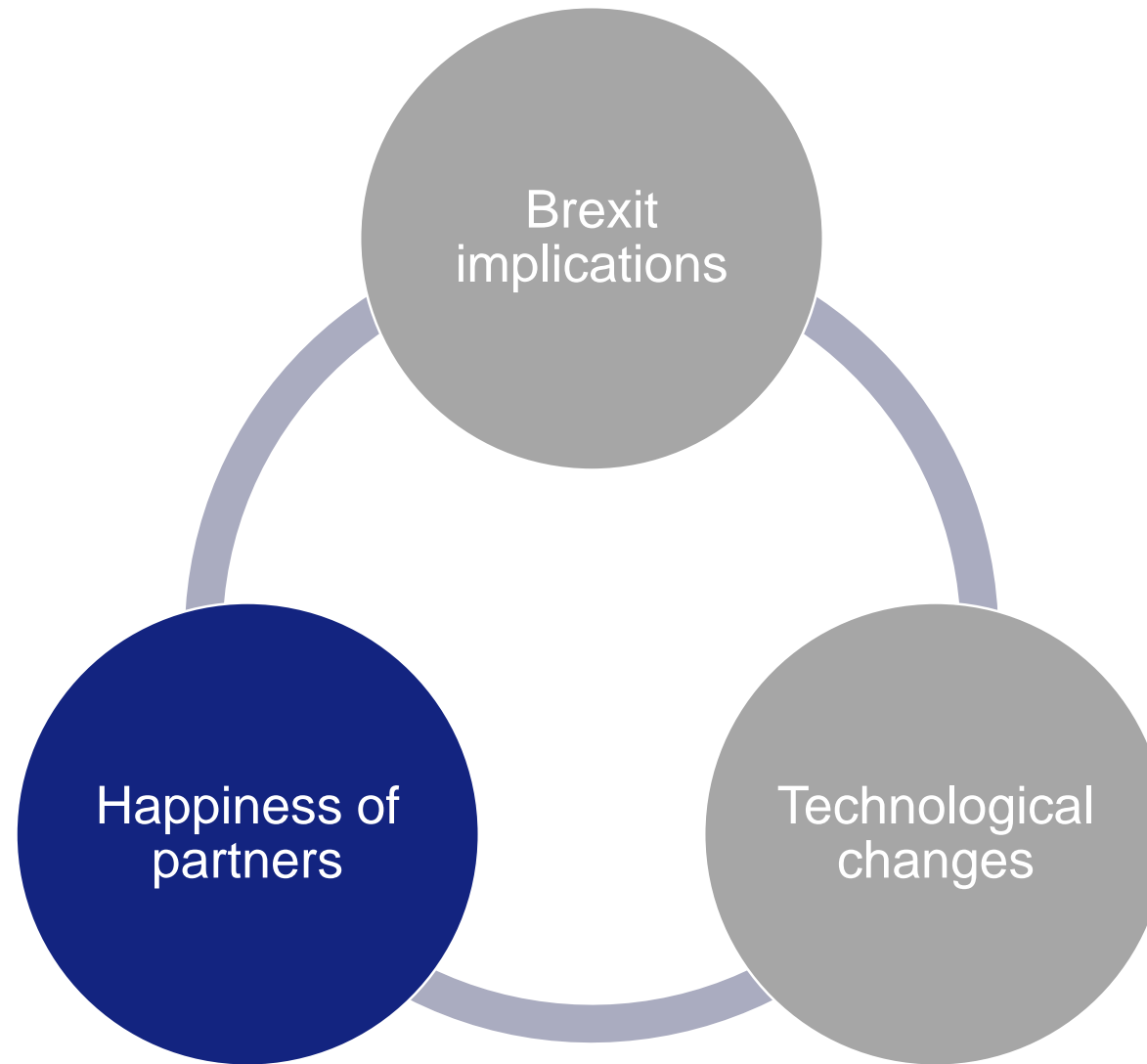
Legal

Issues with contracts of Eastern Europe workers' contracts

Key Issues



Key Issues



Fundamentals principles are the basis of JLP's business model and partners are

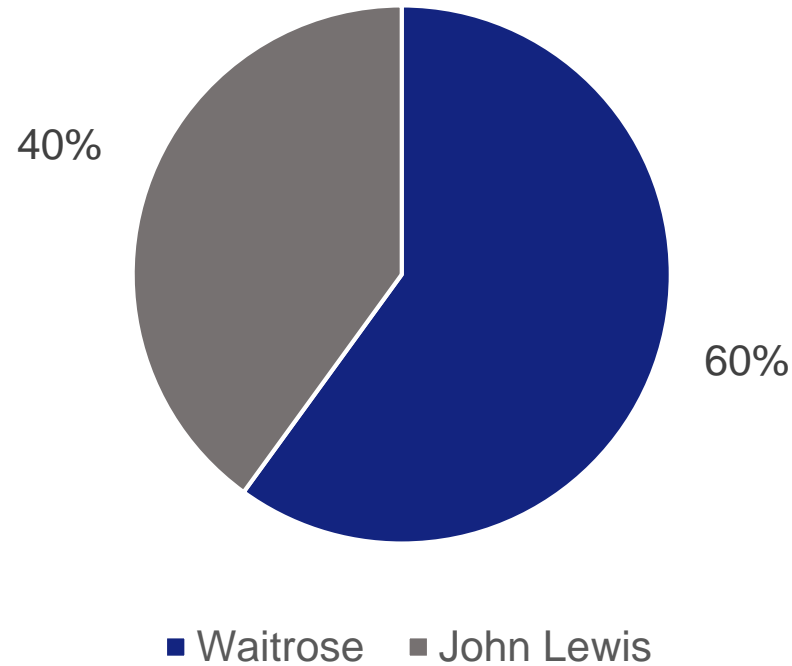
“ The partnership's ultimate purpose is the **happiness of all its members**, through their **worthwhile and satisfying employment** in a successful business “

John Lewis Partnership

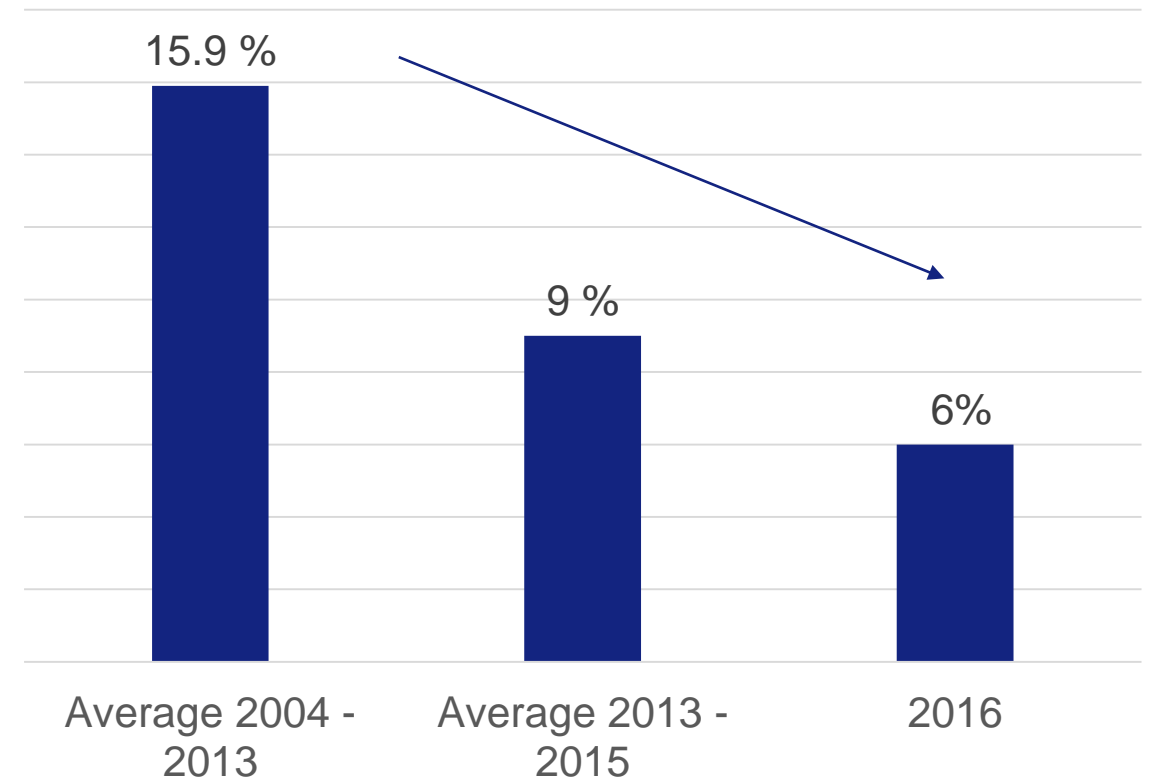
- 86,700 permanent staff → partners
- Largest multichannel retailer in the UK
- Owning department stores, supermarkets, online and catalogue business

