

IT is your Business

Hiba – Jessica – Karmah – Reef

OSB

2018

Executive Summary

Issue

What strategy should John Lewis adopt to face Brexit and the technologic trends?

Recommendation

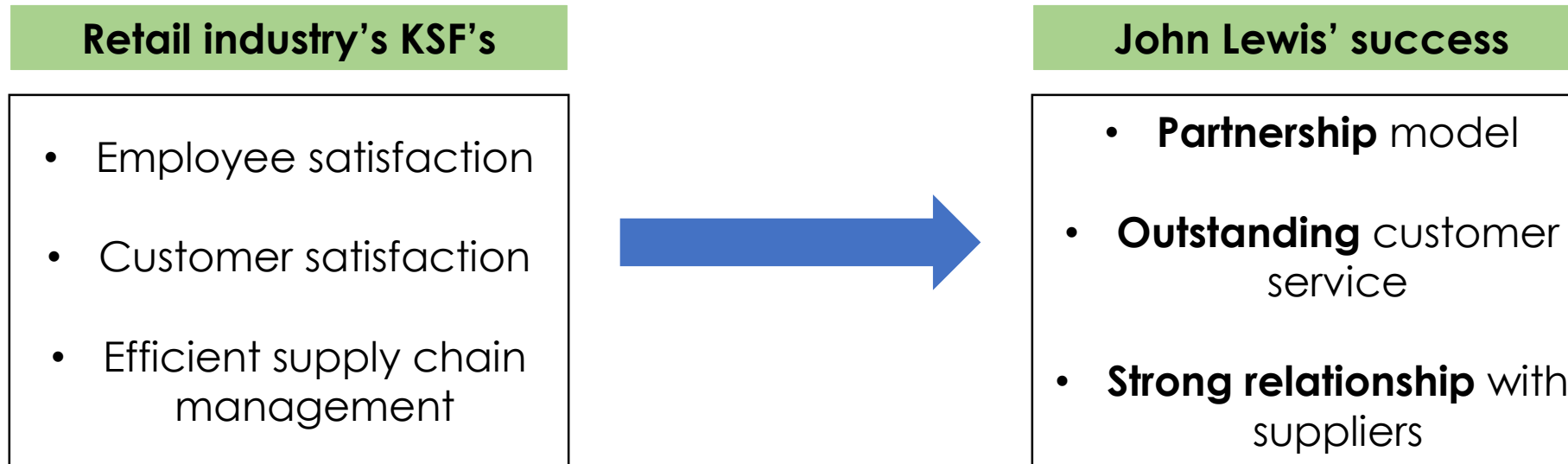
Invest in IoT to increase efficiency and enhance customer experience

KPI's

Reach 6% Operating Margin in 2022

Brick and Mortar revenues to recover to 2% growth in 2022

John Lewis' success



John Lewis' differentiation strategy and strengths made it the UK's largest multichannel retailer

Retail Industry trends

Online trend heavily disrupting the retail industry

Online retailers dominating industry

Integration of IoT and smart technologies and retail stores



John Lewi's "bricks and clicks"

Integration of online and offline experiences

Growth of online sales by 2.3 times within 5 years

John Lewis is adopting the online trend to survive in the industry, but opportunities to capitalize on technology exist

John Lewis and Brexit

Brexit impact on the business

Workforce

- Eastern European maintenance and warehouse Partners
- Difficulty of finding replacement from UK

Supply chain

- Devaluation of Pound vis-à-vis other currencies
- Import of products from EU

The Brexit situation is leading to financial losses due to currency changes and is disrupting the current Partnership model

Challenges

Online trend threatening sustainability of business

High competition

Economic uncertainties due to Brexit

To survive in industry, John Lewis cannot stick to the status quo

Alternatives

Expand Brand Portfolio

Introduce **new brands** exclusively **online**

Expand into Middle East

Access **Middle East (Dubai)** through **online platform** (Lebe`lik) with food, home goods & technology products

