



JOHN LEWIS PARTNERSHIP

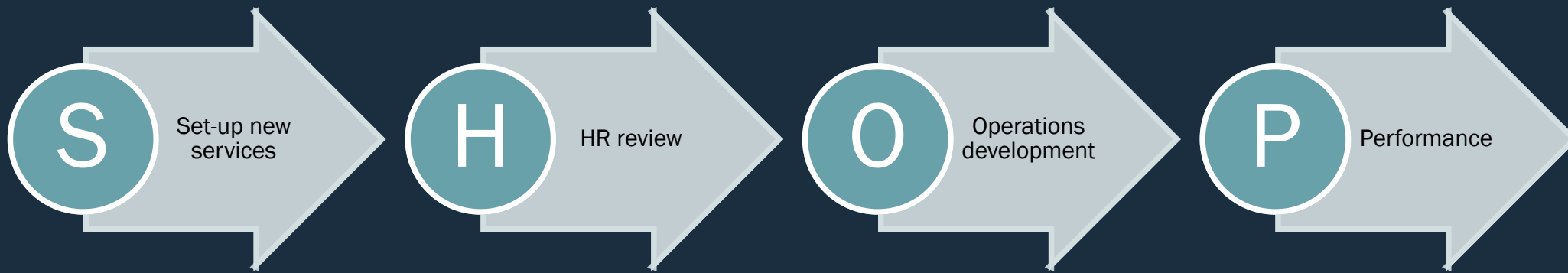
DeGroot Consulting

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January 5th, 2018

John Lewis Partnership has the opportunity to capitalize on their success in online retailing to mitigate impending trade risks of Brexit

OPPORTUNITY STATEMENT



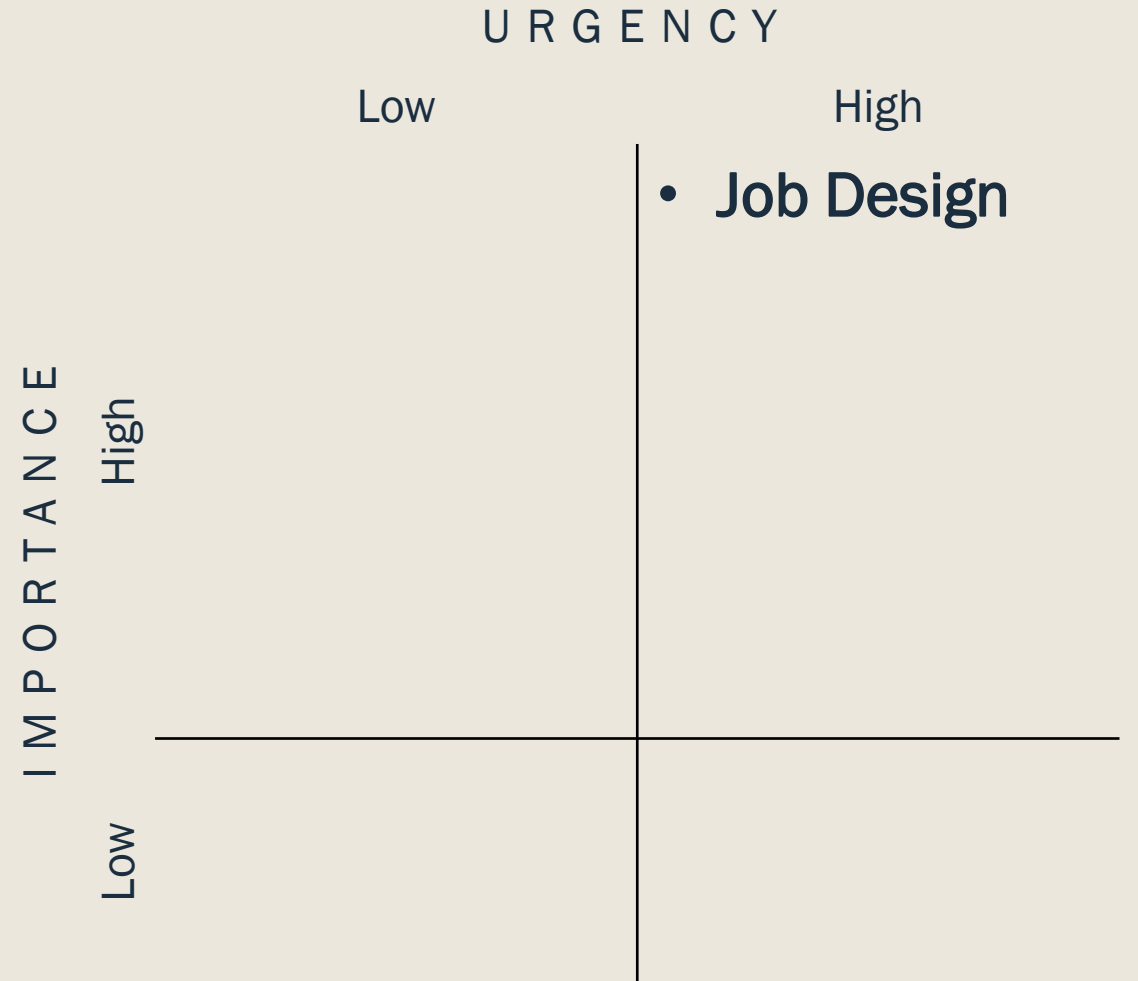
John Lewis Partnership should focus in increasing their e-commerce platform and sales through expanding their service offerings