Partnership bonus has decreased while Waitrose supermarkets are still the main revenue source

Revenue sources

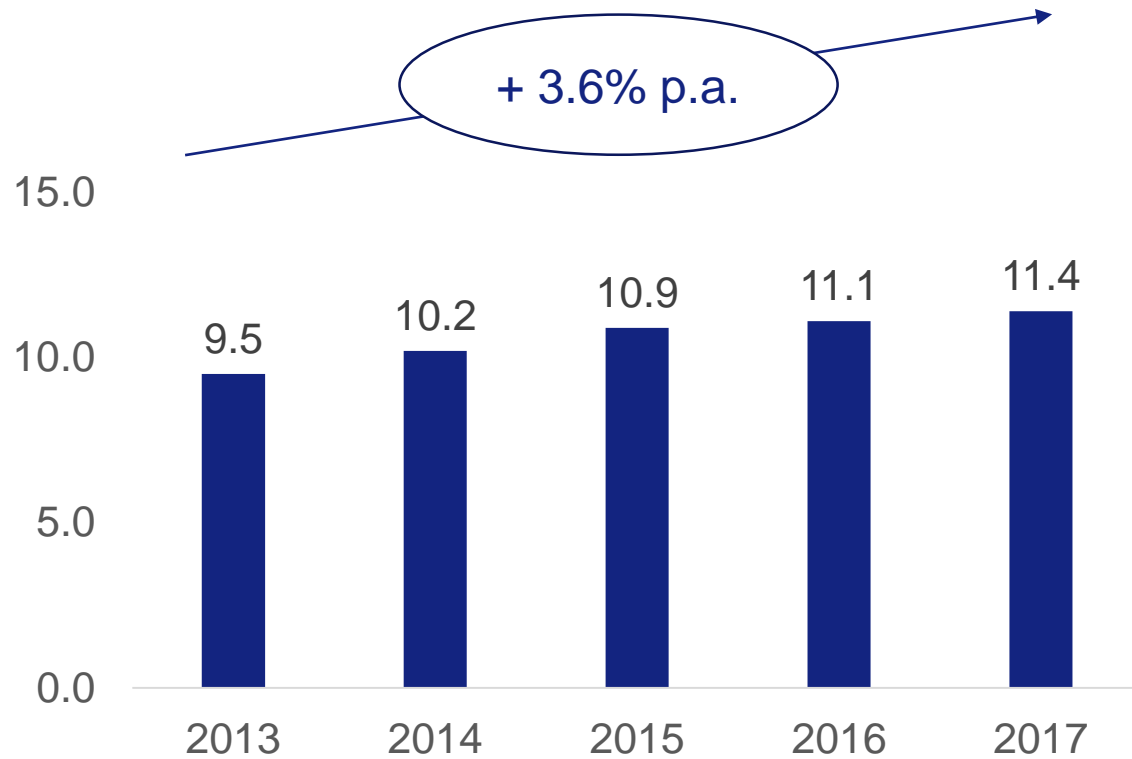


Partnership bonus



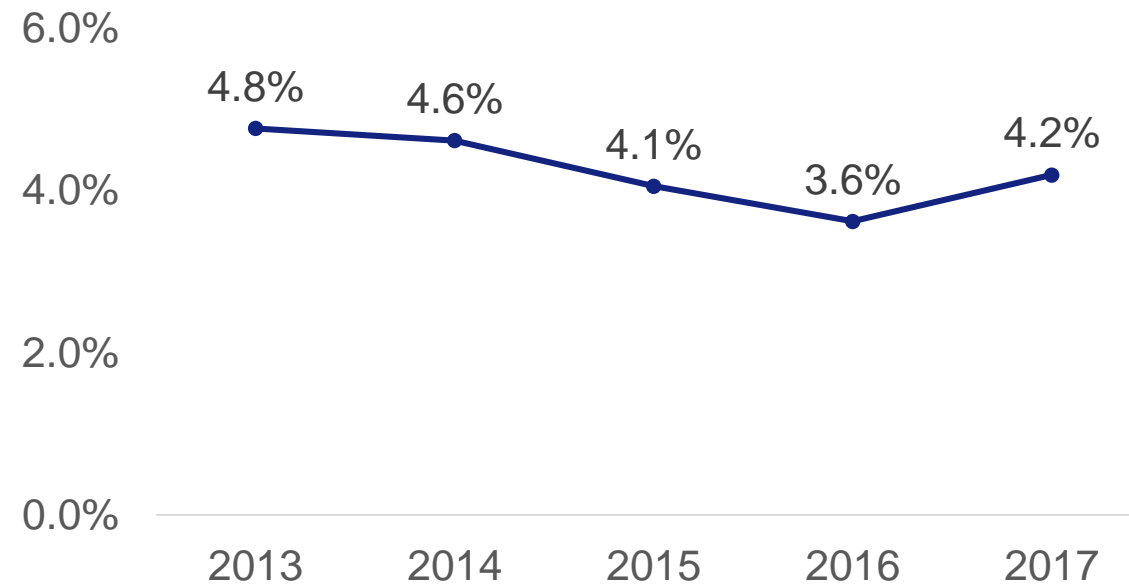
Achieving financial stability with fluctuations in the last years

