

John Lewis

Partnering for the Future

SMURFIT CONSULTING

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The Challenge

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Weather Brexit and technology changes:
sustaining happiness for our partners

Recommendations

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Partnership continuity plan: Brexit

Buy Ocado and leverage technology & online presence

Become Europe's 1st personal online shopping consultant

Create European subsidiary in Ireland

Agenda

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Analysis

Maria Barry

Recommendations

Ruth Lalor

Implementation

Andrew Gebelin

Analysis

Maria Barry

John Lewis

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Vision

The partnership's ultimate purpose is the happiness of all its members, through their worthwhile and satisfying employment in a successful business

EXTERNAL ANALYSIS – TRENDS

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Economical

- Brexit – fluctuations in currency
- Import tariffs
- Recruitment of warehouse workers (Non-EU)

Social

- Online shopping trends
- Rise in use of IT/AI
- Fall in Brick and Mortar shops
- Corporate Social Responsibility – Employee well-being

Political

- International relationships and negotiations of trade agreements

INTERNAL ANALYSIS – SWOT ANALYSIS

	John Lewis	Waitrose
Strengths	<ul style="list-style-type: none">• High quality• Brand recognition• Customer Service	<ul style="list-style-type: none">• High quality produce• Honestly priced• Premium customer service
Weaknesses	<ul style="list-style-type: none">• Low online presence	<ul style="list-style-type: none">• Low online presence
Opportunities	<ul style="list-style-type: none">• Develop online presence	<ul style="list-style-type: none">• Develop online presence
Threats	<ul style="list-style-type: none">• Brexit: Outsourcing from 70 countries• Competition (Harrods, M&S)	<ul style="list-style-type: none">• Brexit: Lesser threat to Waitrose than John Lewis• Groceries sourced in UK• Competition Grocery sector – Crowded space (M&S, Tesco, Waitrose, Sainsbury ,Aldi, Lidl)

Challenges and Opportunities differ for both

INTERNAL ANALYSIS - COMPETENCIES

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	Customer Service	People management	Technology	Sourcing of quality goods
Valuable	√	√	√	√
Rare	√	√	X	√
Costly to imitate	√	√		√
Organized to capture value	√	√		√

- Challenge is how to merge customer service with technology

How to merge technology and service competencies

INTERNAL ANALYSIS – FINANCIALS

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Current financial position

- Increase in operating profits (453.4 £M to 478.2 £M) 2013 to 2017
- Borrowings In 2017:£ 966.9M (£M)

Brexit implications (Worse case scenario)

- Decrease in Waitrose profits in 20% by 2021 and John Lewis profits by 30% in 2021
- Need to off-set this financial risk

Operating profits	2017 £M	2021 £M
Waitrose	253.5	202.8
John Lewis	243.2	170.24

Strong financial position but financial challenges ahead

Recommendations & Alternatives

Ruth Lalor

Options: Groceries

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	Focus on bricks and mortar technology to remove cashiers	Reduce bricks & mortar presence	Increase online presence organically	Buy online retailer	Increase UK sourced products
Technology focus	Green	Green	Green	Green	Grey
Growth potential	Yellow	Yellow	Red	Green	Green
Consistent with values & culture	Yellow	Yellow	Green	Yellow	Green
Partner retention	Yellow	Yellow	Green	Green	Green
Cost	Green	Green	Green	Yellow	Green
Offset to Brexit Risk	Green	Red	Yellow	Green	Green

Increase online presence & local sourcing to reduce BREXIT risk



Ocado solely online high end grocery retailer operating hub and spoke model



Renowned customer service, rebranded as Waitrose



Re-train cashiers/ warehousing as drivers & implement upskill programme. Social welfare & job-bridge partnership (cost neutral)



Online shopping assistant - WeeklyShop™ Assistant

Contribution of £64m in operating profit by 2025

Options: Retail

	Change market positioning to low-end	Increase online presence	Buy European retailer w/ online presence	New service offering: online personal shopper
Builds on core competence	Red	Green	Yellow	Yellow
Offset currency risk	Green	Yellow	Green	Green
Financial Viability	Yellow	Green	Green	Green
Potential Growth	Yellow	Green	Green	Green
Partner retention	Yellow	Green	Yellow	Green
Offset to Brexit Risk	Yellow	Green	Green	Green