PREFERRED SOLUTION

Key Considerations

Job Design

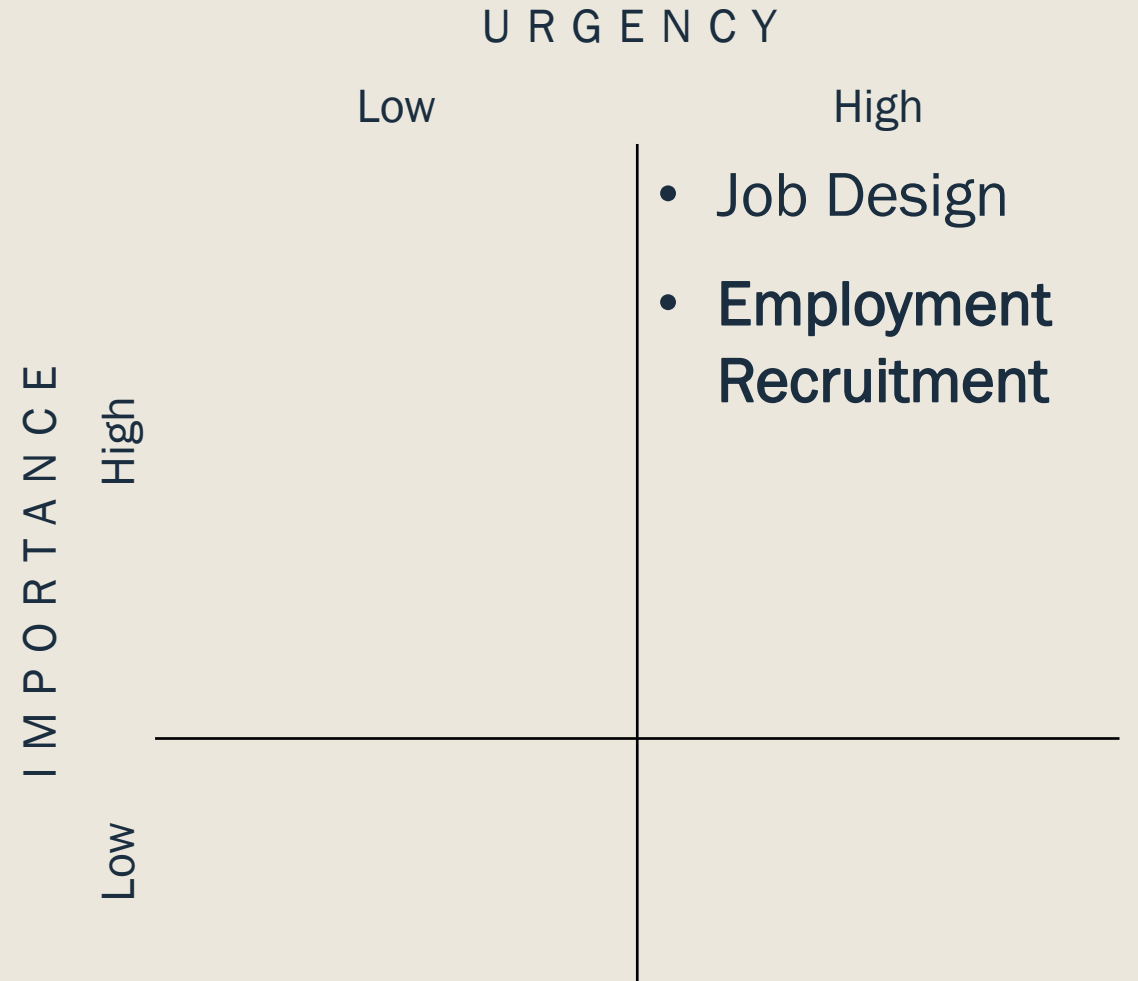
- The retail industry is anticipated to experience significant disruptions
- Smartphone scanning and self-checkout may replace cashiers
- It is JLP's ultimate purpose to ensure the happiness of all of its members