Revenues

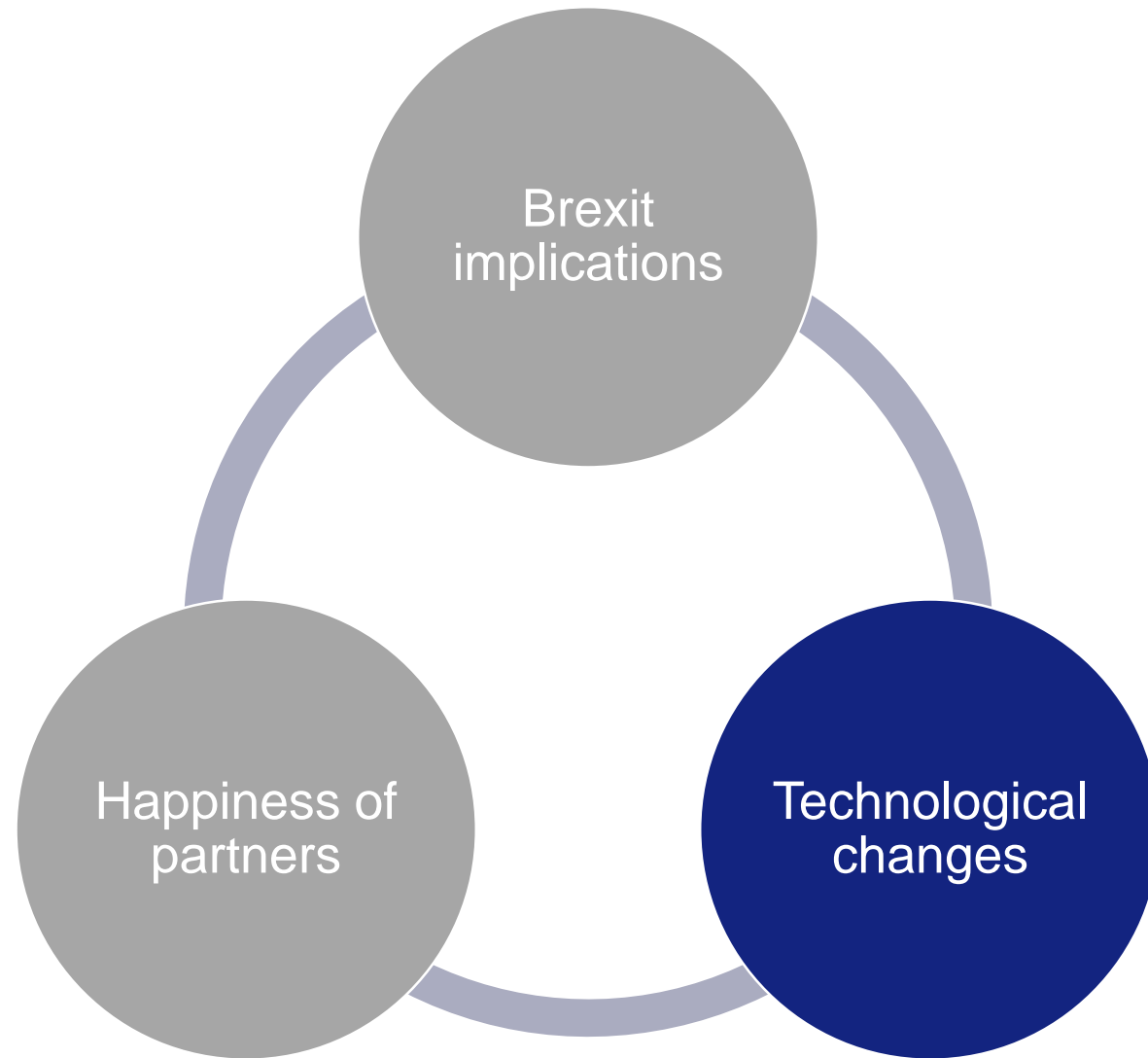


In billion Pounds

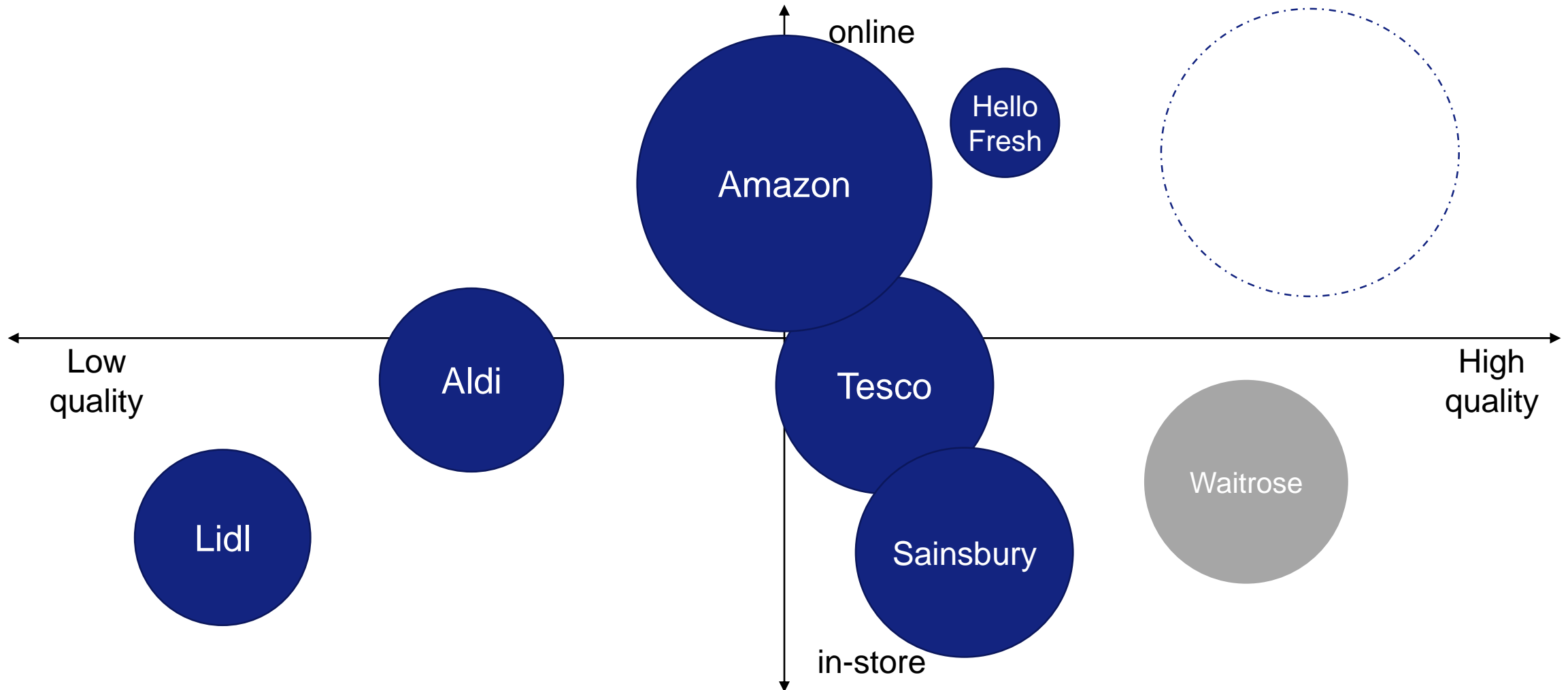
Operating profit margin



Key Issues

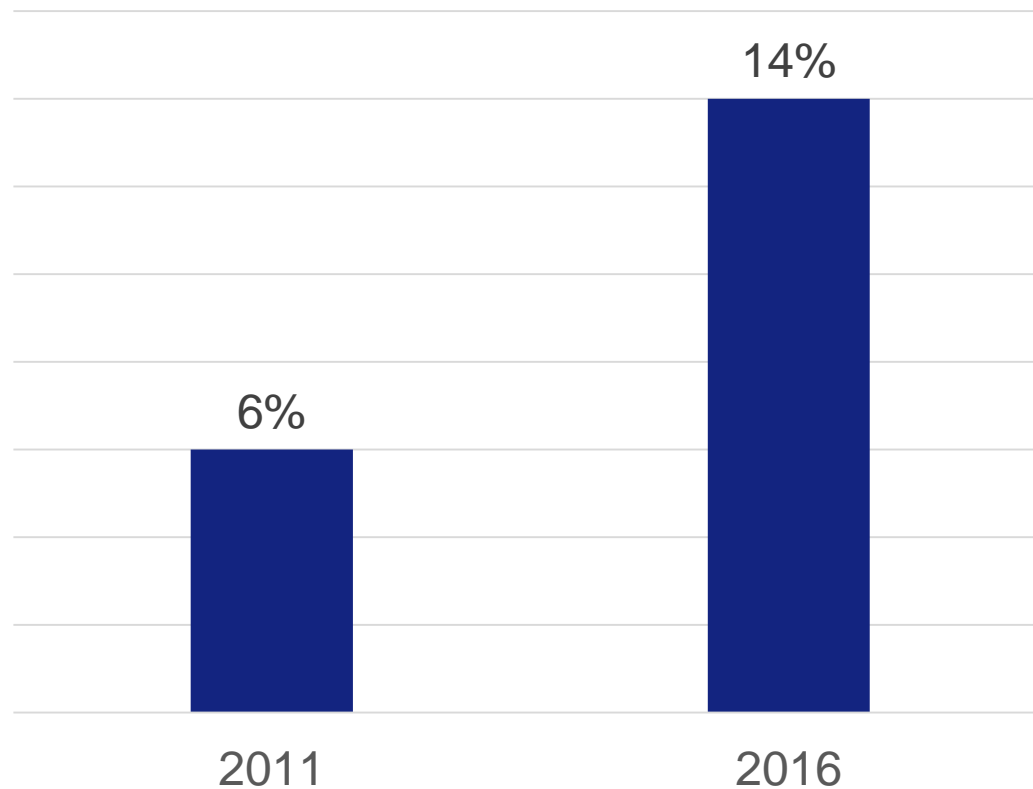


High competitive food market is shifting towards online shopping



Trend of online business is changing the business environment and offers opportunities for retail business