Invest in IoT

Invest in the **internet of things** to optimize on omnichannel presence

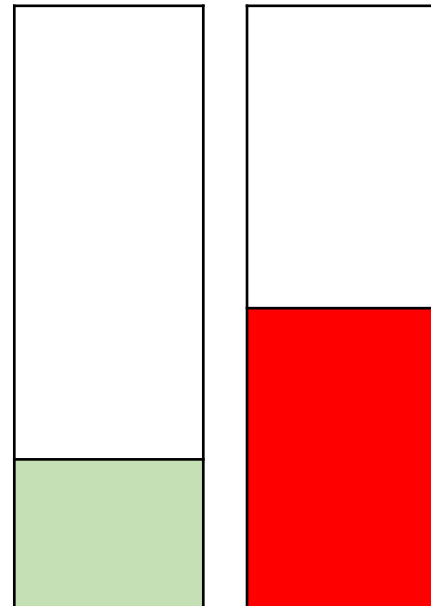
Expanding Brand Portfolios

Advantages

- Higher visibility to existing products

Disadvantages

- Compromises on physical stores
- Doesn't enhance supply chain management



Enter Dubai

Advantages

- High income per capita
- Fast growing market

Disadvantages

- Difference in cultures
- High competition
- Logistics complexity

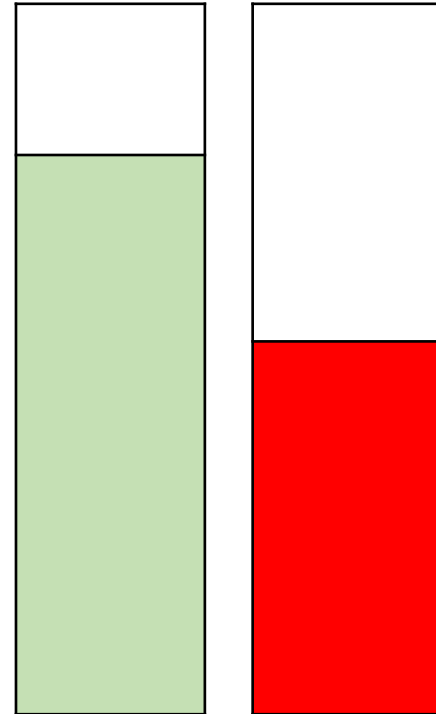
Invest in IoT

Advantages

- Increased efficiency
- Enhanced customer satisfaction
- Better understanding of customer behavior
- Improve integration of traditional & online experience

Disadvantages

- Cost
- Complexity



Decision Matrix

	Expand Brand Portfolio	Enter Dubai	Invest in IoT
Cost	+	+	-
Time & Effort	+	--	-
Future Outlook	--	+	++
Risk	-	--	+
TOTAL	-	--	+

Decision Matrix

	Expand Brand Portfolio	Enter Dubai	Invest in IoT
Cost	+	+	-
Time & Effort	+	--	-
Future Outlook	--	+	++
Risk	-	--	+
TOTAL	-	--	+

Invest in IoT to Optimize Omnichannel Presence and Increase Efficiency

“IT’s your Business”

Invest in IoT

**Hedge against
Brexit**

Invest in IoT

Department Stores

John Lewis
Peter Johns

Virtual Closets

Scan & Know



Mobile App



Smart Shelves

Scan & Go

Waitrose

IoT in Both

Mobile App

Scan & Know

Customers find
item online →
save to favorites
→ app provides
location item in
physical store