Key Considerations

Employment recruitment

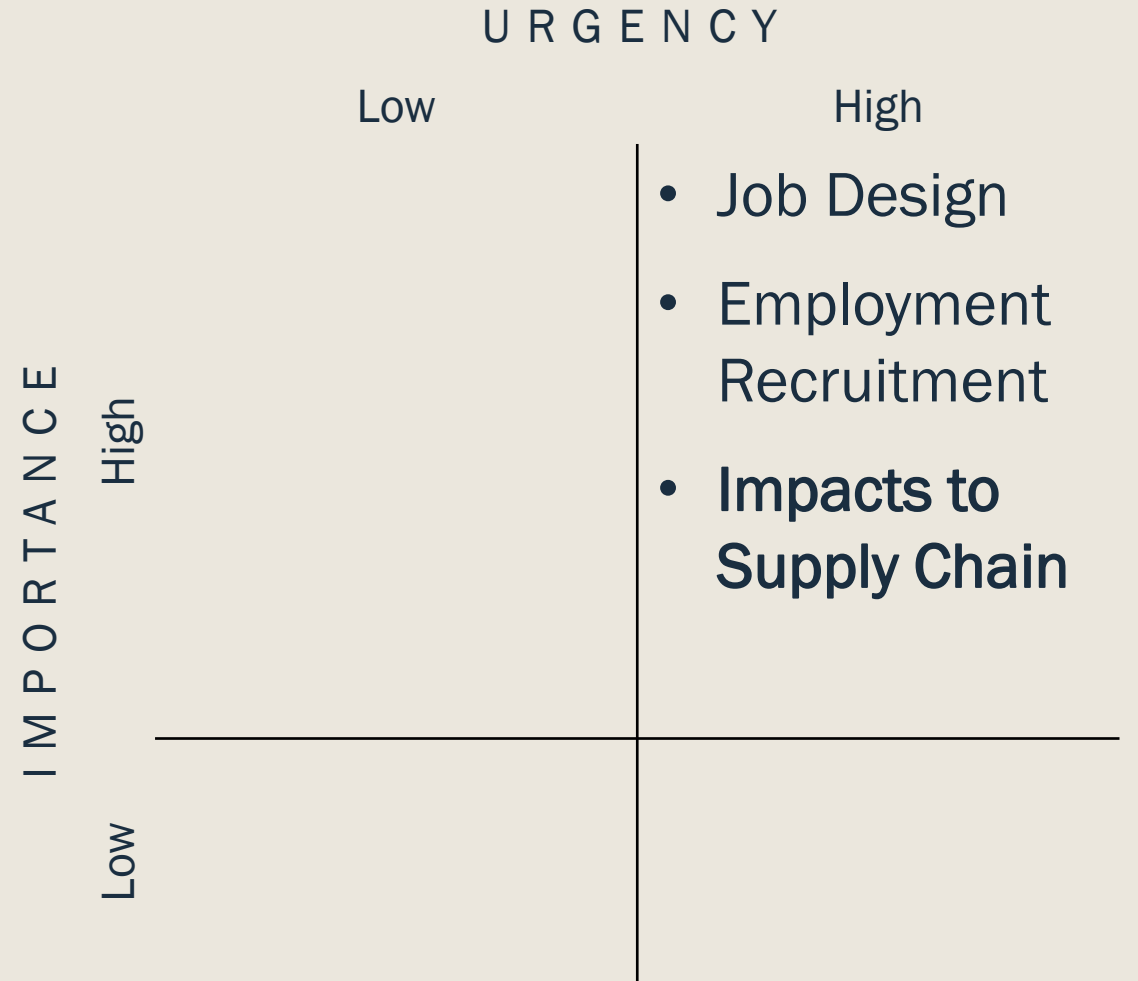
- The results of the Brexit vote brought about uncertainty revolving around recruitment
- Partner diversity is an important priority for JLP
- Brexit raises the question about where management will recruit
lower wage support staff largely from Eastern Europe