Revenue distribution online vs. in-store



Implications for John Lewis Partnership

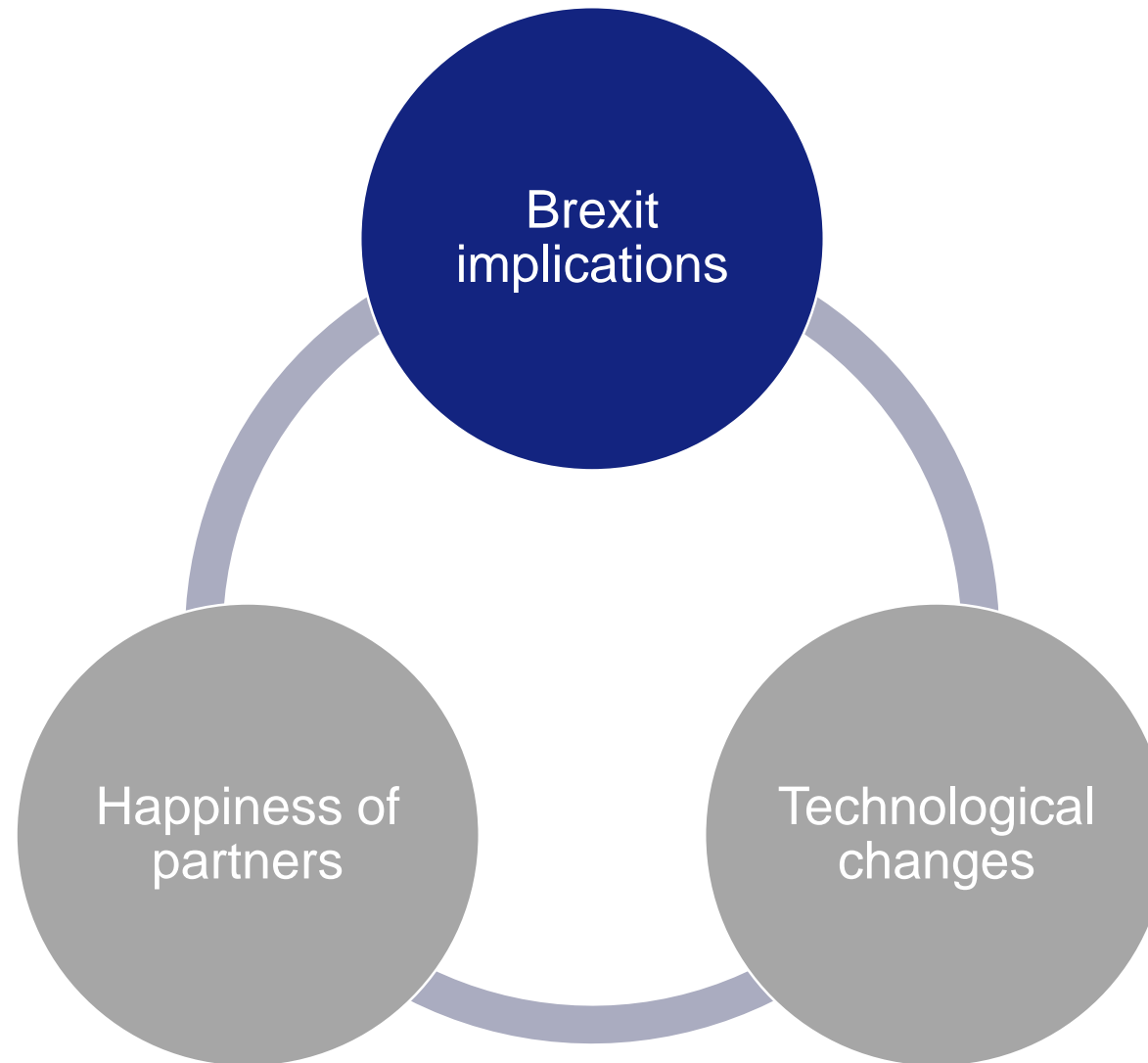
Waitrose

- Strong shift in food market to online
- Less people needed due to technological systems
→ Need to find new job design for partners

Department stores

- Good development within online business
- Stay innovative to be competitive in the long run

Key Issues



Brexit leads to different challenges depending on the business

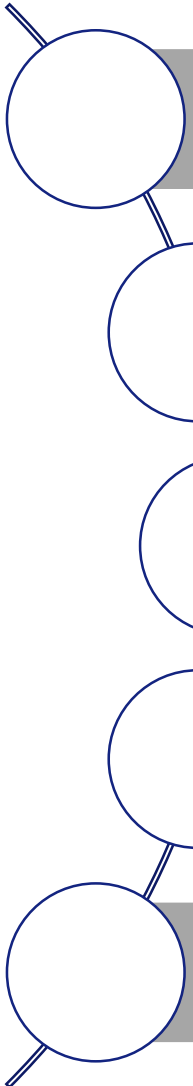
Brexit implications for different units

Waitrose

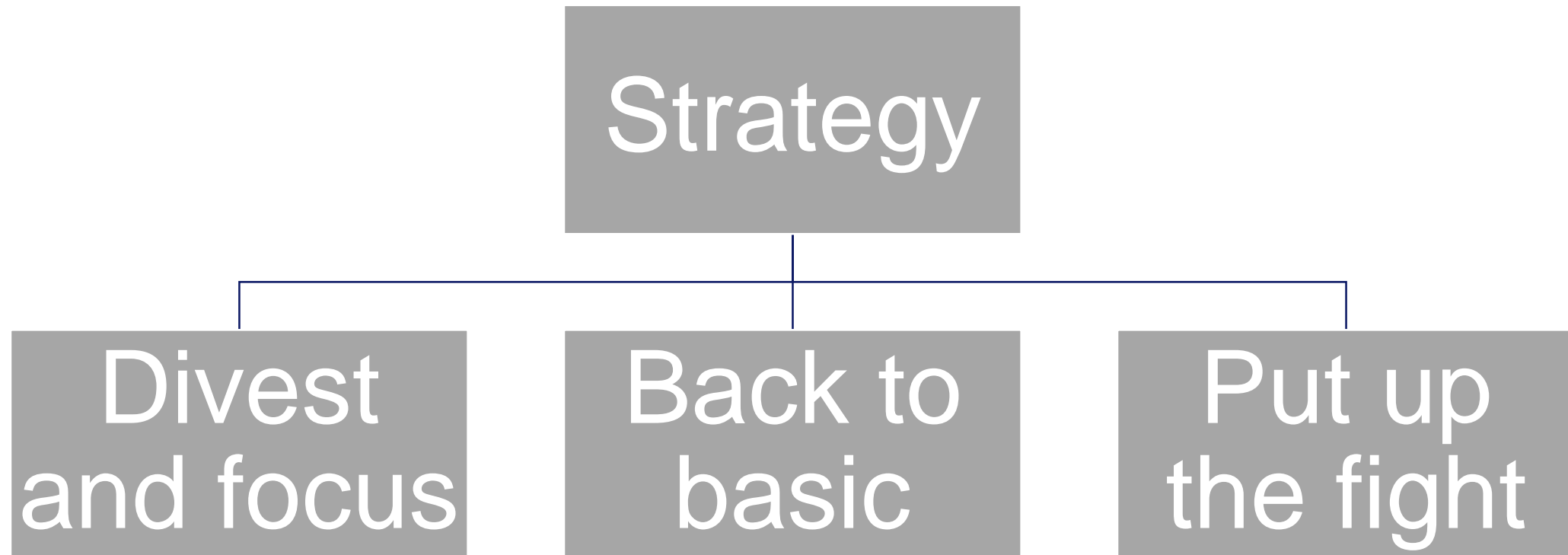
- Eastern European workers in warehouses face problems with **working permission**
- Minimal implications on product sourcing

