

John Lewis Partnership: Change Management

TEAM NMIMS

Problem Statement

What is the IMPACT OF BREXIT on JLP?

- Workforce Management and Job Designs
- Role of Technology

Agenda

1. Analysis of Opportunity
2. Alternatives
3. Recommendation
4. Financials
5. Implementation
6. Conclusion

Analysis

Alternatives

Recommendations

Financials

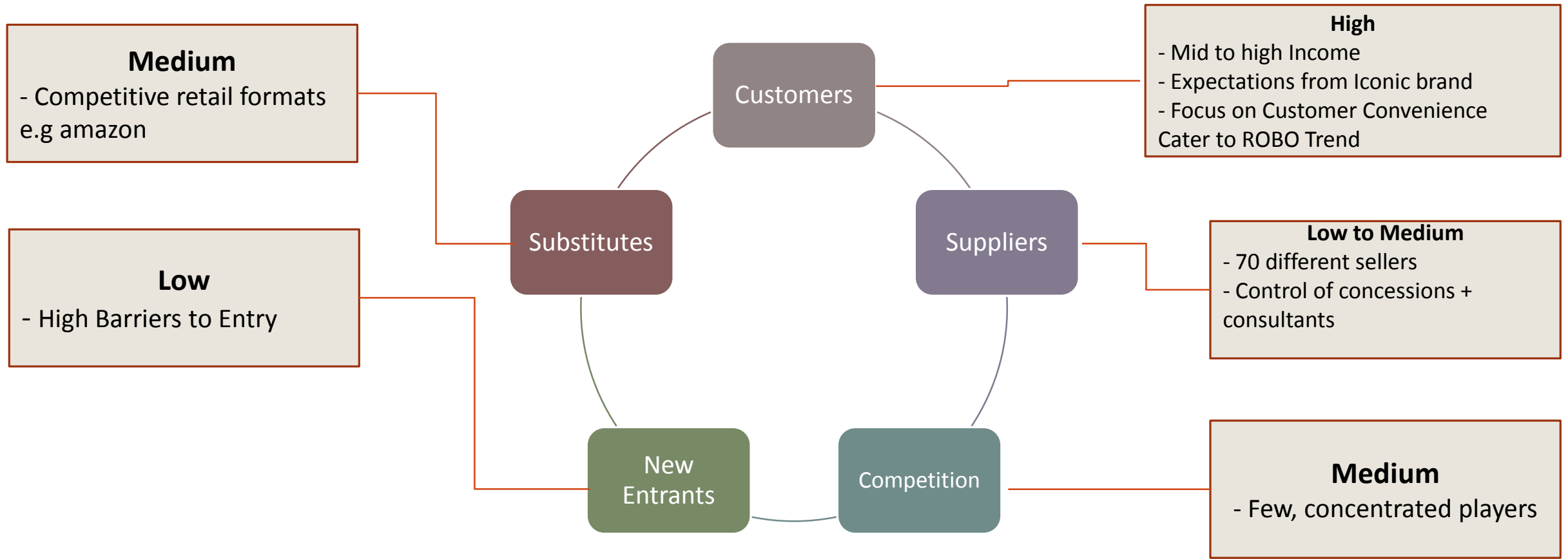
Implementation

Conclusion

Key Issues

1. Replacing the Eastern Europe Workforce due to Brexit Volatility
2. Tailoring jobs for dynamic needs
3. Impact on Product Pricing
4. Supply Chain Management