Key Considerations

Impacts to Supply Chain

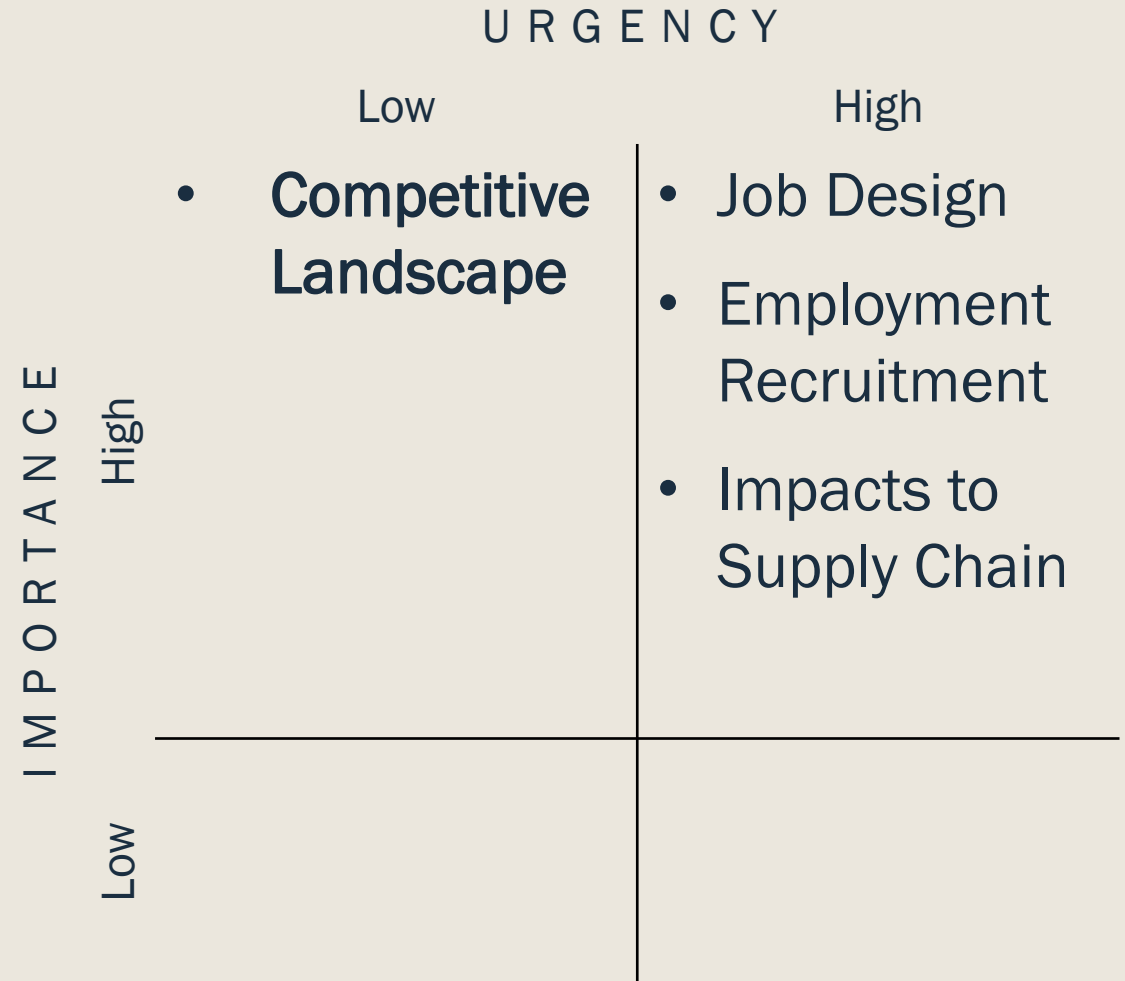
- Impact of Brexit on the department store division is expected to be felt in the Pound-Euro exchange rate
- Majority of JL products were imported from outside the EU, also import from within
- Devaluation of the Pound may have implications for the costs of imported goods