Department stores

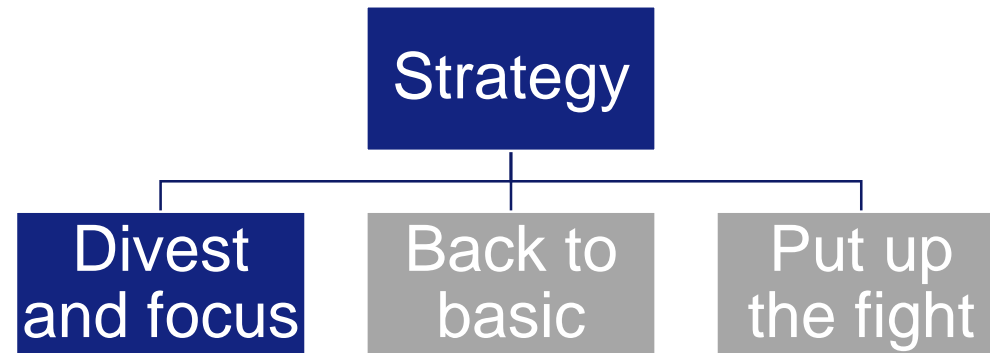
- Worldwide sourcing problematic due to currency risk
- Higher taxes on imported products

- 
- Situation Analysis and Key Issues
 - Strategic Alternatives**
 - Implementation
 - Financials
 - Executive Summery

Suitable strategy needs to be found in order to handle technological development and Brexit implications



Suitable strategy needs to be found in order to handle technological development and Brexit implications



Waitrose

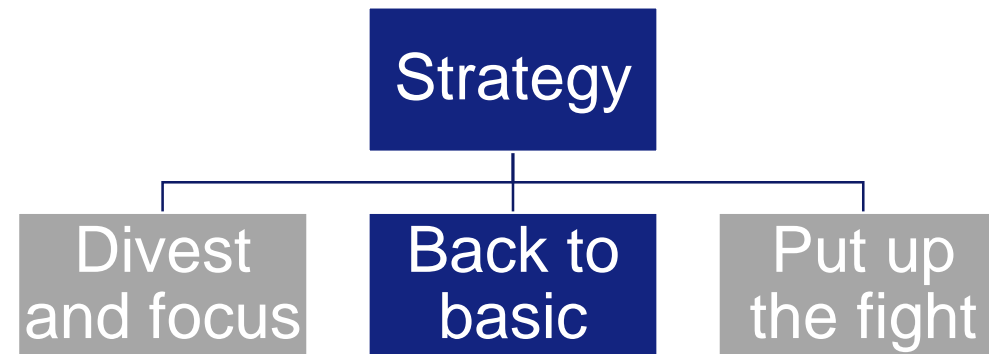
- Strongly invest in expansion and digitalization
- Prepare for competition coming from big digital companies

Department stores

- Divest to finance Waitrose activity
- Lay off major Brexit challenges

Rationale: Risk mitigation through divest and preparation for digitalization food market to sustainably ensure core business

Suitable strategy needs to be found in order to handle technological development and Brexit implications



Waitrose

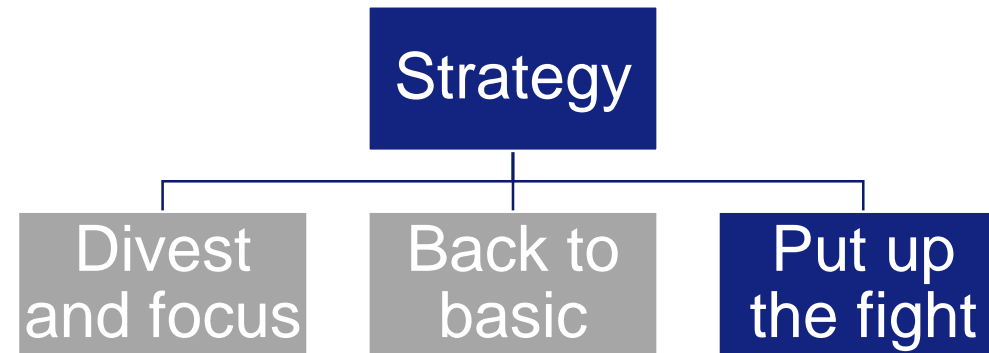
- Retreat from online activities
- Increase instore customer experience through optimized product portfolio

Department stores

- Focus on instore business while still allowing customer to order online
- Increased marketing activities to bring people in stores

Rationale: Minimize risk of losing competition in online food market and refocus on core competencies

Suitable strategy needs to be found in order to handle technological development and Brexit implications



Waitrose

- Invest in online business with focus on premium goods
- Renovate stores allowing partners to engage stronger with the customer
- Increase technical assistance in warehouses to tackle HR challenge

Department stores

- Increase customer experience through digitalization
- Set-up subsidiaries for sourcing in EU and US to decrease currency risk

Rationale: Profit on growing online food market and leverage on in-store know-how

Key issues serve as criteria for finding suitable solution to tackle challenges

1

Tackling technological change

2

Addressing Brexit implications







3

Job security for partners

4

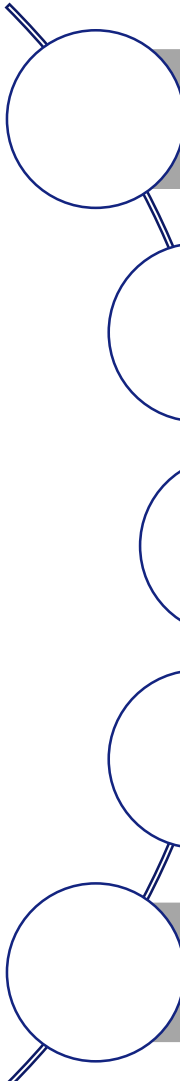
Securing growth

Alternatives need to consider each criteria in order to be successful

		Divest and focus	Back to basic	Put up the fight
1	Tackling technological change			
2	Addressing Brexit implications			
3	Job security for partners			
4	Securing growth			

Chose to “put up the fight” through investing in online business and setting up subsidiaries outside the UK

		Divest and focus	Back to basic	Put up the fight
1	Tackling technological change	●	●	●
2	Addressing Brexit implications	●	●	●
3	Job security for partners	●	●	●
4	Securing growth	●	●	●

- 
- Situation Analysis and Key Issues
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Four implementations need to be tackled

1

Waitrose

- a) Focus on online business**
- b) Preparation for Brexit implications**

2

JLP department stores

- a) Short-term: 2 new subsidiaries**
- b) Long-term: new customer experience in 2028**

Four implementations need to be tackled

1

Waitrose

- a) **Focus on online business**
- b) Preparation for Brexit implications

2

JLP department stores

- a) **Short-term: 2 new subsidies**
- b) **Long-term: new customer experience in 2028**

Waitrose becoming more attractive than competitors due to all-round package in all stores in 2028

Go into Waitrose store for experience

- Take scanner at the entrance with you
- Scan all items you put into shopping cart
- Pay on self service only one consulting person for four cash registers
- Therefore more experience in the stores due to consulting persons showing healthy cooking etc.

