

# **John Lewis Partnership: addressing challenges**

**Nanyang Consulting**

**Presented by: Nanyang Business School**

**Presented to: JLP Partnership Council**

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# AGENDA

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1. Introduction
2. Recommendation
3. Internal and external analysis
4. Implementation
5. Risks and Contingency plan
6. KPIs
7. Financial feasibility analysis
8. Implementation timeline
9. Conclusion

# JLP faces challenges on its way further

- How to tackle Brexit challenges and exchange rate in particular?
- How to address the legal changes as so many Europeans are hired?
- How to adapt to new technology trends and maintain core values?
- How to remain competitive?
- How to serve changing consumer behavior?
- How to keep talent and adapt the structure to all the changes?

**How JLP can move into new technological environment while leveraging on its core values and principles in the long run, and successfully overcome Brexit challenges in the short run?**

# JLP will evolve while staying true to itself

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**Fight the Brexit: Increase local sourcing**

**Become JLP 2.0: Embrace technology**

**Stay true to your core values: Develop & reallocate workforce**

# Internal and external analysis

# JLP is a partnership putting extreme value to its members

## STRENGTHS

- Partnership model putting extra value to its employees
- Diversified portfolio: department and grocery stores
- Good relationship with wide list of suppliers
- Serving middle and upper middle class

## WEAKNESSES

- Internal structure can be not easily adaptable to new trends
- Hard to differentiate from competitors
- Limited online presence

**JLP has to be very careful while moving forward and keeping its partnership model**

# Environment for grocery sales and department stores is rapidly changing

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**BREXIT: legal and exchange rate implications**

**Growing role of technology and online retailers**

**Competitors are occupying same niches**

**Millennials have shifting preferences**



**JLP has to embrace new technology and effectively evolve to serve new consumers**

# Competitive environment for JLP is tough

		Touch	
		Low	High
Tech	Low	24/7 convenience stores	<ul style="list-style-type: none"> <li>- JLP</li> <li>- Direct offline competitors (M&amp;S, Harrods, etc)</li> <li>- Grocery stores</li> </ul>
	High	<ul style="list-style-type: none"> <li>- Amazon</li> <li>- Online grocery chains</li> </ul>	<b>LOW SATURATED NICHE</b>



# Options and recommendations

# JLP has several options while moving forward

OPTION	STRATEGIC FIT	FINANCIAL FEASIBILITY	COSTS	COMPETITIVENESS	TOTAL
Cut the stuff to cut the rising costs	●	●	●	●	●
Maintain status quo and take reactive measures	●	●	●	●	●
Negotiate lower prices on bulk orders	●	●	●	●	●
Find new suppliers	●	●	●	●	●
Use new technology	●	●	●	●	●

# JLP will evolve while staying true to itself

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**Fight the Brexit: Increase local sourcing**

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# Implementation

# Implementation (1/3): Fighting Brexit implications

## WHAT?

Increase local sourcing of product

## WHY?

- To battle exchange and legal risks arising from Brexit
- Less reliance on imports
- Capture shifting interests of new younger audience JLP has to capture

# Implementation (1/3): Fighting Brexit implications

**HOW?**

## **Groceries: upstream integration**

- partner with farmlands (product demand, product quality, strategic fit)
- develop in-house private labels
- Leverage and develop current expertise

# Implementation (1/3): Fighting Brexit implications

**HOW?**

**Department stores: include local offers**

- Collaborate with local suppliers (designers, artists, boutiques)
  - niche designs
  - good product quality
  - customer design
- Provide more shelf space and bigger customer reach

# Implementation (2/3): Embracing technology **JLP**

## WHAT?

Increase technology use to create smart omni channel experience

## WHY?

- Changing consumer behavior
- Evolving competition
- Hi-tech, hi-touch
- Enhanced value proposition



# Implementation (2/3): Fighting Brexit implications

## HOW?

### **Develop multiple touch points**

#### ONLINE

- Hire CTO
- Revamp webpage: easy design
- Multiple payment options
- Data analytics for inventory management
- Provide recommendations

