

JOHN LEWIS PARTNERSHIP

Rutherford Consulting
University of Alberta

INTRODUCTION

Mackenzie

Morgan

Abby

Nupur

CHALLENGE

How can J.L.P navigate the uncertainty presented by recent political changes in the U.K.?

RECOMMENDATION

Acquire a grocery store in Australia to diversify markets, while taking domestic steps to prepare for Brexit.

ANALYSIS

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JLP'S BUSINESSES



JLP'S FINANCIALS

- ❖ Growth in both grocery and department store businesses
- ❖ Margins have been acceptable in grocery store but department store margins weak
- ❖ Partnership bonus' have been decreasing
- ❖ Overall profit has increased from 2013- 2017
- ❖ Borrowings have been stable

SWOT

Unlike competitors you are not geographically diversified – with Brexit uncertainty

Strengths

- Strong culture
- Democratic in Partnerships
- Unique governance structure
- Local presence
- Diversity of businesses
- Knowledge and expertise in retail

Weaknesses

- Lack of diversity in supply chain
- Dependence of labour from non UK resident
- Slow to establish online presence
- Need governance process (hinders quick decisions)

Opportunities

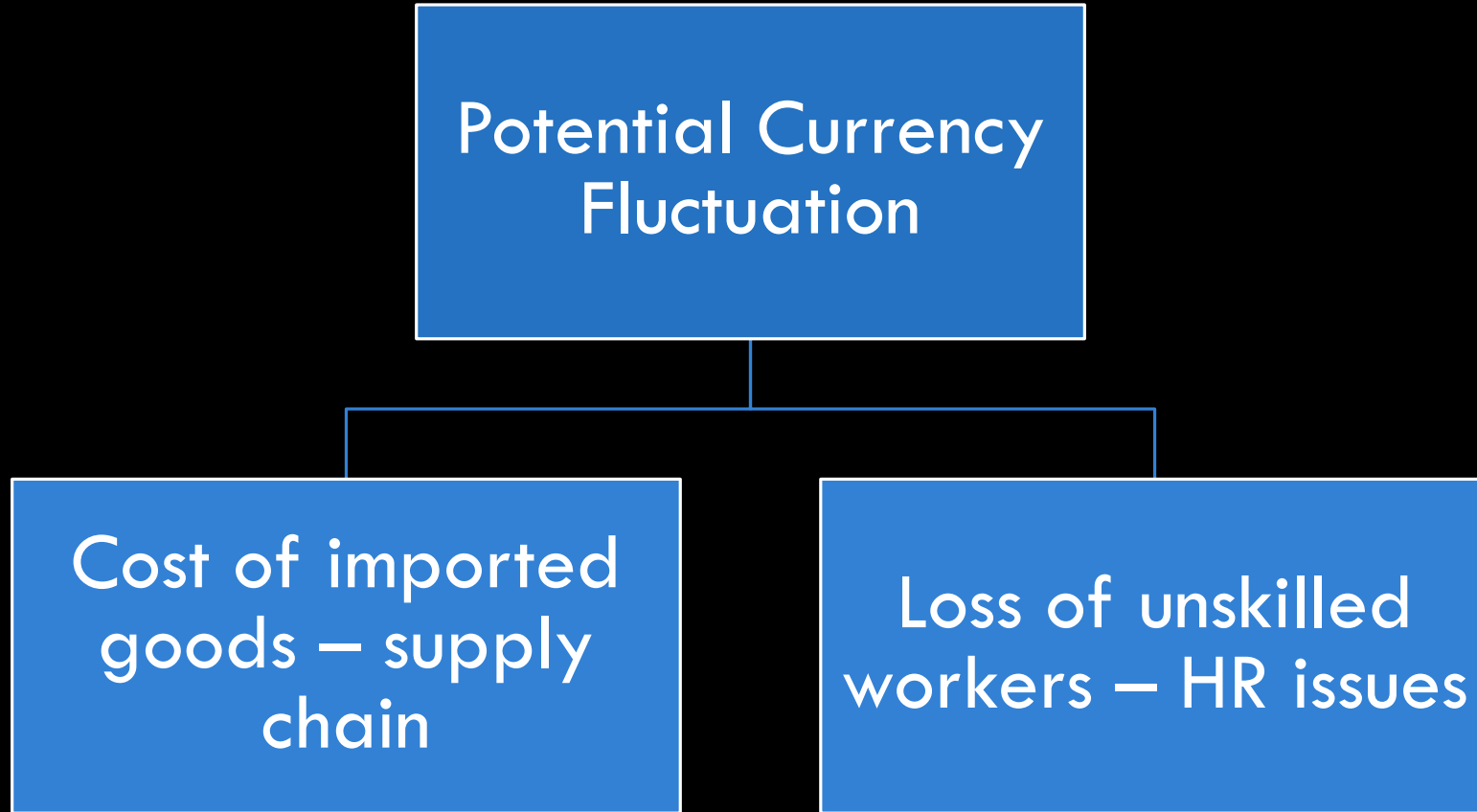
- Utilize UK suppliers
- Leverage expertise in retail internationally
- Strong relationships with commonwealth nations