Pack shopping cart at Waitrose online

- Pack all items online
- Pick groceries up at close by store
- Delivery to home at certain time



2018:	10 shops
2019:	30 shops
2020 – 2028:	each year 35 shops

Four implementations need to be tackled

1

Waitrose

- a) Focus on online business
- b) Preparation for Brexit implications**

2

JLP department stores

- a) Short-term: 2 new subsidies
- b) Long-term: new customer experience in 2028

Waitrose becoming more digital in processes to minimize Brexit risks and become more efficient

Current situation

- Employees from Eastern Europe in warehouses
- Risk of losing working permit due to Brexit
- No staffing with UK people possible



Situation in 2 years

- Start developing digital warehouses with external support
- No more need for less educated staff from outside UK
- Fewer more trained employees needed

Four implementations need to be tackled

1

Waitrose

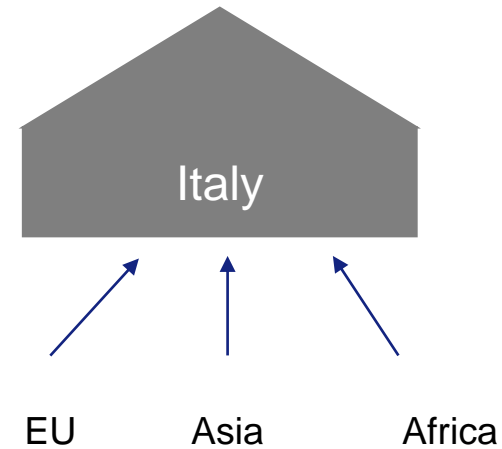
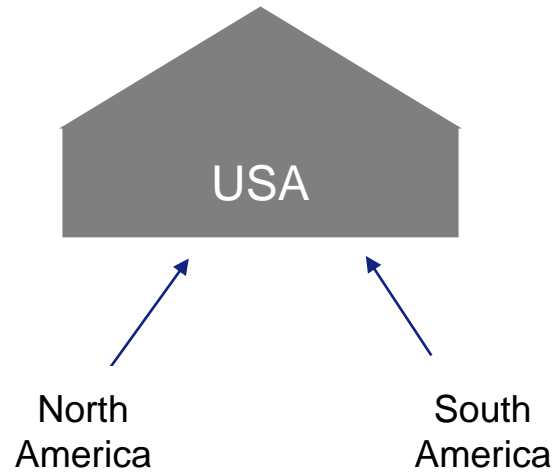
- a) Focus on online business
- b) Preparation for Brexit implications

2

JLP department stores

- a) **Short-term: 2 new subsidies**
- b) Long-term: new customer experience in 2028

Establish subsidiaries outside of UK to reduce currency risk



Next steps:

1. Find suitable warehouses to rent
2. Establish legal subsidiary
3. Recruit HR
4. Sourcing of products from mid 2019
5. Sell to JLP UK with extended payment terms to pay when Pound is strong

Costs:

- 30 million for initial set up
- 10 million per year for operations
- Total cost in 2028: 140 millions

Four implementations need to be tackled

1

Waitrose

- a) Focus on online business
- b) Preparation for Brexit implications

2

JLP department stores

- a) Short-term: 2 new subsidiaries
- b) Long-term: new customer experience in 2028**

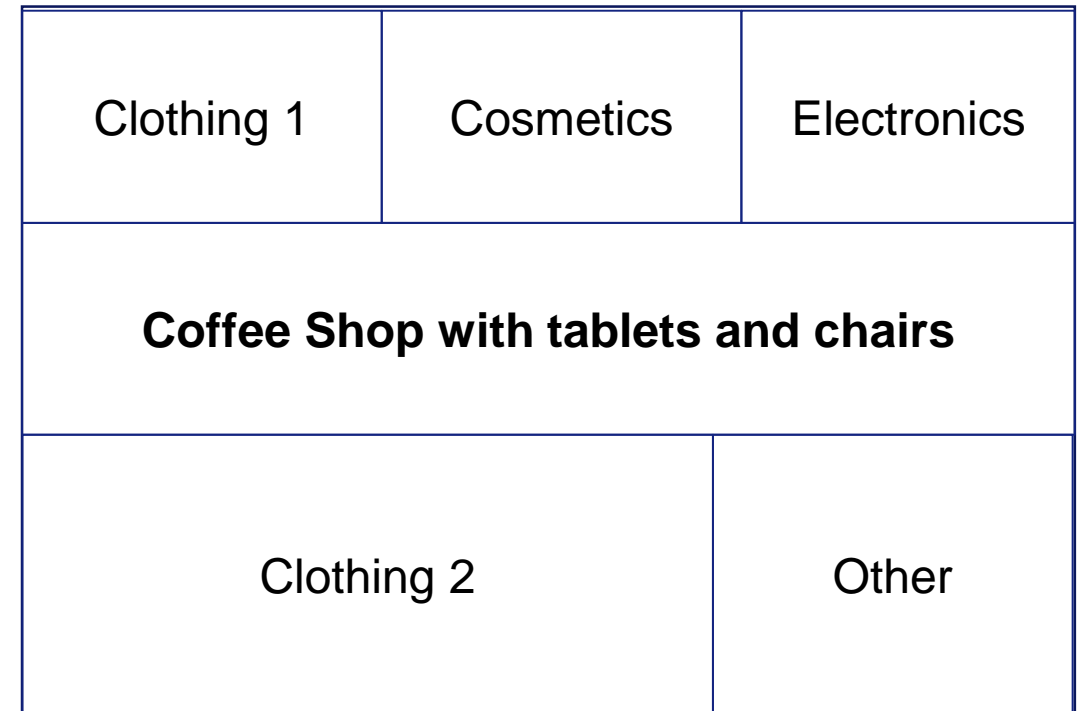
Whole new shopping experience in the JLP department stores

- Sarah goes into the coffee shops
- Has a seat gets a tablet
- Can see in an online application all products offered in the store
- Can get it by one click in her size into the changing rooms or at the front desk of the cosmetic store
- Tablet shows the way to changing rooms, front desks etc.
- Payment can be made online on tablet
- Consulting is in the coffee shop to support in case of technical problems
- Consulting in the stores is available with one click
- Can get an log-in profile with her purchases

Sarah

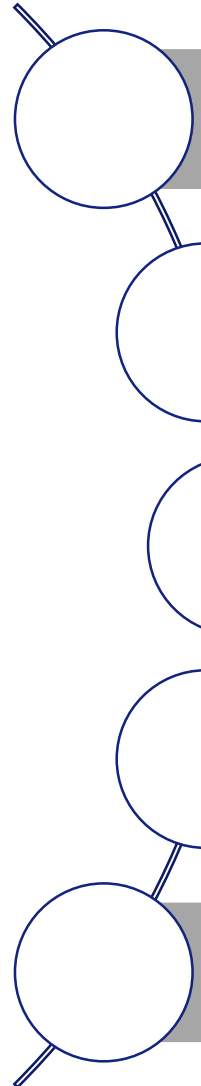


JLP Department Store



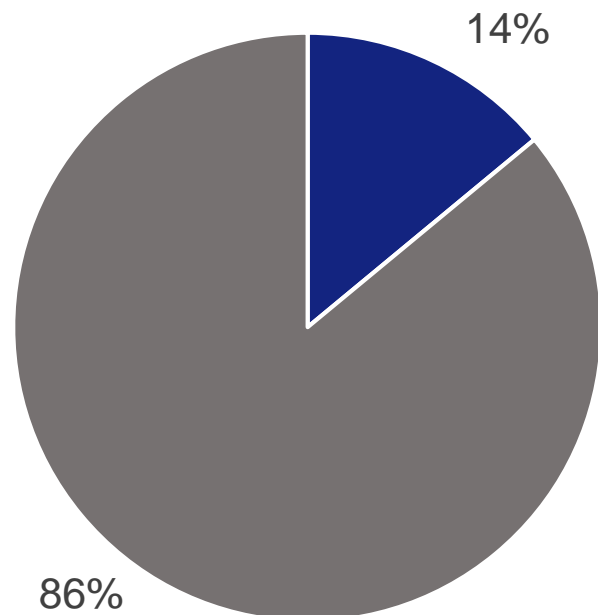
Costs of round about 475 \$ million in the next 10 years

Activity	Short-term 2018 - 2020	long-term 2020 - 2028	Costs
Waitrose:			
1a) Focus on online business → New shopping experience			\$ 280 million
1b) Preparation for Brexit implications → digital warehouses (assumption: 5)			\$ 7,5 million
JLP Department stores:			
2a) Short-term: product sourcing → Building up two Subsidiaries			\$ 145 million
2b) Long-term: new customer experience in 2028 → Getting 35 stores more digital (\$ 1,2 million per store)			\$ 42 million
			\$ 474,5 million