Analysis of Opportunity: John Lewis



Analysis

Alternatives

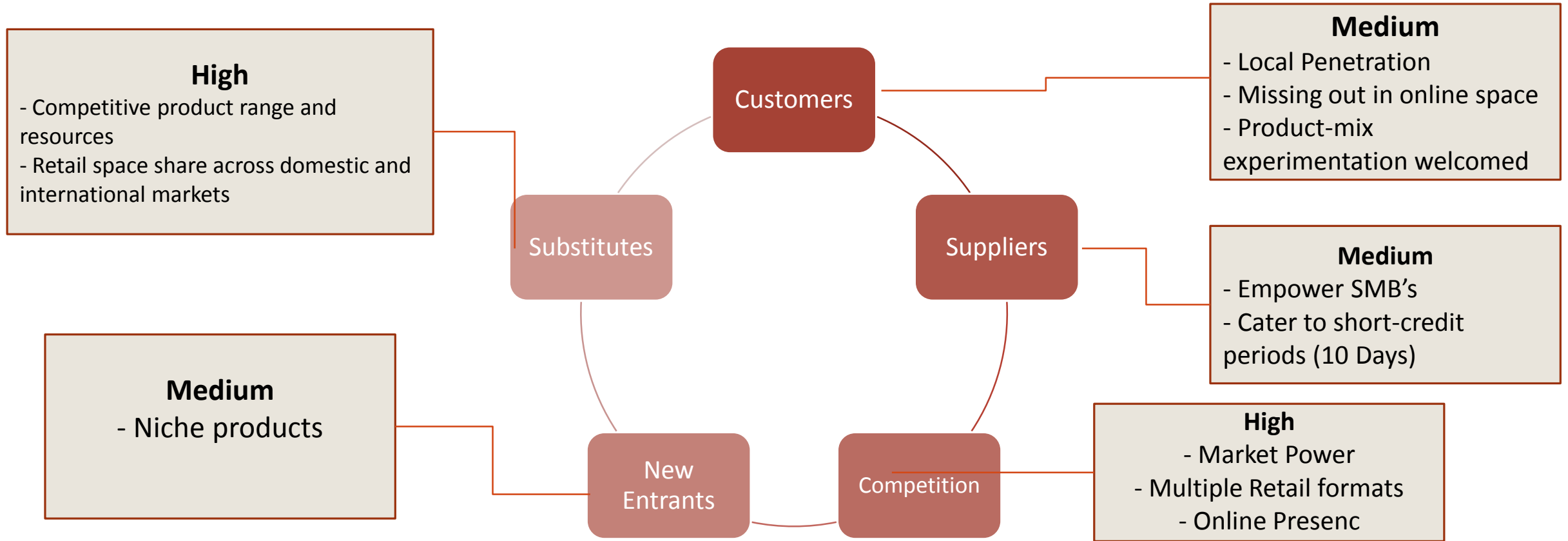
Recommendations

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Analysis of Opportunity: Waitrose



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Impact of Brexit on JLP

Fluctuating Pound-Euro Exchange Rates

Difficulty in sourcing lower wage support staff

Maintenance and warehouse partners

Import of Products

Alternatives

Restructuring
Benefits

Technological
Advancements

Capturing
Market Share
by acquisition

Lay-Off of
workforce

Partially Sell
off Waitrose

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Criteria Matrix

Factor	Weights	Restructuring Benefits		Technological Advancements		Capturing Market Share by acquiring German Competitors		Lay-Off of workforce		Partially Sell out Waitrose	
		Raw Score	Wtd Score	Raw Score	Wtd Score	Raw Score	Wtd Score	Raw Score	Wtd Score	Raw Score	Wtd Score
Cost	3	3	9	2	9	1	3	3	9	3	3
Synergy	4	2	8	2	8	3	12	1	4	1	4
Futureproofing	5	3	15	3	15	3	15	2	10	1	5
Total			32		32		30		23		12