#### MOBILE

- Develop a mobile app
- 3d virtual store map in application
- Provide codes and promo codes redeemed offline

# Implementation (2/3): Fighting Brexit implications

## HOW?

### OFFLINE

- Position experienced shopping assistants (wine or cheese appreciation)
- Develop offline stores as experiential units
- Install self check out and automated scanners
- Redesign store layout

# Implementation (3/3): Stay true to your people

## WHAT?

JLP should introduce changes but stay true to its people and core values developed through the partnership model

## WHY?

- Enhance supply chain strength
- Follow core values – grow together with your people
- Tackle the challenge of new technology substituting people
- Provide holistic omnichannel experience (P=HCxM)

# Implementation (3/3): Stay true to your people

## HOW?

<b>DEVELOP</b>	<ul style="list-style-type: none"><li>• Retain the workforce</li><li>• Rotate the people across functions</li></ul>
<b>REALLOCATE</b>	<p>Use workforce for partnering with suppliers</p> <ul style="list-style-type: none"><li>• Providing assistance with omnichannel in store experience</li><li>• Providing logistics support to online operations</li></ul>

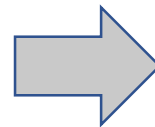
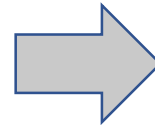
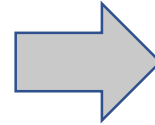
# JLP faces several risks while implementing the strategy

## RISKS

JLP's actions will be replicated and copied by other retailers

Seasonal product servicing remains a challenge

People reluctant to change



## CONTINGENCY PLAN

Focus on relationships and culture which is very hard to replicate

- Better inventory management using technology
- Strong supply relations

- Appeal to core motivation of growing together as a company
- Provide personalised options for reallocation

# JLP can assess the success of the implementation with the following KPIs

## Fight the Brexit!

- Percentage of sales of locally sourced products
- Share of locally sourced products by volume

## JLP 2.0

- Share of self checkout sales
- Share of online sales
- Customer satisfaction surveys

## Stay true

- Number of training rotations
- Employee satisfaction
- Number of employees trained
- Number of full time reallocations

**Revenues / Profits / ROCE / Market share / Partner bonuses**

# **Financial feasibility**

# Financials - Budget Expenses

	<b>Fight the Brexit! Increase local sourcing</b>	<b>Become JLP 2.0 → Embrace Technology</b>	<b>Stay true to your core values → Develop &amp; Reallocate workforce</b>
Labour Aspect	Personnel for branding and designing of in-house labels:  <b>£1 Million / Year</b>	Hiring analysts and IT engineers for data analytics:  <b>£1 Million / Year</b>	Training costs for rotated workforce for sourcing:  <b>£2 Million / Year</b>