Scan & Go

IoT in Department Stores

Virtual Closets

Customer creates an **avatar** to try out clothes on the website

Scan & Know

Using mobile app, scan item tags to get more info

*Fabrics
Handling
Cultural/Historical Facts
Collection Inspiration*

IoT in Waitrose

Smart Shelves

Add sensors to shelves
in selected
warehouses & stores

Inventory management
JIT Inventory

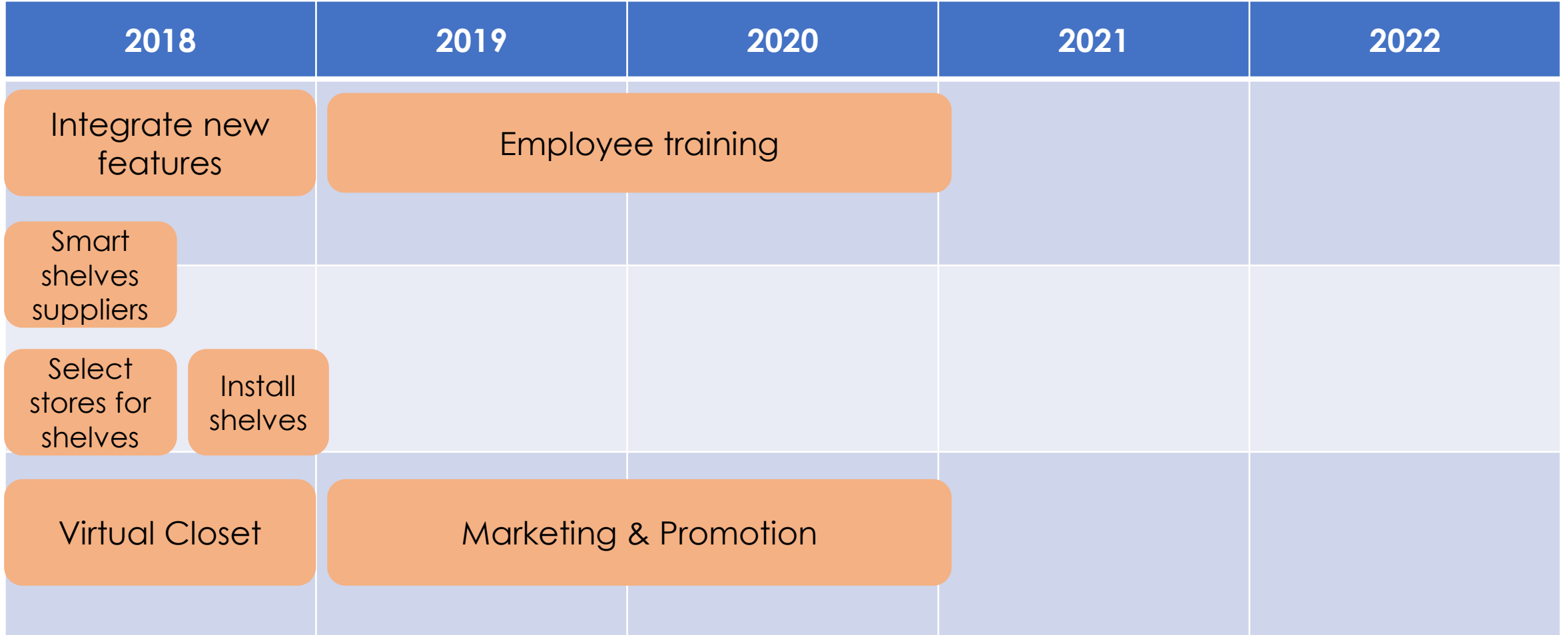
Scan & Go

Using mobile app,
customers scan items
→ add them to virtual
cart → pay using the
app → leave

To hedge against **currency fluctuations** (pound - euro)

Invest in
Futures & Options

Timeline



Financials – Baseline Case

	2018	2019	2020	2021	2022
Baseline Case					
Online Revenues	4,095	5,118	6,040	6,946	7,988
<i>Growth</i>	20%	25%	18%	15%	15%
B&M Revenues	7,803	7,413	6,745	6,745	6,745
<i>Growth</i>	-2%	-5%	-9%	0%	0%
Total Revenues	11,897	12,531	12,785	13,691	14,733
Operating Profit (4.2%)	500	527	538	576	619

Assumptions

Online sales will continue to grow
B&M sales will decline due to lack of integration and shift to online shopping

Financials – Strategy Impact

	2018	2019	2020	2021	2022
Strategy Impact					
Online Revenues (GBP Mill)	4,095	5,118	6,552	8,386	10,063
<i>Growth</i>	20%	25%	28%	28%	20%
B&M Revenues (GBP Mill)	7,803	7,803	7,842	7,999	8,159
<i>Growth</i>	-2%	0%	1%	2%	2%
Total Revenues (GBP Mill)	11,897	12,921	14,393	16,385	18,222
Operating Profit (GBP Mill)	500	581	720	901	1,093

Assumptions

B&M sales will recover slightly due to new developments
OPM will increase from 4.2% to 6%

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Financials – Incremental Costs