Key Considerations

Competitive Landscape

- The competitive field is very fragmented
- Strong competition introducing innovations to their business model
- Consolidation of department stores in the UK
- Susceptible to the disruption to all business divisions



ANALYSIS



ASSUMPTIONS

1. EU/UK to still allow for Eastern European labour transfer (announced in late 2017)
2. Brexit may be repealed, do not want react too drastically
3. Online sales/e-commerce to continue to grow

SWOT ANALYSIS

S

trengths

- Employee ownership/ governance model
- Differentiation based on quality products and customer service
- Strong adoption of online commerce (30-35% of sales are online)

W

eaknesses

- Company performance is declining, disguised by reduction in bonus pay
- A national company, competing with international players

O

pportunities

- E-commerce currently accounts for more than \$350 Billion and is expected to grow to more than \$500 Billion by 2020
- The UK, France and Germany account for ~80% of total E-commerce in the European Union

T

hreats

- Uncertainty surrounding BREXIT and the implications of the outcomes
- Increased presence of Amazon, HelloFresh and other e-commerce retailers (affecting all segments)

Financial Overview

(in Million Pounds)	2017	2016	2015	2014	2013
Cash on Hand	£ 716.30	£ 659.30	£ 309.00	£ 242.40	£ 442.80
Working Capital	-£ 206.60	-£ 314.00	-£ 521.60	-£ 566.10	-£ 386.30
Current Ratio	0.9x	0.8x	0.7x	0.7x	0.8x

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Current Ratio	0.9x	0.8x	0.7x	0.7x	0.8x
Debt to Equity	0.47	0.50	0.68	0.41	0.43
Debt to Total Capital	0.32	0.33	0.40	0.29	0.30

Financial Overview

(in Million Pounds)	2017	2016	2015	2014	2013
Profit	£ 353.50	£ 223.20	£ 143.50	£ 101.60	£ 101.00
Numberof employee	86,700	91,500	93,800	91,000	84,700
Avg FTE	63,300	63,900	64,500	60,600	57,700

Recommendation

Key Considerations

Analysis

Alternatives

Implementation

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Profit per employee	£4,077.28	£2,439.34	£1,529.85	£1,116.48	£1,192.44
Growth	67%	59%	37%	-6%	
Profit Per FTE	£5,584.52	£3,492.96	£2,224.81	£1,676.57	£1,750.43
Growth	60%	57%	33%	-4%	

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Salary	1,490.00	1,450.00	1,420.00	1,350.00	1,240.00
Bonus if kept at 17%	253.30	246.50	241.40	229.50	210.80
Tax	98.70	66.60	50.90	25.00	31.50
Profit before bonus, tax and exceptic	370.40	305.50	342.70	376.40	343.30
Profit	£ 18.40	-£ 7.60	£ 50.40	£ 121.90	£ 101.00

Recommendation

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Implementation

ALTERNATIVES



ALTERNATIVE 3

E-COMMERCE EXPANSION

- Expand on current e-commerce strategy through the introduction of online delivery

Advantages

- Complement current push into e-commerce across retail divisions
- In-line with current consumer demand for online purchasing
- Access to other markets in EU to reduce concentration in UK

Disadvantages

- Little expertise selling outside of UK
- Requires new investment into logistics for international delivery

ALTERNATIVE 2

VERTICAL INTEGRATION THROUGH SUPPLY CHAIN

- Acquire ethical food suppliers outside of UK to improve margins and control over food sources

Advantages

- Greater control over quality and delivery
- Improve margins and profitability of major business segment
- Corporate Social Responsibility through ethical sourcing

Disadvantages

- Does not address evolution of e-commerce disruption to retail
- Domestic HR and staffing issues neglected
- Not a source of differentiation to competitors

ALTERNATIVE 3

ACQUIRE ONLINE PREPARED FOOD DELIVERY STARTUP

- Seek acquisition of an online food delivery company in the UK to complement existing food retail businesses