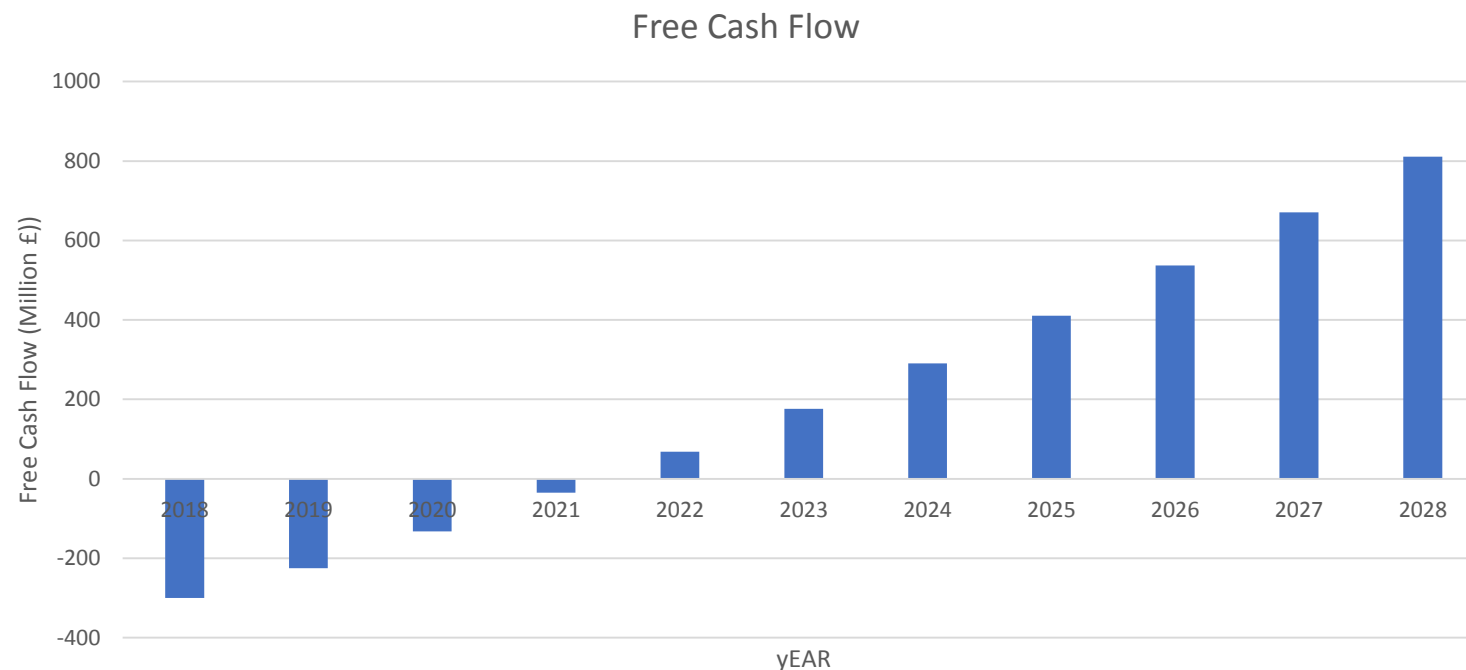
# Financial – Budget Expenses

	<b>Fight the Brexit! Increase local sourcing</b>	<b>Become JLP 2.0 → Embrace Technology</b>	<b>Stay true to your core values → Develop &amp; Reallocate workforce</b>
Non-labour Aspect	Capital Assistance to partners: <b>£2 Million Initial investment</b> (depreciated over 10 years)  <b>£0.5 Million/year thereafter</b>	Buying and installing new IT equipment for data analytics and online portal: <b>£5 Million Initial investment</b> (depreciated over 10 years)  Installing self-checkout counters: <b>£0.5 Million / Year (for 5 years)</b>  Providing delivery services: <b>£1 Million / Year</b>	
<b>Total</b>	<b>£1.7 Million/year</b>	<b>£3 Million/year</b>	<b>£2 Million/year</b>

# Path to positive cash flow on investment

## Assumptions:

- 1) Current Assets increase at 5% per year
- 2) Current Liabilities = 2000 million £