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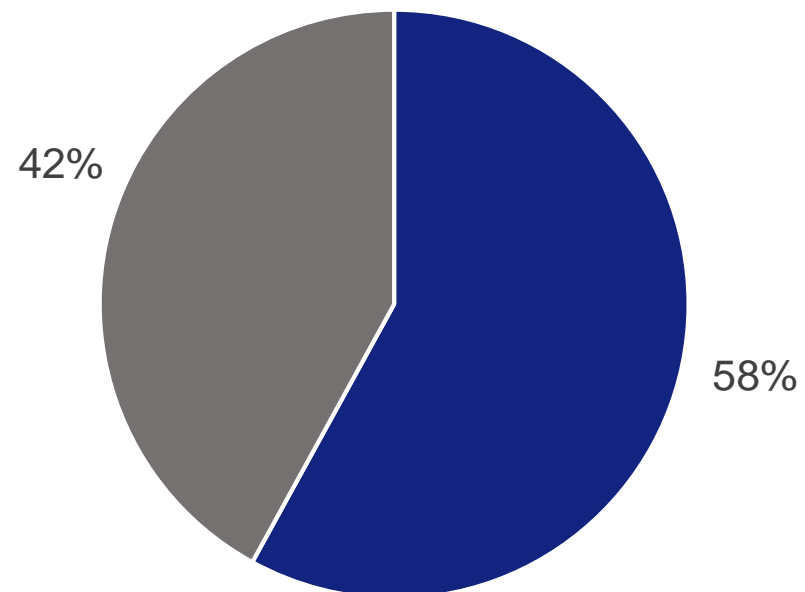
Strong growth of online revenues will boost overall revenue growth

Revenue distribution in 2016



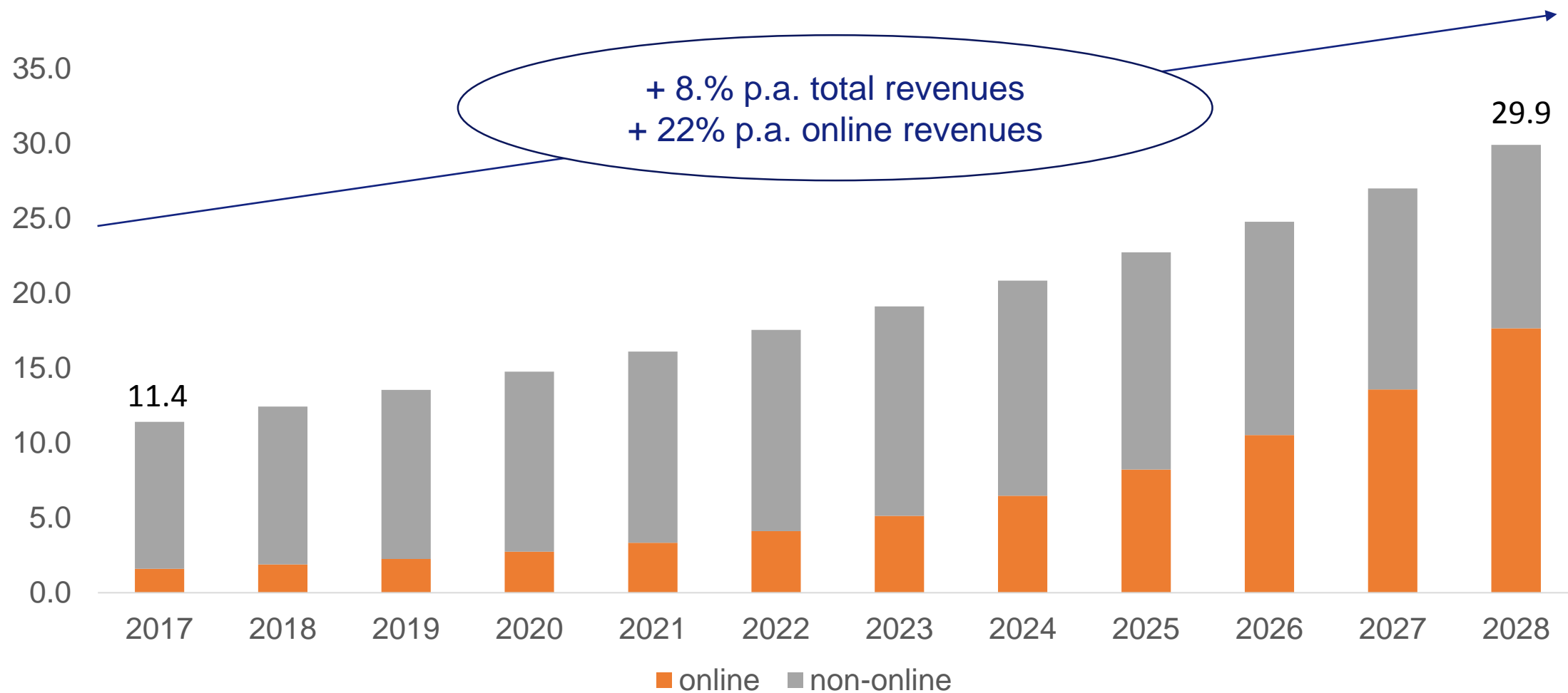
■ online ■ non-online

Revenue distribution in 2028

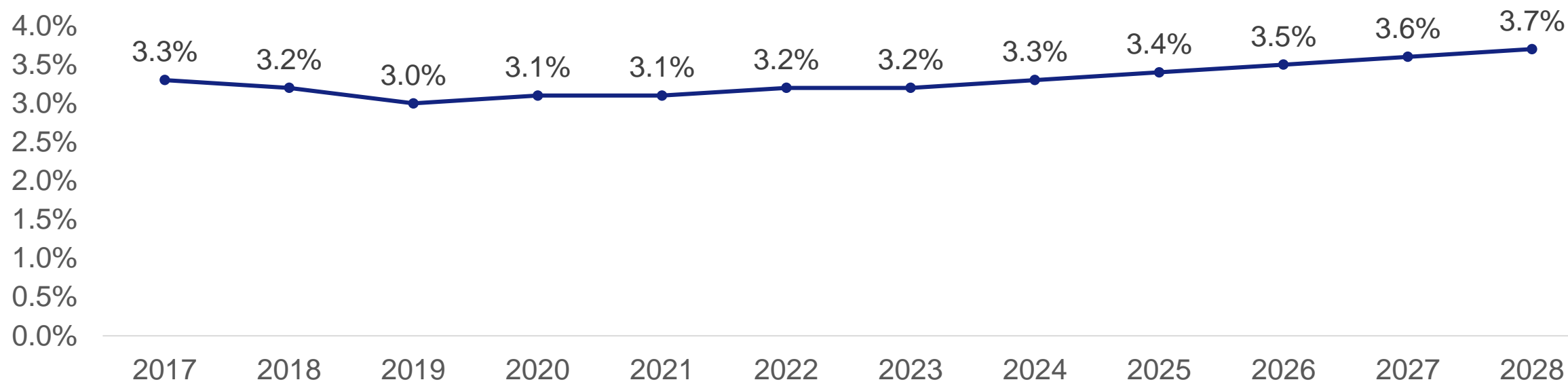


■ online ■ non-online

Strong growth of online revenues will boost overall revenue growth



Strong growth of online revenues will boost overall revenue growth



Higher expenses due to training staff & depreciation regarding stores development