Advantages

- Addresses threat of competition in food e-commerce
- Realize synergies through existing supply chain
- Provides flexibility to consumer for all purchase engagements

Disadvantages

- Does not address potential import tariffs following Brexit
- Difficulty integrating culture within the unique partnership model
- Does not address HR and staffing issues

DECISION MATRIX

Key Considerations	Weight	E-Commerce	Vertical Integration	Acquisition
Job design	0.3	5	2	3
Employee recruitment	0.3	5	3	4
Impacts to supply chain	0.2	4	5	2
Competitive Landscape	0.2	5	3	5
TOTAL	1	4.8	3.1	3.5

1 - Does not address | 5 - Directly addresses

DECISION MATRIX

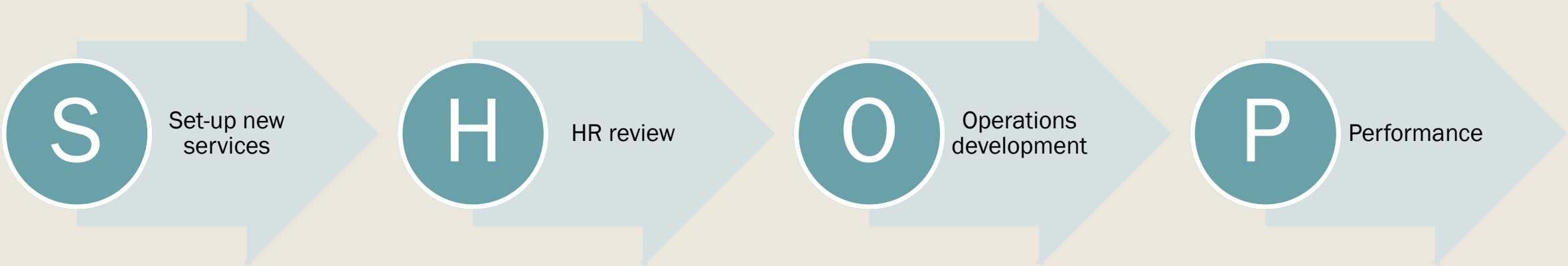
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IMPLEMENTATION



STRATEGY



SET UP NEW SERVICES

S

Seven Principles

1. Purpose
2. Power
3. Profit
- 4. Partners**
- 5. Customers**
6. Business Relationships
7. The Community

- Develop in-house with significant cash on hand
- Directly address competition in grocery delivery

Food Delivery
UK

Goods Delivery
UK + EU

- Directly addresses growing competition in online grocery competitors
- Delivery logistics to be handled by 3rd party

HR REVIEW

H

Seven Principles

1. **Purpose**
2. Power
3. Profit
4. **Partners**
5. Customers
6. Business Relationships
7. The Community

- Brick and Mortar employees will be transitioned in their capabilities for customer service
 - *Inspired by Mcdonalds*
- New hires to support new projects will come at a cost
- Timeline: Immediate

HR REVIEW

Forecasted Growth from Expansion						
		2018	2019	2020	2021	2022
Revenue		£ -	£ 50,000,000.00	£ 250,000,000.00	£ 750,000,000.00	£ 1,875,000,000.00
Costs						
Software Engineer		£ 500,000.00	£ 500,000.00	£ 700,000.00	£ 700,000.00	£ 700,000.00
	FTE Count	5	5	7	7	7
Web Designer		£ 400,000.00	£ 400,000.00	£ 480,000.00	£ 480,000.00	£ 480,000.00
	FTE Count	5	5	6	6	6
Market Research		£ 280,000.00	£ 140,000.00	£ 140,000.00	£ 140,000.00	£ 140,000.00
	FTE Count	4	2	2	2	2
Website Maintenance Fee			£ 500,000.00	£ 625,000.00	£ 781,250.00	£ 976,562.50

OPERATIONS DEVELOPMENT

Seven Principles

1. Purpose
2. Power
- 3. Profit**
4. Partners
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- 7. The Community**

- Open Warehouses in Eastern Europe
- Maintain profits from bulk pricing, storage, and lower labour costs
- EU location allows for accumulation of goods without the EU tariff, and the use of transfer pricing to offset impending Brexit deal
- Reinvest into communities as in the Ethical Trade Initiative in African countries