Analysis

Alternatives

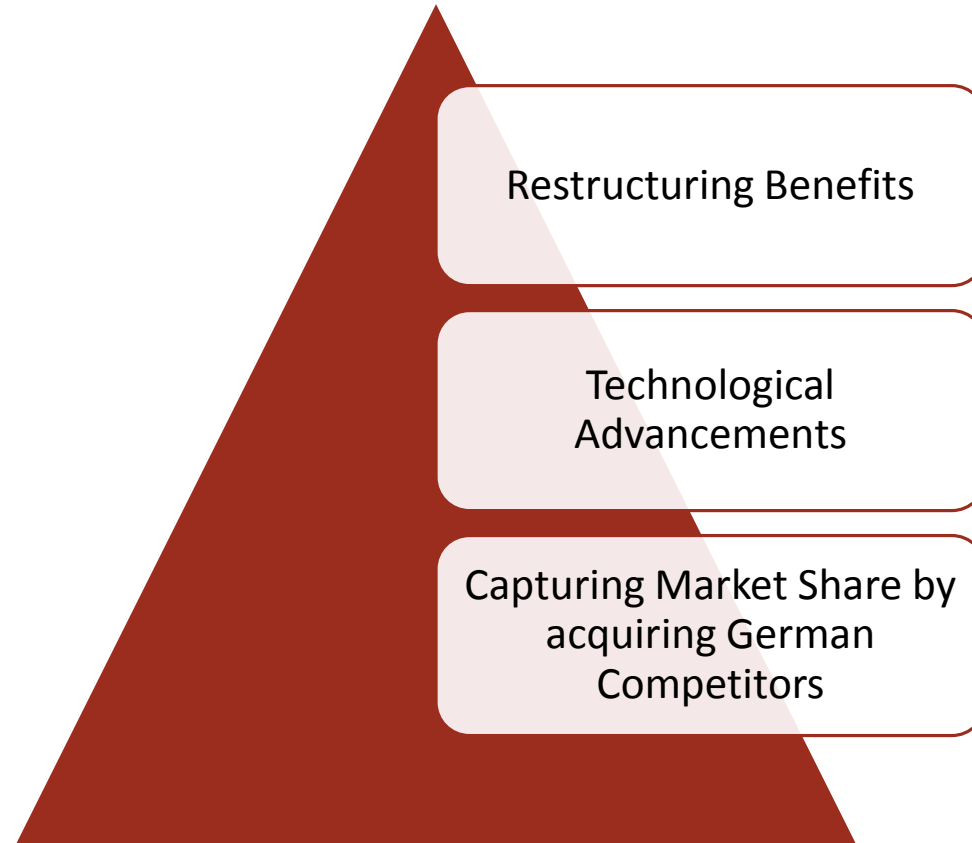
Recommendations

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Our Recommendations



Analysis

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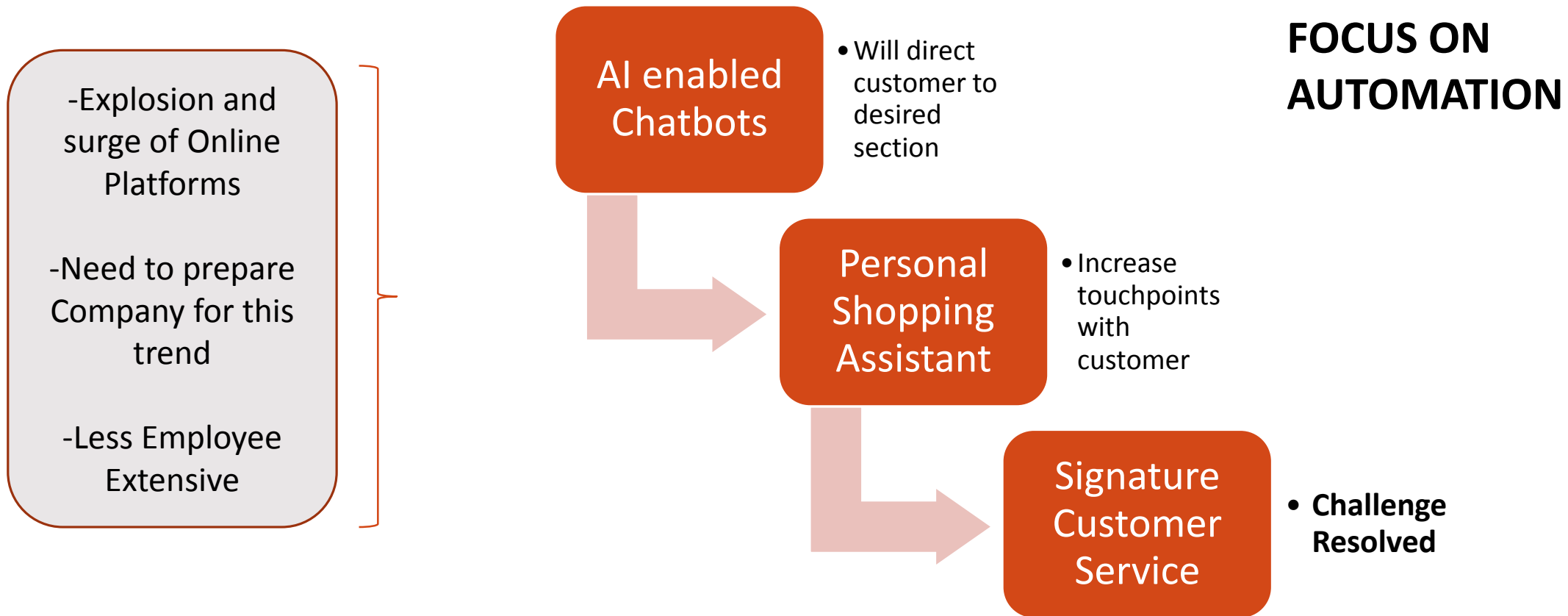
Our Recommendation: Restructuring Benefits

Cost of the benefits programme: 124 Million Pounds

-Average cost per Employee: 1430 Pounds (86,700 Employees)

-Better Utilization of Funds toward achieving Core Business Objectives

Our Recommendation: Technological Advancements



Our Recommendation: Capturing Market Share

Current Market Share stands at: 5.3%

Biggest Competitors (Tesco and Sainsbury) own nearly 45% of the market

It is vital to capture the market share in this segment since liquidity is high in the grocery business

We anticipate higher growth rate in this segment as it is plush with cash

-This will maximize profits and shareholder value in the long run

FINANCIAL ANALYSIS

KEY ASSUMPTIONS

1. The analysis has been done on a dual case scenario with the possibility of the Brexit negotiations in Brussels may or may not going through in the favourable direction
2. Conservative estimates regarding growth of the 2 businesses in the different scenarios
3. Partnership-Bonus fluctuated in lieu of the systematic risks present in the market
4. Corporate Tax rates to move in a fiscally conservative/expansionary manner based on the outcome of the negotiations (past rates moving around 35%-40%)
5. Forex values assumed for the pre and post Brexit period to capture Forex risk in the market; Assumptions have been made on a constant currency basis

INCOME STATEMENT ANALYSIS AND REVENUE PROJECTIONS

CASE 1- FAVOURABLE OUTCOME WITH UK BEING A PART OF THE FREE MARKET WITH THE STERLING

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Income Statement	2016	2017	2018	2019	2020
Revenue					
Waitrose	6086	6246	6433	7077	7784
%Growth Rate			3%	10%	10%
John Lewis	3663	3781	3970	4566	5250
%Growth Rate			5%	15%	15%
TOTAL Revenue	9749	10027	10403	11642	13035
Cumulative COGS and Gross Profit	9266	9530	9886	11106	12480
Earnings Before Interest, Taxes and Partnership Bonus					
Waitrose	233	254	256.5	261.7	266.9
%Growth Rate	3%	3%	5%	2%	2%
John Lewis	250	243	261.2	274.3	288
%Growth Rate	3%	3%	7.5%	5%	5%
TOTAL EBIT & Partentrship Bonus	483.0	497.0	517.8	536.0	554.9
Interest Expense	96.6	107.8	172.5	134	111
	20%	22%	40%	25%	20%