Threats

- Online shopping
- Technology replacing jobs
- Competitors with international presence – less exposed to pound
- Brexit (discussed above)

BREXIT

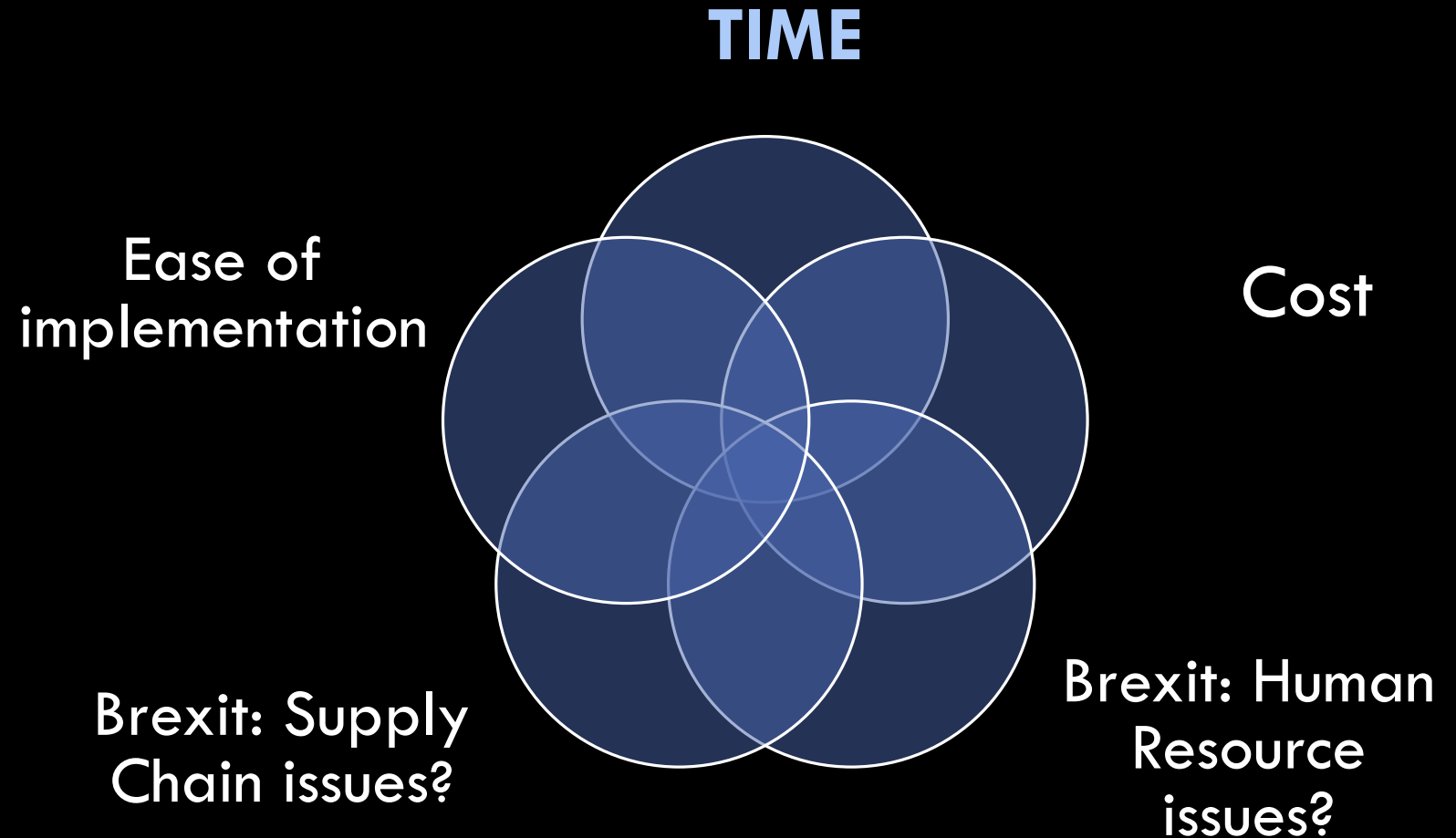
**Need to focus on stabilizing business
– not large growth