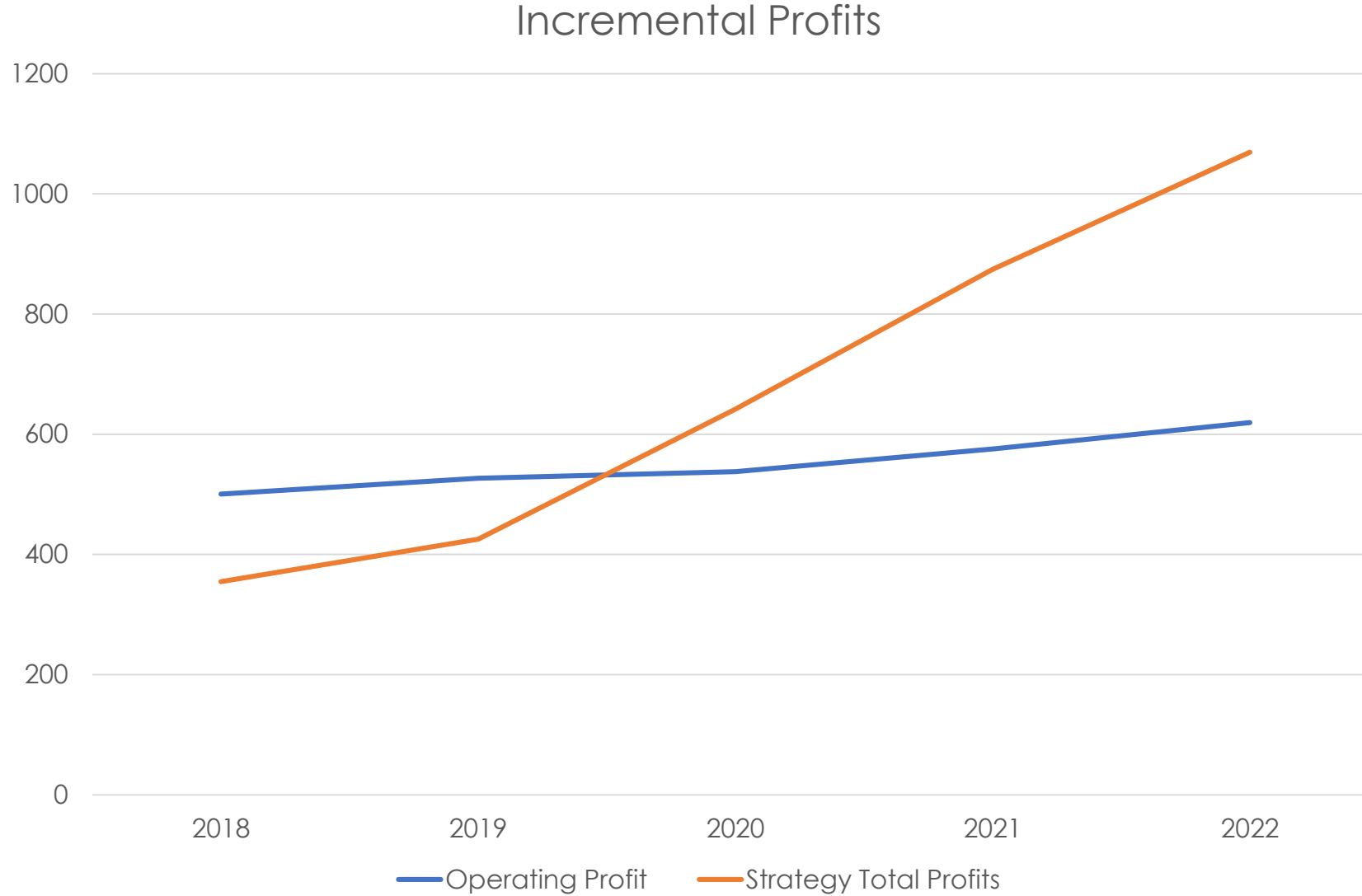
	2018	2019	2020	2021	2022
Incremental Costs					
Smart Shelves	75	75	50	-	-
Application Development	59	65	14	16	18
Marketing & Promotions	-	10	12	8	4
Training Programs	1	1	-	-	-
R&D	10	5	2	2	2
2 Finance/Hedging employees	0.1	0.1	0.1	0.1	0.1
Total Incremental Costs (GBP Mill)	146	156	78	27	24