Analysis

Alternatives

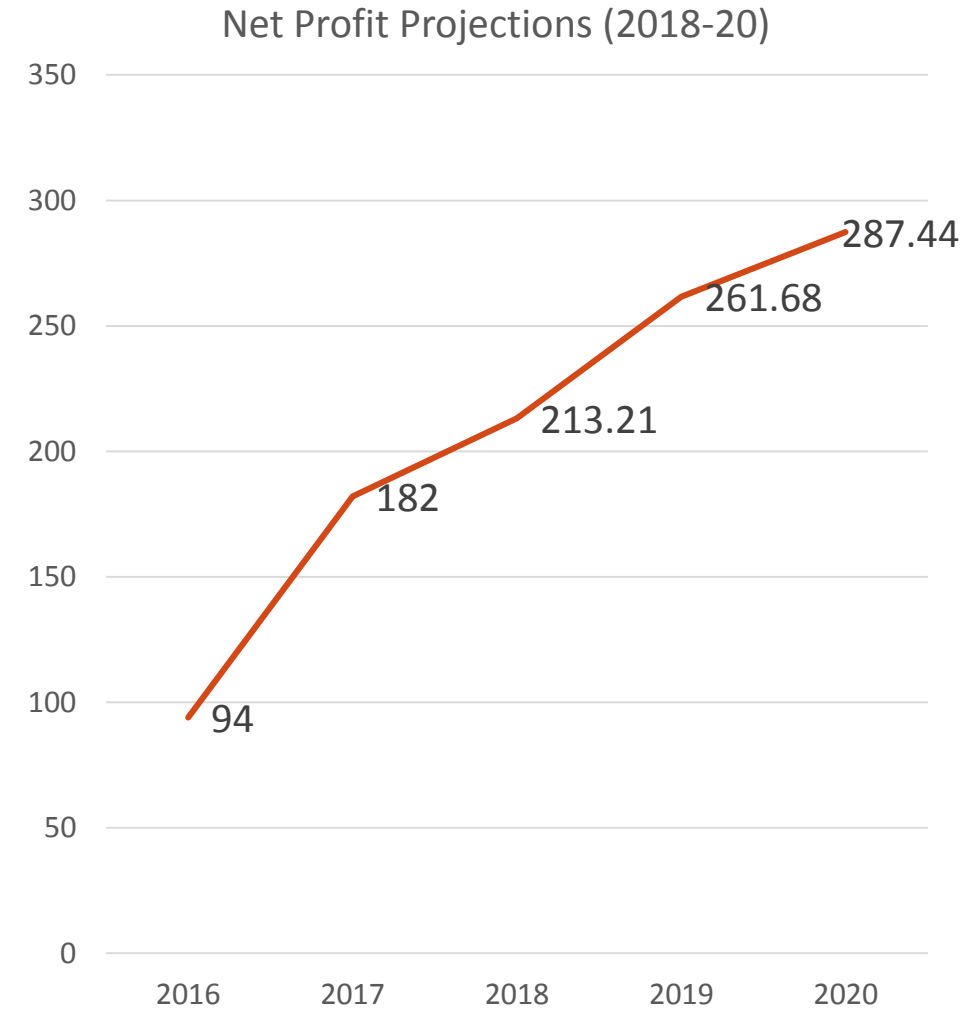
Recommendations

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Income Statement	2016	2017	2018	2019	2020
Earnings Before Taxes and Partnership Bonus	306	370	345.3	402.0	443.9
Partnership Bonus	145	89	17.26	28.14	33.29
%of eligible pay	10%	6%	5%	7%	7.50%
Earnings Before Taxes	161	281	328	373.8	410.6
Taxation	67	99	114.8	112.1	123.2
%Tax Rate (Decline in Corporate Tax Rates due to Fiscal Relaxation)	42%	35%	35%	30%	30%
Net Profit	94	182	213.21	261.68	287.44



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INCOME STATEMENT ANALYSIS AND REVENUE PROJECTIONS

CASE 2- UNFAVOURABLE OUTCOME WITH UK NOT BEING A PART OF THE FREE MARKET WITH THE STERLING

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Income Statement	2016	2017	2018	2019	2020
Revenue					
Waitrose	6086	6246	6121	6427	6748
%Growth Rate			-2%	5%	5%
John Lewis	3663	3781	3894	4284	4926
%Growth Rate			3%	10%	15%
TOTAL Revenue	9749	10027	10016	10711	11675
Cumulative COGS and Gross Profit	9266	9530	9531	10227	11186
Earnings Before Interest, Taxes and Partnership Bonus					
Waitrose	233	254	241.3	236.5	236.5
%Growth Rate			-5%	-2%	0%
John Lewis	250	243	243	247.9	252.8
%Growth Rate			0%	2%	2%
TOTAL EBIT & Partnership Bonus	483	497	484.3	484.3	489.3
Interest Expense	96.6	107.8	193.7	169.5	171.3
			40%	35%	35%