OPERATIONS DEVELOPMENT

Warehouse Purchase	£ 1,000,000.00	£ 600,000.00	£ 700,000.00
Number of Warehouses	2	1	1
Maintenance (10% of value)	£ 100,000.00	£ 150,000.00	£ 200,000.00

PERFORMANCE

P

Seven Principles

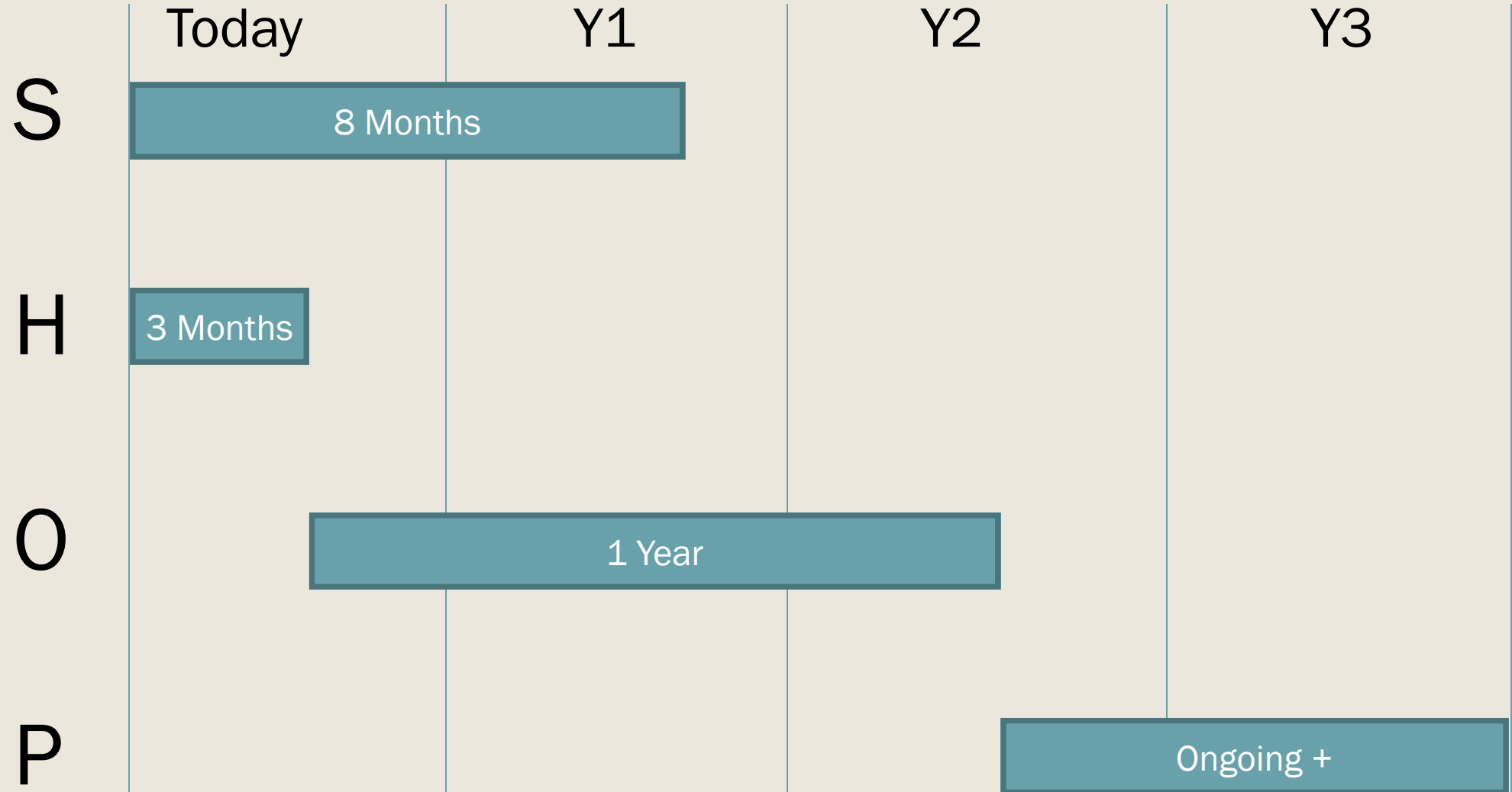
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- Continual growth in online sales, target 20% of total sales by 2020
- Proportion of geographic sales to be 90/10 in UK/EU
- Increase Partner bonus percent while showing increase in profits