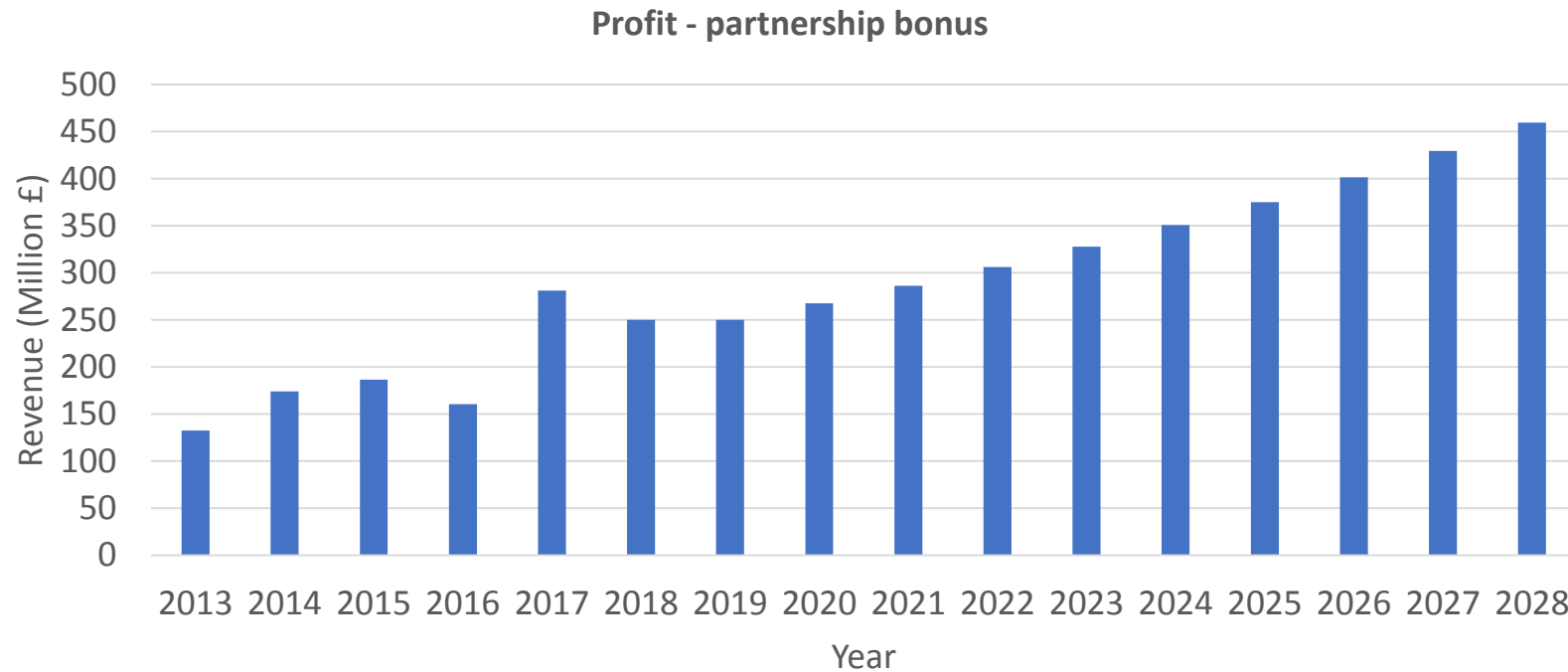
## Conclusion:

**Projected to reach positive free cash flow by 2021.**

# Financial Projections

## Assumptions:

- 1) Drop in revenue in 2018 and 2019 due to investment in technology and uncertainty of market due to Brexit
- 2) 7% CAGR from 2020 to 2028