Analysis

Alternatives

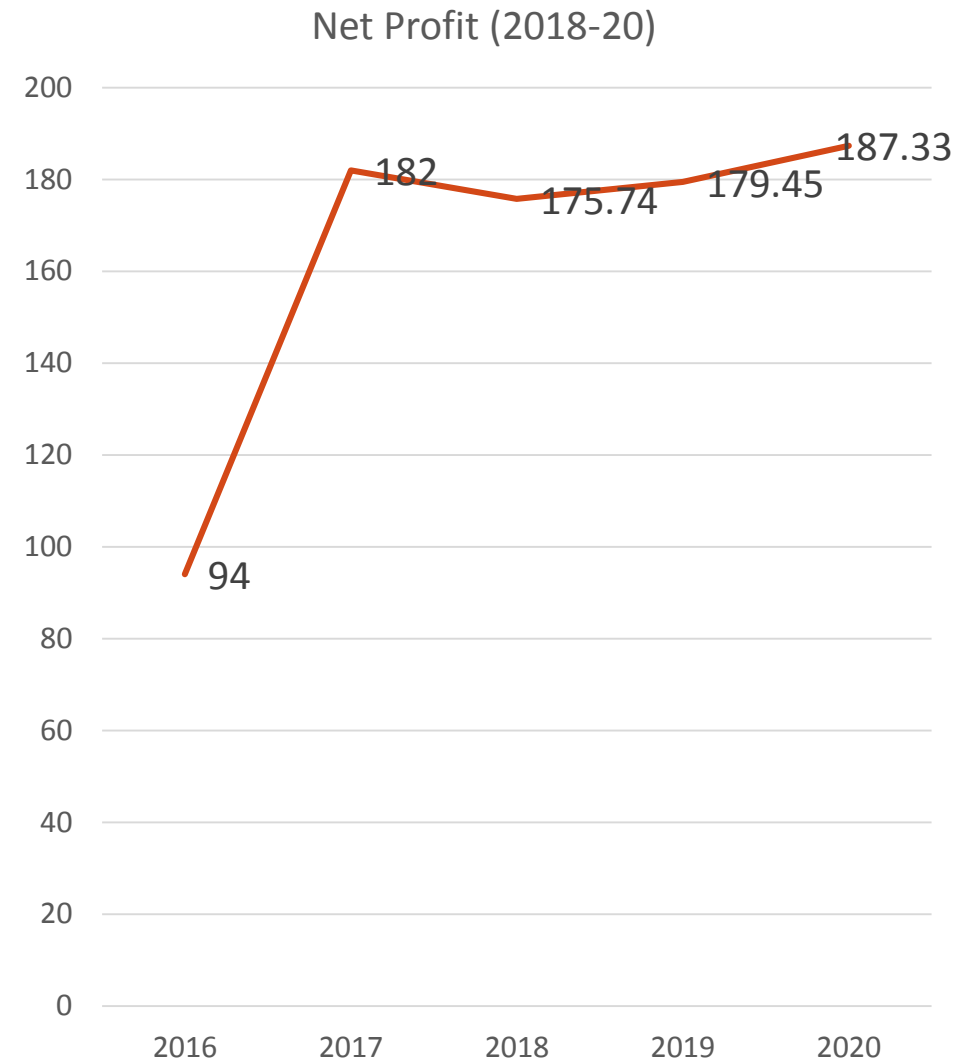
Recommendations

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Income Statement	2016	2017	2018	2019	2020
Earnings Before Taxes and Partnership Bonus	306	370	291	315	318
Partnership Bonus	145	89	11.62	15.74	15.9
%of eligible pay	10%	6%	4%	5%	5%
Earnings Before Taxes	161	281	279	299	302
Taxation	67	99	103.2	119.6	114.8
%Tax Rate (Increase in Corporate Tax Rates due to Fiscal Contraction in the short term)	42%	35%	37%	40%	38%
Net Profit	94	182	175.74	179.45	187.33



