

# John Lewis Partnership and Brexit or Not – What Now?

Prepared for the JLP Executive Team

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# Beginnings of JLP

- John Lewis Partnership (JLP) was founded by John Lewis in 1864 in London.
- Initially, JLP sold cloth, but later transformed into a department store .
- Spedan Lewis, the son of John Lewis changed the company into a Partnership to create more equitable gains for all his employees – this was revolutionary for this time.

Context

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# Ownership Structure

- The Partnership structure implemented by Lewis ensured that the permanent employee's owned, governed and empowered JLP.
- JLP is owed by its employees through a perpetual trust – allowing for shared profits and benefits.
- In 1931 there was a pay cut for all by the lowest earning employees; extensive benefits such as a pension plan and subsidized recreational activities were also implemented.

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# JLP Constitution

- Lewis implemented a constitution in 1928, to reflect the philosophy of putting employees first.
- In addition, to the benefits through the Partnership structure, employees also hold the responsibility to work for the improvement of the business.
- Accountability, transparency and honesty are pillars of their management model.



# JLP Strategy

*“...customer service is our great asset; it flows from being a co-owner because... you go the extra mile like you would if it was our actual corner shop.”* (Tony Wheeler, Peter Jones Department Store)

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# Current Ventures: Department Stores

## John Lewis Stores

- Day visitors & tourists hence mixed range from medium to high end.
- Main Competitor: Marks & Spencer

## Peter Jones Stores

- Mainly targeted to executives 50-60 years of age and customers under 40 for contemporary fashion.
- Main Competitor: Harrods

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# Current Ventures: Waitrose

- Waitrose Supermarkets were acquired by JLP in 1937.
- Traditional supermarkets and smaller convenience stores.
- Ensuring high quality products – fresh and non-GMO.
- Main Competitor: Marks & Spencer

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# Current Ventures: Online Stores

- JLP has developed online presence
- Online sales have grown from 6% in 2011 to over 14% in 2016

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# JLP Analysis of Current Position

## Strengths

- Employee satisfaction, customer service

## Weaknesses

- Relatively stagnant to changing context

## Opportunities

- New markets

## Threats

- Highly competitive, changing political and technological context

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# Main Issue

Managing two-fold change effectively: political change (Brexit), as well as technological change making traditional jobs obsolete.



# Our Recommendation: Step 1

## 1) Expand Waitrose and John Lewis into Germany

- Mode of Entry: Direct Investment
- Supplier Power: Low
- Consumer Power: High
- Competition: High
- Strategy: Location in area without strong presence of department store.



# Our Recommendation: Step 2

2) Incorporate a training program with performance management framework.

- The training program helps the partners to continuously evolve their skills (automation & IT)
- Partners own company & would take interest in expanding knowledge
- Will lead to adaption of automation in retail industry and improvement of e-commerce.



# Our Recommendation: Step 3

## 3) Acquisition of firm in Italy to strengthen supply chain of produce

- Incorporate automated farming
- Manage by partners who receive training
- Mode of Entry: Direct Investment
- Entry threat: Low



# Assumptions Underlying Our Recommendation

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## Assumptions

1. Brexit will result in reforms that increase taxes associated with trade, more stringent work policies, as well as increase the value of the pound.

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2. 40% of the employees are from non-UK European countries and 60% of employees are from the UK

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# Alternative Considered

## Alternative

Expand into financial market  
– providing our customers  
with financial services and a  
connected loyalty system.

## Advantages

- Existing employees will be retrained into customer service and related jobs
- Diversification

## Disadvantages

- Highly competitive market and not competitive advantage
- Funds inefficient and hence at risk for increased debt

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# Rationale

Alternatives	Criteria		
	Sustain competitive advantage	Adapting to Technological Disruption	Adapting to Political Disruption
Our Recommendation			
Alternative			





# Implementation & Financials

		2018 (Q1 + Q2)		2018 (Q3 + Q4)		2019 (Q1 + Q2)		2019 (Q3 + Q4)		2020 (Q1 + Q2)		2020 (Q3 + Q4)		2021 (Q1 + Q2)		2021 (Q3 + Q4)		2022 (Q1 + Q2)		2022 (Q3 + Q4)		2023	2024	2025	2026	2027	
Phase 1	Opening new stores																										
	Automation of all stores																										
	Employee Development																										
Phase 2	Farm Acquisition																										
	Farm Automation																										

Phase 1: \$

Phase 2:



# Implementation & Financials

Average Net Margin	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028
- Waitrose	5%	5%	4%	4%	4%	5%	5%	5%	5%	5%	5%	5%	5%	5%	5%	5%
- John Lewis	7%	7%	7%	7%	6%	7%	7%	7%	7%	7%	7%	7%	7%	7%	7%	7%