PERFORMANCE

Forecasted Growth from Expansion						
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Number of Warehouses	2		1		1	
Maintenance (10% of value)	£ 100,000.00	£ 100,000.00	£ 150,000.00	£ 150,000.00	£ 200,000.00	
Total Costs	£ 2,280,000.00	£ 1,640,000.00	£ 2,695,000.00	£ 2,251,250.00	£ 3,196,562.50	
Profit	-£ 2,280,000.00	£ 48,360,000.00	£ 247,305,000.00	£ 747,748,750.00	£ 1,871,803,437.50	

PERFORMANCE



Recommendation

Key Considerations

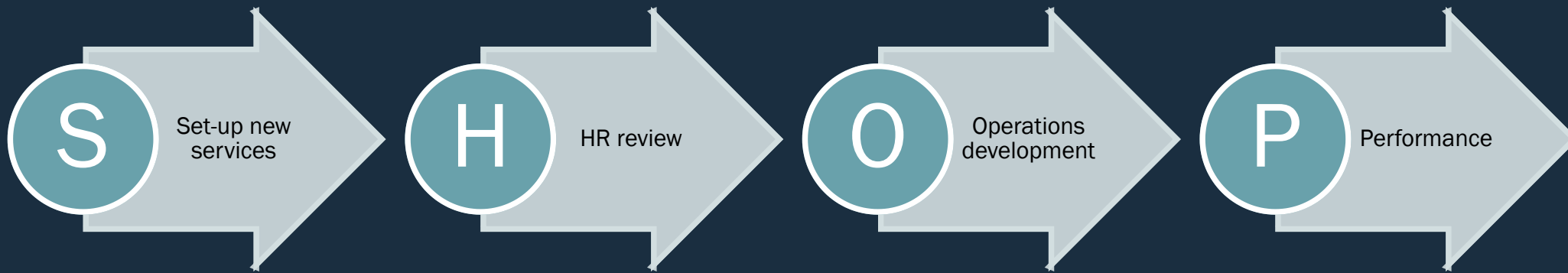
Analysis

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RISKS AND CONTINGENCIES

Risk	Likelihood	Impact	Trigger	Contingency
Difficulty finding warehouse locations in Eastern Europe	Low	Medium	Political or Economic instability	Look for Mediterranean Europe
Uptake of EU online sales below expectations	Low	Medium	90/10 revenue projections not met	Refocus on grocery and expand products in house for prepared food products
Brexit is repealed	Medium	Low	Re-vote succeeds	



John Lewis Partnership should focus in increasing their e-commerce platform and sales through expanding their service offerings

PREFERRED SOLUTION

Appendix: Financial Statements

Income Statement					
(in Million Pounds)	2017	2016	2015	2014	2013
Gross Sales	11,374.20	11,018.80	10,942.60	10,171.50	9,541.30
Revenue	10,026.20	9,748.80	9,701.00	9,027.80	8,465.50
Operating Profit before items and partnership bonus	478.20	402.10	442.30	470.90	453.40
Net finance Cost	107.80	96.60	99.60	94.50	110.10
Profit before bonus, tax and exceptic	370.40	305.50	342.70	376.40	343.30
Exceptional items	171.20	129.30	7.90	- 47.30	-
Bonus	89.40	145.00	156.20	202.50	210.80
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Balance Sheet						
(in Million Pounds)		2017	2016	2015	2014	2013
Non current assets		4,658.50	46,770.00	4,682.10	4,384.50	4,116.00
Current Assets		1,627.60	1,534.70	1,170.40	1,139.50	1,247.60
Total Assets		6,286.10	6,211.70	5,852.50	5,524.00	5,363.60
Current Liabilities		1,834.20	1,848.70	1,692.00	1,705.60	1,633.90
Non-currenet Liabilities		2,396.50	2,297.90	2,641.70	2,036.70	1,828.20
Total Liabilities		4,230.70	4,146.60	4,333.70	3,742.30	3,462.10
Net Assets		2,055.40	2,065.10	1,518.80	1,781.70	1,901.50
Borrowings		966.90	1,031.80	1,030.70	728.20	814.70
Net debt		250.60	372.50	721.70	485.80	371.90