ALTERNATIVES

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ALTERNATIVES CRITERIA



SELL ALL DEPARTMENT STORES

Advantages

- More effected by Brexit
- Focus efforts in one areas
- Poor margins

Disadvantages

- Less diversified
- Large portion of the business
- Huge hit on culture – firing employees
- Who will buy acquisition of that size

ACQUIRE A SERVICE ORIENTED BUSINESS WITHIN THE UK

Advantages

- Diversify business type
- Fixes supply chain issues

Disadvantages

- Will not solve labour issues
- Unknown businesses
- Further investing in the UK

INTERNATIONAL MERGER

Advantages

- Less exposed to pound
- Diversify markets

Disadvantages

- Hard to find partner quickly
- All partners have to be on board
- No relationships

INTERNATIONAL ACQUISITION



Advantages

- Less exposed to pound
- Diversify markets
- Full control
- No rushed relationships



Disadvantages

- Tight timeline

RECOMMENDATION

International acquisition of a chain of stores, while taking domestic steps to combat potential Brexit threats.

IMPLEMENTATION

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RECOMMENDATION

- ❑ *Acquire a grocery store in Australia to diversify markets*
 - ❑ *Free up capital by closing 6 department stores*
- ❑ *Take domestic steps for labour and supply chain to prepare for Brexit*

WHY AUSTRALIA?

- ❑ Similar cultural fit
- ❑ Potential of “Canzuk” in light of Brexit
 - ❑ Freedom of movement organization between Canada, Australia, New Zealand, UK
 - ❑ UK and Australia likely to be first
- ❑ Australia dollar low right now – could enter market at a good price

CRITERIA FOR ACQUISITION

Culture

- Australian culture – good fit with the partnership

- Australian “everyone deserves a go”*

- Higher wages/benefits*

- Commonwealth connection*

Stores actively looking for purchases (i.e. Broger)

Small enough that its not too big

- No capital to buy similar size

EXAMPLE: BROGER IN AUSTRALIA

Small to mid sized grocery	20 grocery stores in Queensland and NSW
	Sourced with Australian and SE Asian goods
	Fairly paid employees
	Local connections – similar to J.L.P

IMPLEMENTATION – STEP 1

Call a partnership council and board meeting immediately

- Get consensus on international expansion and store closures

HOW TO PROMOTE IDEA WITH PARTNERS?

Emphasize
need to
diversify to
other markets

Brexit could
pose a sudden
and serious
threat to all
partners in the
UK – emphasize
all threats

Have a backup
plan – another
source of income
if Brexit hurts
sales in the UK
through currency
devaluation
(rising prices)

Australia has
strong
protections for
workers and
passionate
about community
development so
this fits with
culture of
partnership

IMPLEMENTATION — STEP 2 AND 3

2) Hire an Australian consultant to get background information and evaluation of Brogers

3) Create an acquisition proposal and approach Broger

IMPLEMENTATION — STEP 4

4) Negotiate the terms of acquisition with Broger and create a *change management process*

- Workforce
- Culture
- Supply Chain
- Exchange Range
- Communication
 - Project champion

TIMELINE FOR ACQUISITION



****Simultaneously taking domestic actions*

DOMESTIC ACTIONS – SUPPLY CHAIN

- ❑ With 6 stores closing, less dependence on EU suppliers – helps mitigate threat from Brexit
- ❑ Start partnering up with UK based suppliers – UK wants more “local”
 - ❑ Less disrupted by currency fluctuations
- ❑ Combat further domestic problems:
 - ❑ In the long run, leverage your presence into the Asian market, due to the new acquisitions from relationships with potential suppliers