# Implementation & Financials

John Lewis Partnership	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028
Profit & Loss	Actual					Projections										
	Amount in £ millions															
Revenue:	8,466	9,028	9,701	9,749	10,026	10,304	10,589	11,437	12,351	13,340	14,407	15,559	17,115	18,827	20,709	22,780
Total Expenses:	8,012	8,557	9,259	9,347	9,548	9,777	10,047	10,846	11,713	12,643	13,660	14,750	16,220	17,837	19,615	21,572
Operating Profit:	453	471	442	402	478	527	542	590	638	696	747	810	896	990	1,094	1,208
Net Finance cost (2% current, 4% forecast)	(110)	(95)	(100)	(97)	(108)	(127)	(130)	(280)	(303)	(327)	(353)	(381)	(419)	(461)	(507)	(558)
Profit before PB, Tax & exceptional items	343	376	343	306	370	400	412	310	335	369	394	428	476	529	587	650
Exceptional items	-	(47)	8	129	171	150	153	156	159	162	166	169	172	176	179	183
Partnership bonus (10% average forecast)	(211)	(203)	(156)	(145)	(89)	127	130	140	151	163	177	191	210	231	254	279
Taxation (25% forecast)	(32)	(25)	(51)	(67)	(99)	(32)	(32)	(70)	(76)	(82)	(88)	(95)	(105)	(115)	(127)	(140)
<b>Profit for the year</b>	<b>101</b>	<b>102</b>	<b>144</b>	<b>223</b>	<b>354</b>	<b>645</b>	<b>663</b>	<b>536</b>	<b>570</b>	<b>613</b>	<b>648</b>	<b>693</b>	<b>753</b>	<b>820</b>	<b>893</b>	<b>973</b>

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# Implementation & Financials

Years	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028
Partnership Bonus per Average employee	3,653.38	3,341.58	2,421.71	2,269.17	1,412.32	(2,050.46)	(2,134.15)	(2,259.69)	(2,392.61)	(2,533.36)	(2,682.38)	(2,840.16)	(3,062.92)	(3,303.15)	(3,562.22)	(3,841.61)
Profit per Average employee	1,750.43	1,676.57	2,224.81	3,492.96	5,584.52	10,400.29	10,899.76	8,644.48	9,015.80	9,508.37	9,840.71	10,319.20	11,004.25	11,738.41	12,536.35	13,386.34



John Lewis Partnership	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028
Profit & Loss	Actual					Projections										
	Amount in £ millions															
Gross Sales:																
- Waitrose	5,764	6,112	6,509	6,461	6,633	6,766	6,901	7,453	8,050	8,694	9,389	10,140	11,154	12,270	13,496	14,846
- John Lewis	3,777	4,060	4,434	4,557	4,741	4,931	5,128	5,538	5,981	6,460	6,976	7,535	8,288	9,117	10,028	11,031
	9,541	10,172	10,943	11,019	11,374	11,697	12,029	12,991	14,031	15,153	16,365	17,675	19,442	21,386	23,525	25,877
Revenue:																
- Waitrose (94% of Gross Sales)	5,416	5,754	6,135	6,086	6,246	6,360	6,487	7,006	7,567	8,172	8,826	9,532	10,485	11,533	12,687	13,955
- John Lewis (80% of Gross Sales)	3,049	3,274	3,566	3,663	3,781	3,945	4,102	4,430	4,785	5,168	5,581	6,028	6,630	7,293	8,023	8,825
	8,466	9,028	9,701	9,749	10,026	10,304	10,589	11,437	12,351	13,340	14,407	15,559	17,115	18,827	20,709	22,780
Total Expenses:																
- Waitrose	5,124	5,444	5,898	5,853	5,992	6,042	6,163	6,656	7,188	7,763	8,384	9,055	9,961	10,957	12,052	13,258
- John Lewis	2,833	3,048	3,315	3,413	3,538	3,668	3,815	4,120	4,450	4,806	5,190	5,606	6,166	6,783	7,461	8,207
- Group and other	56	65	46	81	19	67	69	70	75	74	85	89	93	97	102	107
	8,012	8,557	9,259	9,347	9,548	9,777	10,047	10,846	11,713	12,643	13,660	14,750	16,220	17,837	19,615	21,572
Operating Profit:																
- Waitrose	292	310	237	233	254	318	324	350	378	409	441	477	524	577	634	698
- John Lewis	217	226	251	250	243	276	287	310	335	362	391	422	464	511	562	618
- Group and other	(56)	(65)	(46)	(81)	(19)	(67)	(69)	(70)	(75)	(74)	(85)	(89)	(93)	(97)	(102)	(107)
	453	471	442	402	478	527	542	590	638	696	747	810	896	990	1,094	1,208
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Profit for the year	101	102	144	223	354	645	663	536	570	613	648	693	753	820	893	973
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# Risks & Mitigation

Risks	Mitigation Strategies
Taxation	Double-Tax Treaty & Transfer Pricing
Land Ownership	Legal Research
Competition	Strategic Location & Pricing
Complex Supply Chain	Developing Relationships & Building on Existing Relationships



# Plan B: Recommended Contingency Plan



# Conclusion