Analysis

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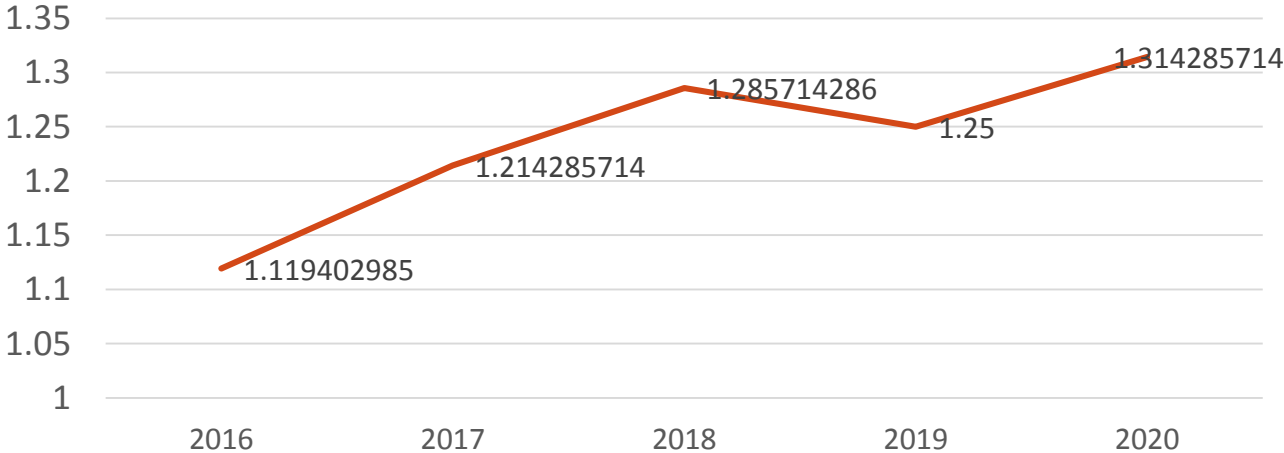
FOREX RISK ANALYSIS

CASE 1- FAVOURABLE OUTCOME WITH UK BEING A PART OF THE FREE MARKET WITH THE STERLING

2016	2017	2018	2019	2020
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Historical Forex Rate Sterling/Euro On a constant Euro Basis 1.119403 1.214286 1.285714 1.25 1.314286

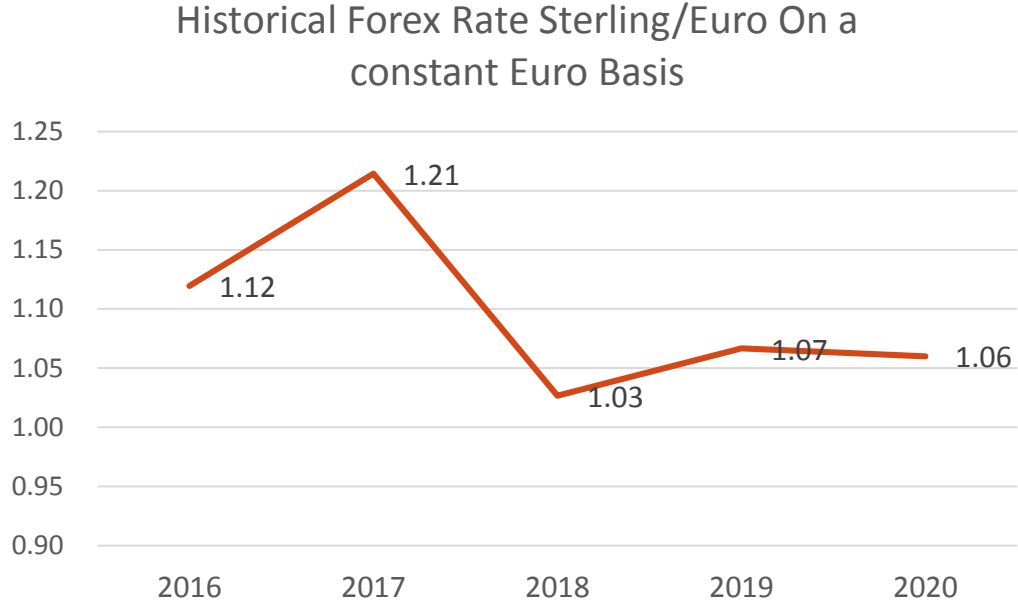
Historical Forex Rate Sterling/Euro On a constant Euro Basis