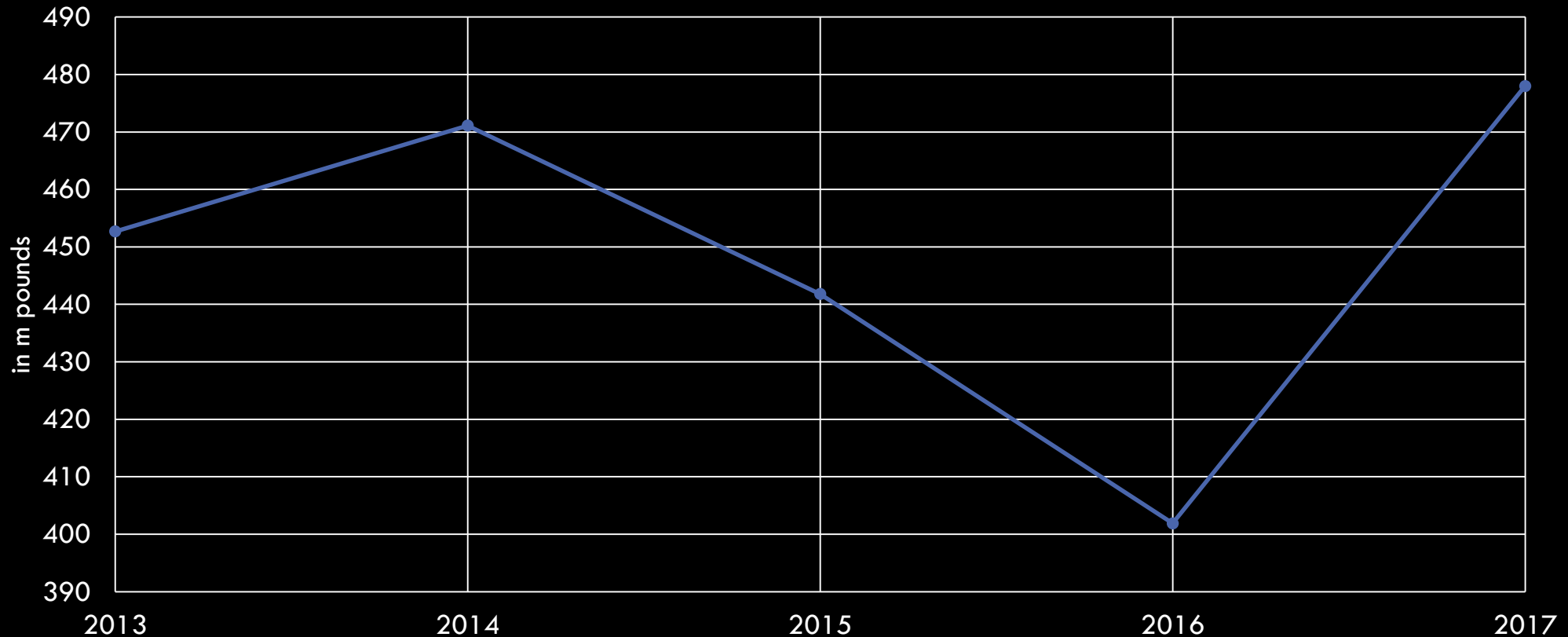
DOMESTIC ACTIONS — LABOUR CONSIDERATIONS

- ❑ Phase out 6 shops across the UK
- ❑ Unskilled labour loss as they are affected by Brexit
- ❑ Funnel remaining staff into positions in still open stores and is not online logistics
- ❑ Less unskilled labour needs — which are currently being filled by out of country
 - ❑ Brexit will not hurt
- ❑ Highly skilled people can transition into logistics and IT needs of online commerce