**Cash Flow
of 335 Mill
GBP to
finance
costs**

Assumptions

15,000 new shelves each year for first 2 year @ \$5,000 each
0.5% of revenues for features development then decreases to 0.1%
0.08% & decreases to 0.02% of revenues for additional promotions
2 finance employees at a salary of 4,000 Pounds per month

Financials – Strategy Impact



Financials – Strategy Impact

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Operating Profit (4.2%)	500	527	538	576	619
Operating Profit	500	581	720	901	1,093
Total Incremental Costs	146	156	78	27	24
Incremental Profits	- 146	- 101	104	299	450

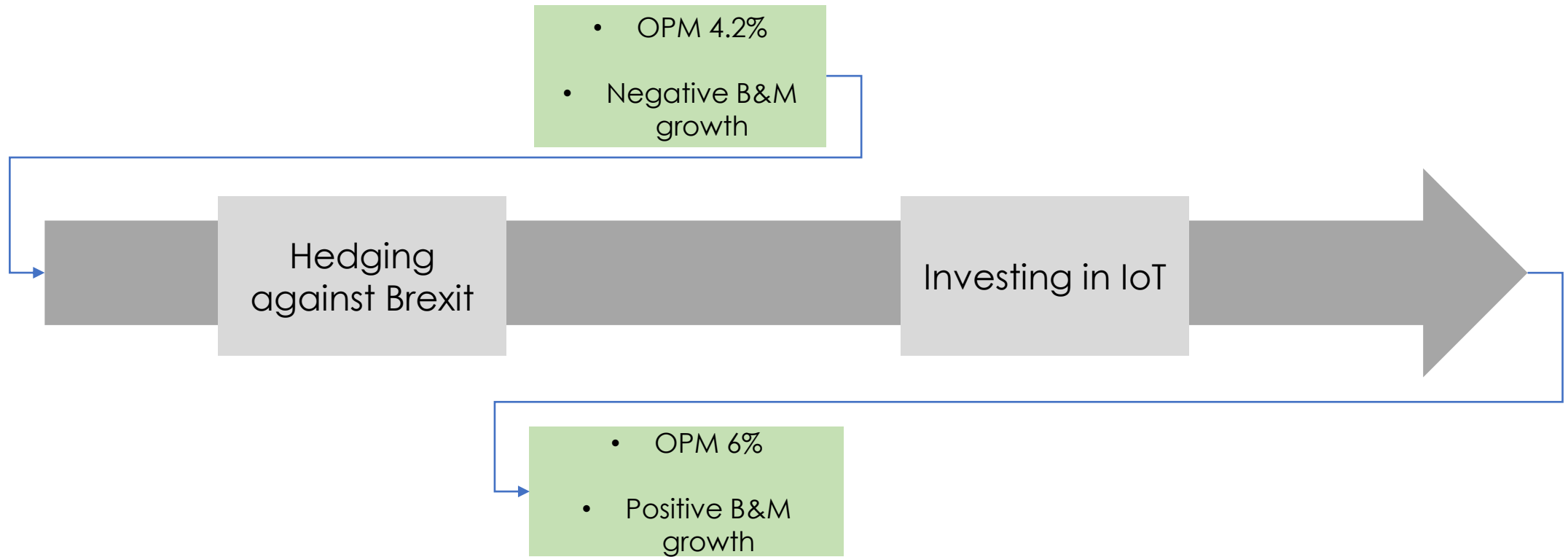
NPV = 345 Mill
GBP

IRR = 53%

Modified Growth

	1.4	1.2	1	0.8	0.6
6%	750	584	433	295	169
8%	679	526	387	259	143
10%	616	475	346	228	120
12%	559	428	308	199	100
14%	507	386	275	174	82

Conclusion



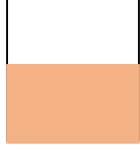
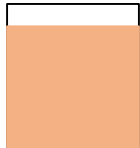
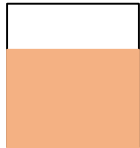
Risks

Difficulty in internal development of app

Competition imitating offerings

Resistance from employees

Probability



Impact



Mitigation

Hire expertise to develop app

Focus on loyalty programs and post-purchase services to increase switching costs

Focus on trainings and clearly communicate employee gains from adopting new trends