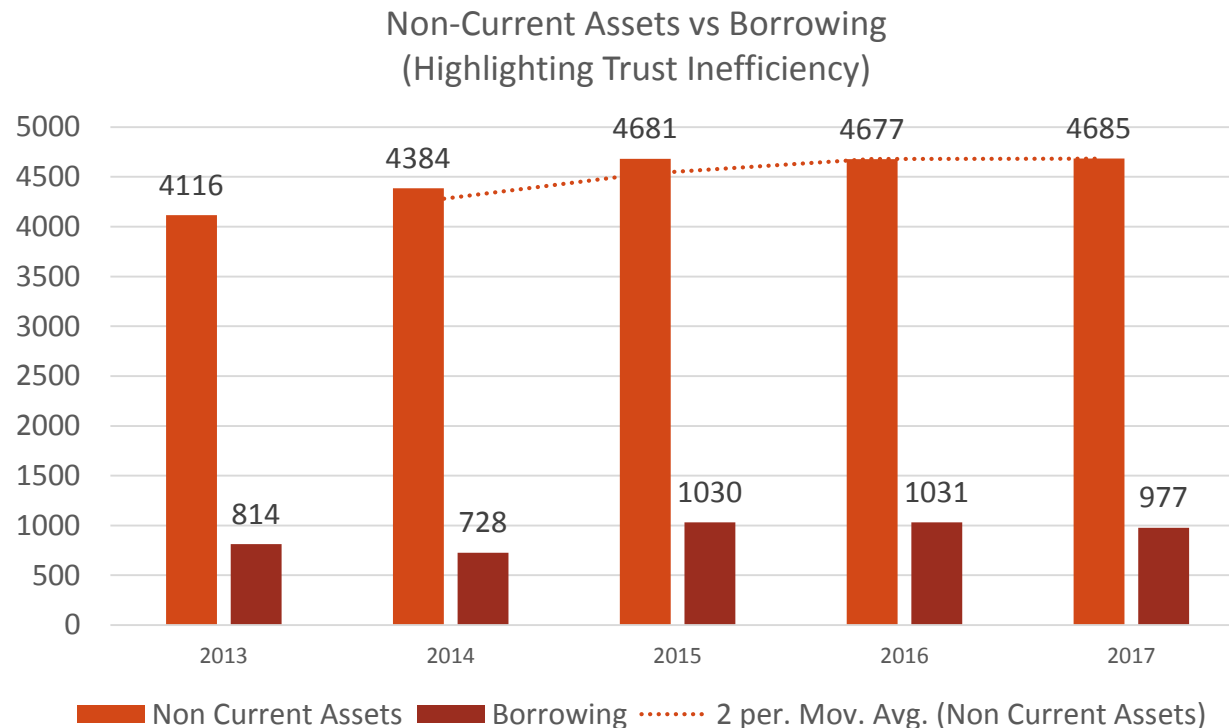
FOREX RISK ANALYSIS

CASE 2- UNFAVOURABLE OUTCOME WITH UK NOT BEING A PART OF THE FREE MARKET WITH THE STERLING

	2016	2017	2018	2019	2020
Historical Forex Rate Sterling/Euro On a constant Euro Basis	1.12	1.21	1.03	1.07	1.06



BALANCE SHEET ANALYSIS



- The trend from 2014 onwards highlights the increase in borrowings but not in line with the fixed and non-current assets
- The prediction that follows here is that there hasn't been significant re-investment of the funds back into the company

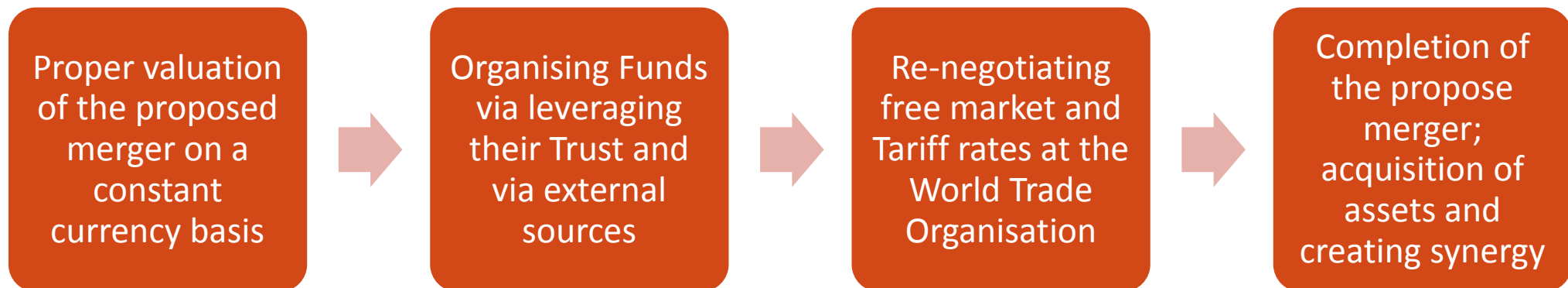
IMPLEMENTATION

The proposed merger of the German firms captures value for the Co. due to decline in German interests in the UK market due to 2 primary reasons:

1. Removal of UK from the same market as that of EU
2. Continuous **risk of hedging Sterling/Euro Forex rate and interest rate risks** that may surface in the near future

With the acquisition of the 2 German firms, Waitrose will move to the 2nd largest market share position in the grocery sector