## Conclusion:

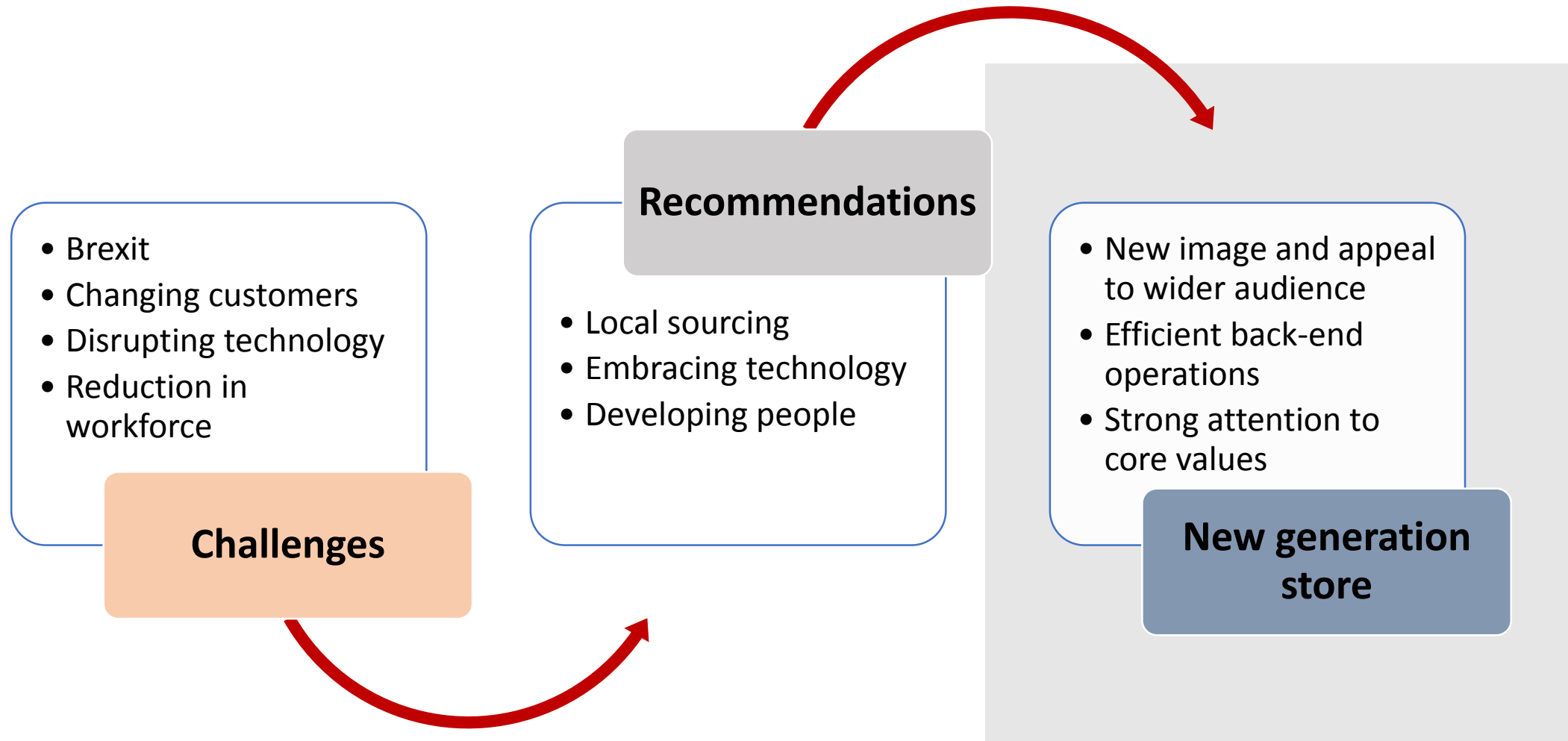
**Projected to reach £460 million in revenue by 2028.**

# Implementation timeline

# Proposed timeline

	2018		2019		2020		...	2028			
	H1	H2	H1	H2	H1	H2		H1	H2		
<b>1. Fight Brexit</b>	█										
- identify local sourcing channels	█										
- Partner with relevant suppliers		█		█							
- Market local and niche products	█		█		█						
<b>2. Embrace technology</b>	█										
- Hire CTO		█									
- Revamp online and mobile platform			█						█		
- Launch home delivery				█		█		█		█	
- Redesign offline stores			█		█		█		█	█	
- Generate insights using data analytics				█						█	
<b>3. Develop and reallocate workforce</b>	█										
- train workforce	█										
- Rotate people		█									
- reallocate			█		█		█				