Higher expenses due to warehouse depreciation

Lower overhead expenses in warehouses

Lower overhead expenses due to increase of online business

Financial leeway is secured

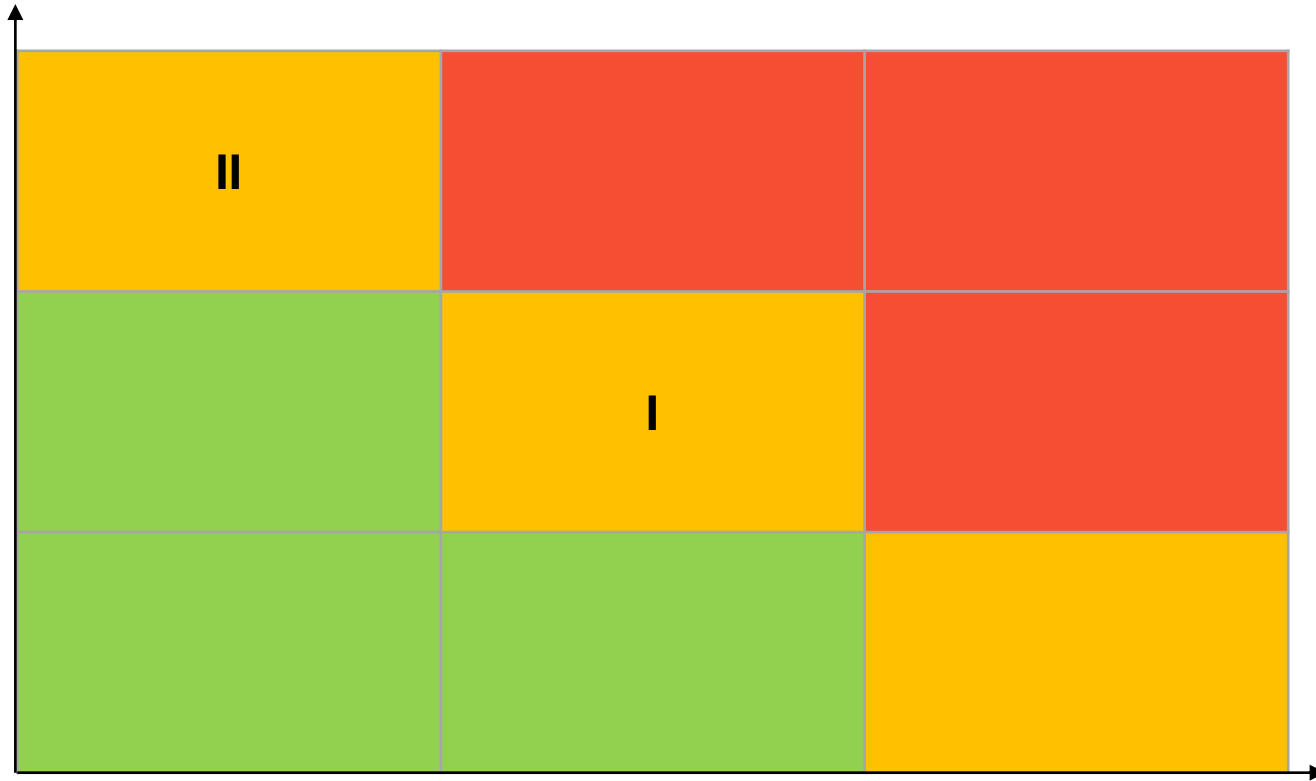
Basis:

- High standing as financial stable and public company
- Equity ratio of 32% allows loan taking

<u>Year</u>	<u>Costs</u>	<u>Financing sources</u>
2018	USD 100m	<ul style="list-style-type: none">• Use profit proceeds from the year 2017 & 2018
2019	USD 100m	
2020	USD 274.5m	<ul style="list-style-type: none">• Take on a loan<ul style="list-style-type: none">• Syndication by various banks• 6% interest rate• 8 years duration

Risks and mitigation

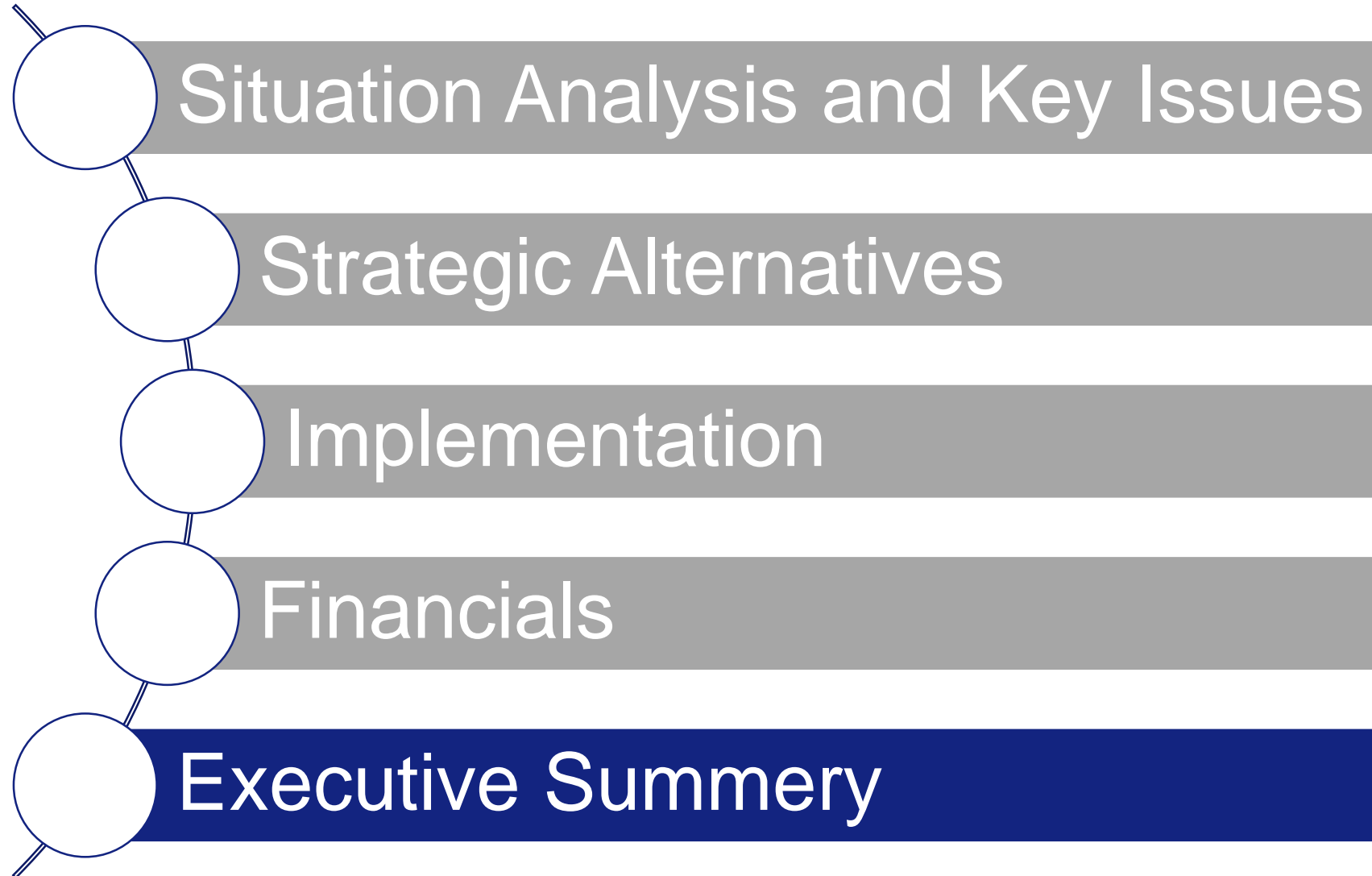
Impact



Probability

- I. Personnel risk
→ Invest in technology to need fewer less educated staff from outside UK

- II. Currency risk
→ Set up warehouses for imported goods outside UK



Executive Summary

Action

1. Increase online activity in premium food market and upgrade stores
2. Decrease currency risk through subsidiaries for sourcing
3. Increase customer experience in JLP stores

Timing

1. Step-by-step approach over next 10 years
2. Over next two years
3. Over next 10 years

Results

1. Growing online share leading to revenue growth and increase profitability
2. Risk mitigation
3. Increasing sales and stable business in 2028