Stage-wise implementation



Analysis

Alternatives

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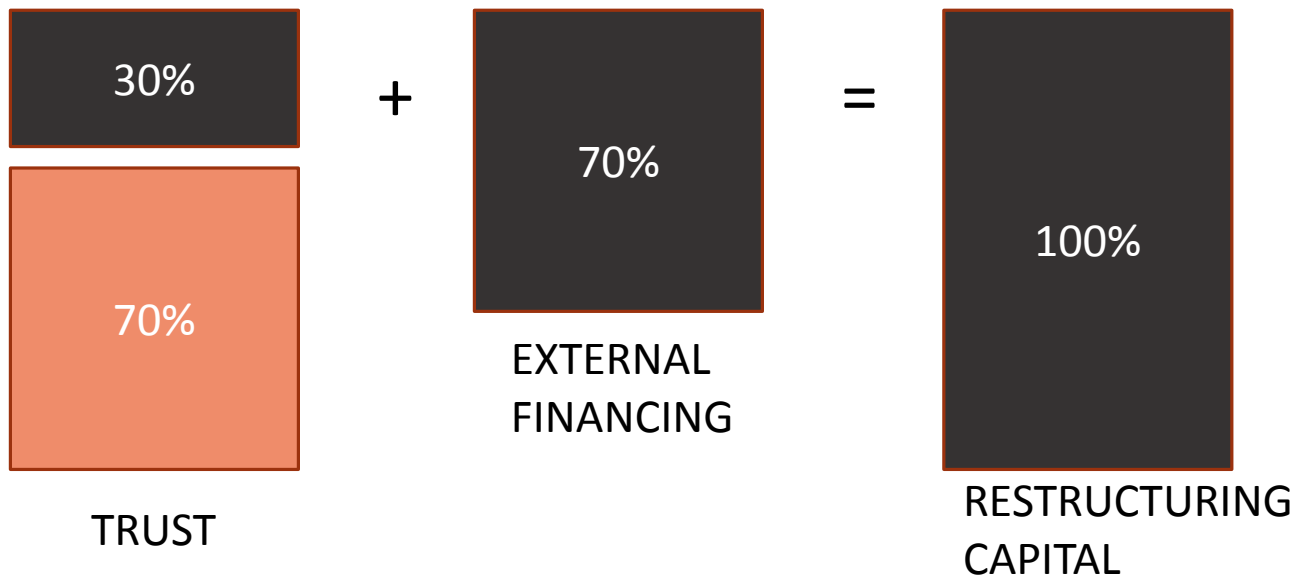
Financials

Implementation

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FINANCIAL RESTRUCTURING OF THE BENEFITS PROGRAM

Total Cost of the benefits program	124,000,000.00
No. of Employees	86,700.00
Effective Monetary Benefit per Employee	1,430.22



Analysis

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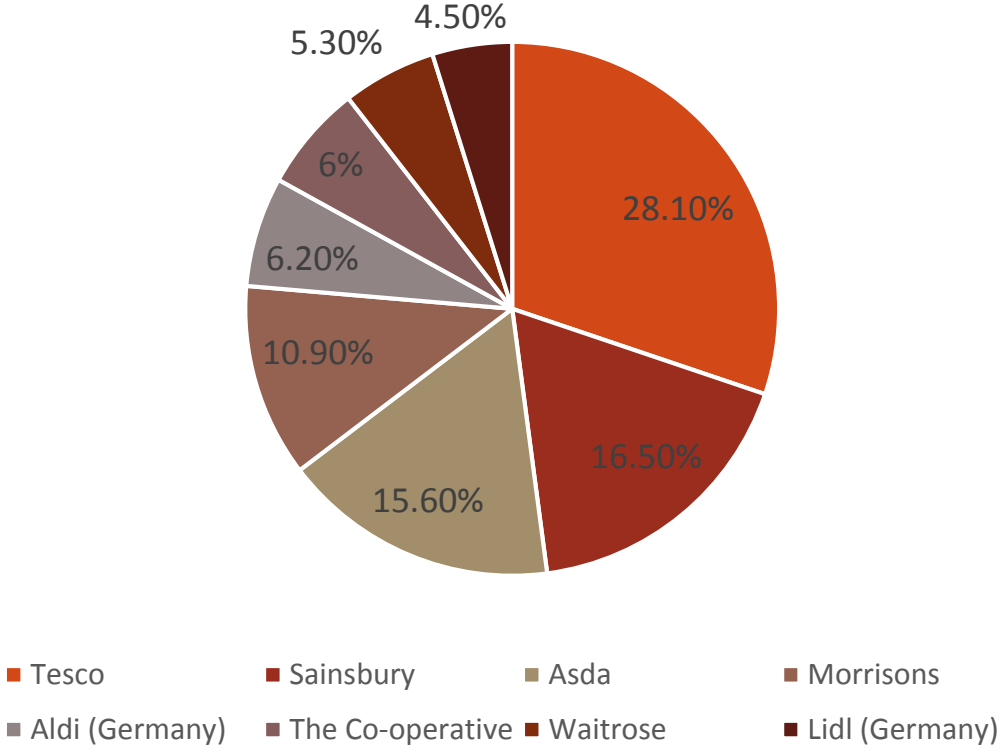
Implementation

Conclusion

Implementation: Restructuring Benefits

Company	Market Share
Tesco	28.10%
Sainsbury	16.50%
Asda	15.60%
Morrisons	10.90%
Aldi (Germany)	6.20%
The Co-operative	6%
Waitrose	5.30%
Lidl (Germany)	4.50%

Market Share of Major Grocery Chains in UK



Risk Mitigation

Alternative	Risk	Likelihood (high, low)	Impact (high, low)	Contingency
Restructuring benefits	Loss of trust and goodwill	L	H	Timely communication
Technological advancements	Training cost and time of integration	H	L	Development manuals and user guides
Capturing market share	Uncertainty of EU	H	H	Acquisition of local talent

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Restructuring
Benefits

Technological
Advancements

Capturing
Market Share
by acquisition

Crucial for the firm to have a long term view point and broad focus

- Increased market share leads to increased profitability, growth opportunities.
- Facilitate and improve our employee benefits and incentives
- Keeping up with anticipated trends is important, and online channels are booming, this space cannot be ignored
- Automation will help us efficiently allocate manpower
- Managing benefits will be accompanied by effective communication