As a result, by 2028 JLP will be the new generation store with strong traditions



**THANK YOU!**

# Appendix



# Balance Sheet

Balance Sheet	2013	2014	2015	2016	2017
<b>Non Current Assets</b>	<b>4116</b>	<b>4384.5</b>	<b>4682.1</b>	<b>4677</b>	<b>4658.5</b>
<b>Current Assets</b>	<b>1247.6</b>	<b>1139.5</b>	<b>1170.4</b>	<b>1534.7</b>	<b>1627.6</b>
<b>Total Assets</b>	<b>5363.6</b>	<b>5524</b>	<b>5852.5</b>	<b>6211.7</b>	<b>6286.1</b>
<b>Current Liabilities</b>	<b>-1633.9</b>	<b>-1705.6</b>	<b>-1692</b>	<b>-1848.7</b>	<b>-1834.2</b>
<b>Non-current liabilities</b>	<b>-1828.2</b>	<b>-2036.7</b>	<b>-2641.7</b>	<b>-2297.9</b>	<b>-2396.5</b>
<b>Total liabilities</b>	<b>-3462.1</b>	<b>-3742.3</b>	<b>-4333.7</b>	<b>-4146.6</b>	<b>-4230.7</b>
<b>Net assets</b>	<b>1901.5</b>	<b>1781.7</b>	<b>1518.8</b>	<b>2065.1</b>	<b>2055.4</b>
<b>Borrowings</b>	<b>-814.7</b>	<b>-728.2</b>	<b>-1030.2</b>	<b>-1031.8</b>	<b>-966.9</b>
<b>Net Debt</b>	<b>-371.9</b>	<b>-485.5</b>	<b>-721.7</b>	<b>-372.5</b>	<b>-250.6</b>
<b>Current Ratio</b>	<b>76.36%</b>	<b>66.81%</b>	<b>69.17%</b>	<b>83.02%</b>	<b>88.74%</b>
<b>Current Assets - Current Liabilities</b>	<b>-386.3</b>	<b>-566.1</b>	<b>-521.6</b>	<b>-314</b>	<b>-206.6</b>

# Income Statement

Income Statement	2013	2014	2015	2016	2017
<b>Gross Sales</b>					
Waitrose	5763.9	6111.9	6508.9	6461.4	6633.2
John Lewis	3777.4	4059.6	4433.7	4557.4	4741
<b>Total</b>	<b>9541.3</b>	<b>10171.5</b>	<b>10942.6</b>	<b>11018.8</b>	<b>11374.2</b>
<b>Revenue</b>					
Waitrose	5416.1	5753.7	6135.3	6086	6245.5
John Lewis	3049.4	3274.1	3565.7	3662.8	3780.7
	8465.5	9027.8	9701	9748.8	10026.2
<b>Operating Profit before exceptional items and partnership bonus</b>					
Waitrose	292.3	310.1	237.4	232.6	253.5
Operating profit margin for Waitrose	5.40%	5.39%	3.87%	3.82%	4.06%
John Lewis	216.7	226.1	250.5	250.2	243.2
Operating Profit margin for John Lewis	7.11%	6.91%	7.03%	6.83%	6.43%
Group and other	-55.6	-65.3	-45.6	-80.7	-18.5
<b>Total</b>	<b>453.525</b>	<b>471.023</b>	<b>442.4089</b>	<b>402.2065</b>	<b>478.3049</b>
<b>Total Operating Profit Margin</b>	<b>5.36%</b>	<b>5.22%</b>	<b>4.56%</b>	<b>4.13%</b>	<b>4.77%</b>

# Income Statement

<b>Net Finance Costs</b>	-110.1	-94.5	-99.6	-96.6	-107.8
<b>Exceptional items</b>		-47.3	7.9	129.3	171.2
<b>Profit before partnership bonus, tax and exceptional items</b>	343.3	376.4	342.7	305.5	370.4
<b>Partnership Bonus</b>	-210.8	-202.5	-156.2	-145	-89.4
<b>As a percentage of eligible pay</b>	17%	15%	11%	10%	6%
<b>EBITDA</b>	132.5	173.9	186.5	160.5	281
<b>Growth Rate</b>		131.25%	107.25%	86.06%	175.08%
<b>Taxation</b>	-31.5	-25	-50.9	-66.6	-98.7
<b>Profit for the year</b>	101	101.6	143.5	223.2	353.5
<b>Number of employees</b>	84,700	91,000	93,800	91,500	86,700
<b>Average number of full time equivalent employee</b>	57,700	60,600	64,500	63,900	63,300