Europe's 1st online personal shopping service

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Partner with technology company to allow upload of body image via X-box/ PictureMe™ with virtual fitting room



Online shopping consultant advises via live chat and/ or skype based on customer requirements



European subsidiary, fulfillment centre initially in UK, then Ireland



Point of sale: Ireland

Innovate and leverage technology to increase value proposition

Implementation

Andrew Gebelin

Implementation: Partnership Continuity

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2018

- Internal outreach campaign to register employees and families in UK
- Continue developing technology efficiently
- Partner with welfare dept. to retrain low-skilled workers
- Retain partner benefits & pay structure

2019

- Build cash reserves of £100M for bonus & benefits
- Industrial psychologists to ensure culture continuity with expansion

2021

- Introduce deferred 3 year bonus payment plan

Beat BREXIT by being partner of choice

Implementation: Online Groceries

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2018

- Purchase Ocado Ltd (£200M)
- Sync Ocado with Waitrose= supply & logistics system
- Increase UK product sourcing

2019

- Rebrand Ocado to Waitrose.com
- Increase online sales by 10%

2020

- Introduce Pound Protection loyalty programme
- Partner retraining programme for online shopping consultants
- Marketing campaign (£3M)

2021

- Launch online WeeklyShop™ Assistant

Adapt technology, partners and costs for future of grocery shopping

Implementation: Online Retail

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2018

- Enter into agreement with PictureMe™ to provide scanning technology from TV's & photos
- Launch partner retraining programme with first 100 volunteers

2019

- Develop marketing campaign w/ external consultant for BestFit™ (£2M)
- Launch BestFit™ personal shopping service at JohnLewis.com in October

2020

- Expand BestFit™ to EU with JohnLewis.com
- Internal focus on culture retention

Expand and differentiate retail business to remain competitive

Implementation: Ireland/ EU

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2019

- Hire 3 employees for transition team in Ireland
- Develop marketing campaign w/ external consultant (£15M)

2020

- Open office for Johnlewis.ie
- Set up warehouse & distribution facility for EU orders
- Manage POS through subsidiary for tax benefit

Hedge bets by going into Europe

FINANCIAL IMPLICATIONS

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Buying Ocado

Time	Item	Cost (£M)	Cumulative cash flows	Increase in profits
2018	Purchase of Ocado	(200)	(200)	
2018	Operating profit	15	(185)	
2019	Operating profit	16.5	(168.5)	10%
2020	Operating profit	19	(150)	15%
2021	Operating profit	23	(127)	20%
2022	Operating profit	28	(99)	25%
2023	Operating profit	37	(62)	30%
2024	Operating profit	48	(14)	30%
2025	Operating profit	62.4	48	30%

Assumptions:

- Increase in profits each year as more shoppers move to online shopping

Payback period ~ 7 years (Long-term growth vs short-term)

FINANCIAL IMPLICATIONS

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Growing Online Presence

	Item	Cost (£M)	TOTAL COSTS
2018	Rent	60 k	
	Staff: 50 people	1.75 M	1.756 M
2019	Rent	60 k	
	Staff: 100 people	3.5 M	
	Marketing	7M	10.56 M
2020	Rent	60 k	
	Staff :150 people	5.25 M	
	Marketing	8 M	13.25 M
	TOTAL		25.5 M

Assumptions: Average salary 35k

Low capital outlay to grow online presence

FINANCIAL IMPLICATIONS

Fulfillment centre in Ireland

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	Item	Cost (£M)	TOTAL COSTS
2018	Rent	300 K	
	Staff: 50 people	1.75 M	
	Other expenses	150 k	2.2 M
2019	Rent	300 k	
	Staff: 100 people	3.5 M	
	Other expenses	200 k	4 M
2020	Rent	300 k	
	Staff :150 people	5.25 M	
	Other expenses	225 k	5.72 M
	TOTAL		11.9 M