FINANCIALS

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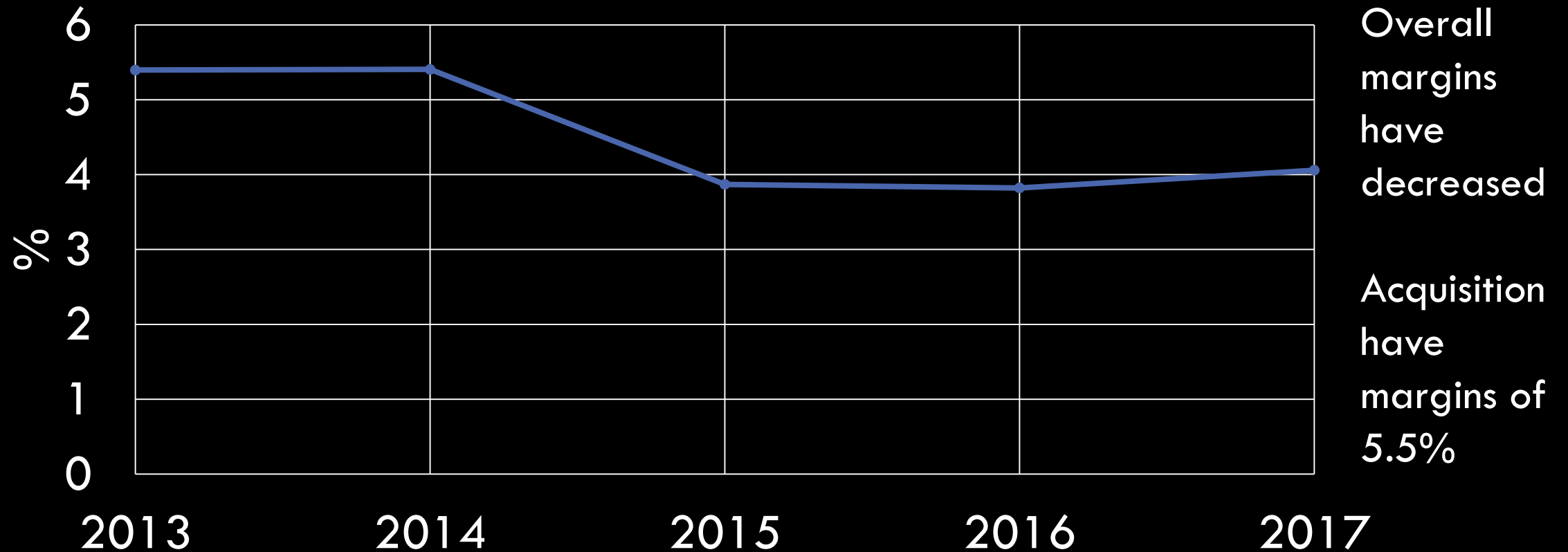
TOTAL OPERATING PROFITS



2017 was a strong year

Revenues from Waitrose and JL dept stores increased in 2017

MARGINS



COST ASSUMPTIONS

- Sale of 6 JLP department stores: total value of £97 million, based on expected land value in key locations
- Value of Australian acquisition £120 million, based on exchange rates and expected land value in Australian locations
- Partnership bonuses recommended to decrease to 3% in 2017 to assist in financing acquisition
- Will require borrowing £17 million
- Cost of hiring company to assist in acquisition: £500,000

FINANCIAL OUTLOOK

Borrowings

2016	2017	2018
£(966.6) million	£(983) million	£(967) million

Recommended that debt from acquisition be paid back immediately in 2018

FINANCIAL OUTLOOK

Profit for the year

2016	2017	2018	2019
£353 million	£336 million	£341 million	£350 million

- Acquisition will stabilize the company through Brexit
- Profit doesn't jump back to 2016 levels as it is recommended debt by paid back immediately and continue to be paid back going forward
- Recommend 6% Partnership bonus be sustained in 2018 and 2019
- Longer term, company will be able to utilize supply chain connections in Southeast Asian countries in order to shift some of their supply chain from EU based countries

KEY PERFORMANCE INDICATORS

Within the first year of operations in Australia, revenue from Australia – 6% of total revenue

Borrowings of less than €900 M by 2019

Partner approval rate for the strategy of 75% or more

RISKS AND MITIGATIONS

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RISKS AND MITIGATION

Risk	Mitigation
Cannot sell 6 department stores	Look at other forms of financing
Partnership does not vote to acquire	Continue with domestic plan – value your governance structure
Acquisition does not go through	Still take domestic action, investigate options elsewhere eg. Canada, India

CONCLUSION

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