Assumptions: Average salary 35k

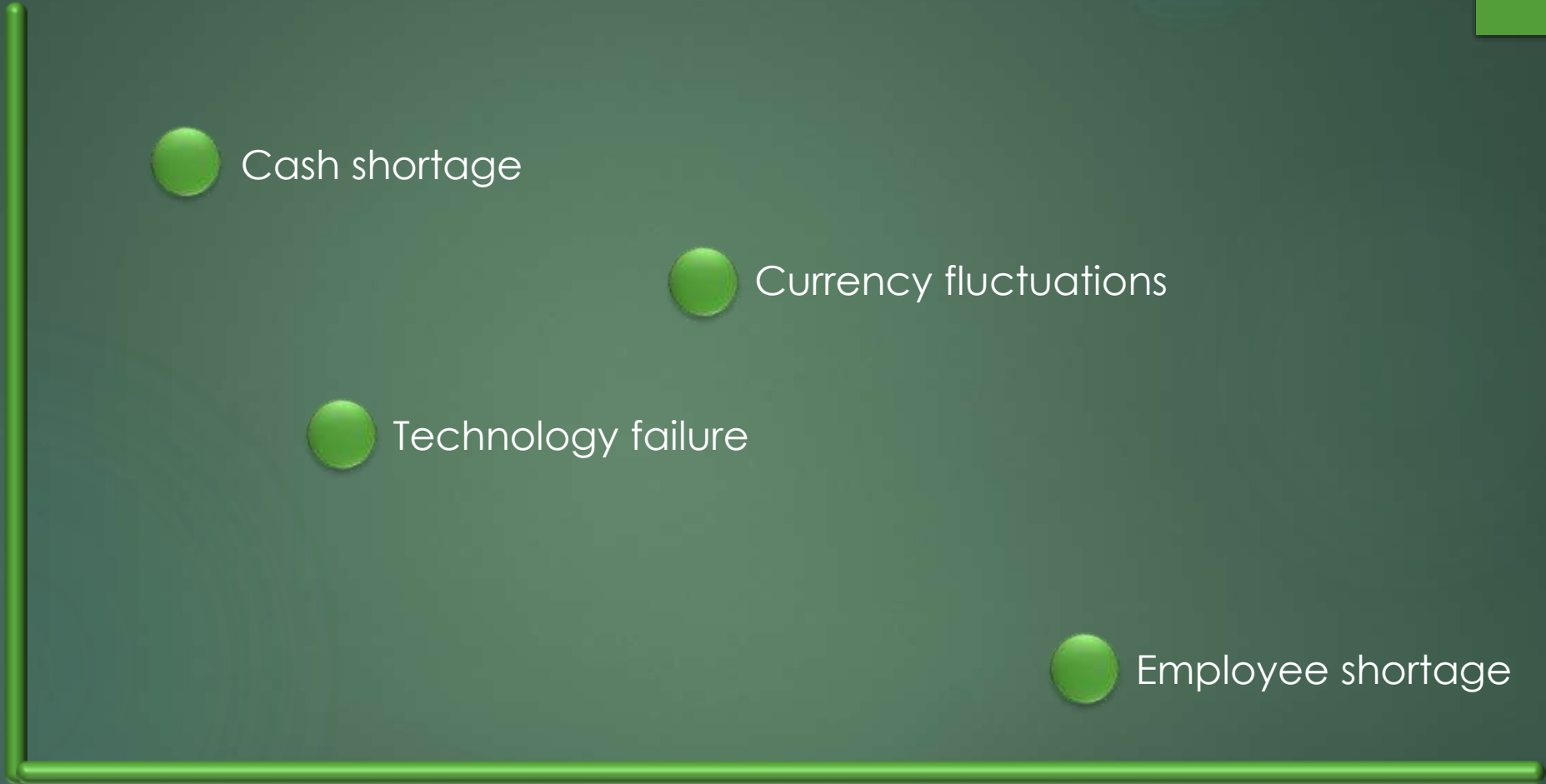
Costs for fulfillment centre offset by decrease in tax bill by £6M

Low capital outlay to grow online presence

Risks

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Impact



Probability

Mitigants

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Impact



The way forward

Questions

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