Swot analysis and porter’s 5 forces analyses of john lewis partnership

Life, Relationships

Abstract

This paper looks at John Lewis, a top retailer in theUKand a very successful brand in the EU region as a whole. It scans theenvironmentin which John Lewis operates while scrutinizing the attractiveness and competitiveness of the retailing industry in theUnited Kingdom(Porter’s Five Forces analysis). The SWOT analysis is done to bring in to light the retailer’s strengths and weaknesses and to expose any opportunities that it can capitalize on and the possible threats it may stumble upon in the process of further development.

Introduction

Since its inception in 1864, the John Lewis brand has grown in to one of theUK’s leading departmental stores and enduring brands. John Lewis boasts the only remaining traditionally English brand with a focus on quality, value-for-moneyand practicality (John Lewis, 2008). John Lewis specializes in sellingfoodand drinks, clothes and household goods. In addition, John Lewis has recently diversified into financial services such as insurance and credit cards. During the early 2000’s, the company experienced serious financial crunches due to tribulations with its supply chain and poor product offerings with the worst time being at the year ending March 31, 2001 when its profits were recorded to be as low as ? 2. 8m on revenue of more than ? 8bn (John Lewis, 2008).

However, the retailer managed to turn its fortunes in the preceding years following changes in the management and has since attained a remarkable growth in profits due to rigorous cost cutting, promotions, widespread store refurbishment and aggressive marketing (Economist, 2012). Thus, profit

before tax (? 997) and net profit (? 860m) for the year ending March 31, 2011 were at their highest since 2001 (John Lewis, 2012). However, following the credit crisis in the US and the difficult trading environment in the UK over the 2010 Christmas period, the company’s sales growth saw a marked slow-down and its shares plummeted almost overnight (Economist, 2012). John Lewis has recently gained the title of “ bell-weather” in theUKretailing industry, which means that if John Lewis is besieged, the whole sector is also struggling to stand on its feet. To this end, the SWOT analysis below looks at the environment in which John Lewis is operating, bringing in to light the company’s strengths and weaknesses while exposing the opportunities that the institution can capitalize on and the possible threats it may lurch in to in the process of further growth.

SWOT Analysis

Strengths

John Lewis enjoys a strong brand of embodying qualities, practicality and value-for-money promoting its customerloyalty(John Lewis, 2012).

John Lewis profits have been growing steadily since 2001and the cash position was very strong as at the year ended 31 March 2011 marking a decade of enormous economic growth (M&S, 2011).

The highly qualified management team has being greatly praised for having reversed John Lewis fortunes in the last decade.

John Lewis aggressively markets itself and has recently used celebrities like as their brand ambassadors (John Lewis, 2012).

Weaknesses

John Lewis performance slipped over the 2010 Christmas period. While all retailers practically underperformed during this time, John Lewis was the most exposed. At the time of writing, the share price was 361p with the 52-week low of 367p and high of 759p, which means that John Lewis M&S had lost more than 50% of its value during the year (Sunday Times, 2011). Similarly, the price/earnings ratio of 9. 4 is very low as compared to that of its competitor’s i. e Mark and Spenser. The price/earnings ratio is the key indicator of investor assurance in a company (Arnold, 2002).

John Lewis has recently started cutting prices to match up the ever increasing competition. This may devalue the brand (The Economist, 2012). The company has been recently criticized for fuelling accusations of poor managerial incompetence, corporate governance and lack of transparency infuriating many large investors (Nugent and Hawkes, 2012).

Opportunities

The idea of developing markets to Asiapresents large opportunities for John Lewis.

Designing of trendier clothes would attract young and potential customers to its stores.

Online sales provide a great opportunity since online margins are higher citing extensive growth from online companies like eBay (John Lewis, 2011). The adoption of healthy lifestyles by customers presents an opportunity to sell healthy foods and sports gear.

Growing insurance and credit card industry. The industry has been on an

upward trend over the past decade. Considering that John Lewis has a division that contributes over 23% of its total revenue dedicated to this segment, it is likely to reap significant benefits if this opportunity is fully utilized.

Threats

Currently, John Lewis target group are older customers usually over 45 years. This might pose as a risk in the future due to the fact that today's 20-30 year olds will still stay trendy after 10-20 years and might be reluctant to shop in John Lewis, especially taking into consideration the desire for people to look younger nowadays (The Economist, 2012).

Jeremy Paxman shaped a storm of negative publicity when he criticized John Lewis underwear due to lack of support (Nugent and Hawkes, 2012). Even though it is considered that every third woman and fifth man in the UKbuys John Lewis underwear, the publicity may have an adverse effect on sales (John Lewis, 2012).

The stated poor corporate governance in the company might lead to a fall in the interest margins and reduced revenues accrued from the cash equity business. Such declines may lead to a situation whereby clients lose their confidence on the company's ability to meet its financial obligations. In addition, a decline in returns indicates that the group lacks the ability to deploy its resources to profitable ventures.

Porter's Five Forces

Level of competition

Competition in the retail industry sector is extremely fierce. Predicament to

this problem is exacerbated by the fact that institutions are diversifying into non-core turfs thus creating extra competition.

John Lewis is particularly exposed to competition as it sells not only food and drinks but also apparel and household goods. This leaves it vulnerable to competition from giant supermarkets such as Tesco, Asda, Sainsbury’s and clothes retailers such as Next, Topshop, Marks & Spencer and Zara.

Porter (1985) wrote that “ companies pursue one of three generic strategies: low cost, differentiation or hybrid”. In this regard, John Lewis has long tried to distinguish itself from competition by placing itself as a higher quality value-for-money brand. However, this has being greatly affected by the cuttings in apparel prices which poses a risk of de-valuing the brand in the market and losing the scope of specialization (Arnold, 2012).

However not a key business for John Lewis, the John Lewis credit cards and insurance face a lot of competition from banks and building societies.

Threat of Substitutes

Apparently, there are no major substitutes to food and clothes. This makes the threat of substitutes relatively low.

Notably, the key threat in substitutes in the food market is mainly Waitrose, while Peter Jones and Marks and Spencer offer high quality apparel. Asda and Tesco have also introduced less affordable alternatives and are even trading dinner jackets (Wilkes, 2012). In this regards, the threat of substitutes is relatively high.

Threat of New Entrants

The threat of new entrants is relatively low. This is due to the massive capital

investments required in setting up a successful chain store. Also, the retail industry is mature and a new entrant in the market would consider offering something radically new, which is quite difficult to do in cloth retailing.

All key retailers have strong reputable brand names therefore benefits from customer loyalty, which becomes increasingly important in homogenous markets (Doyle, 2002).

The existing retailers are firmly clenching on to their market shares and would use all available methods to counter any new entrants i. e. litigation. Importantly, the lack of market knowledge – particularly for foreign investors-possess as a barrier to new entrants.

Bargaining Power of Buyers

Is relatively high. The buyer's concentration is high giving them an advantage in dictating tastes and rules.

The switching costs are low and there are plenty of alternatives.

The UKeconomy is prospected to slow down by mid 2013 forcing retailers to cut down prices and focus more on customer needs (BBC, 2012).

Bargaining Power of Suppliers

Is rather low. John Lewis being a large company listed with a huge turnover, suppliers always want their products on the retailer's shelves in order to reach a large customer base enjoyed by John Lewis (Daveyand Laurance, 2008).

Unlike other stores, John Lewis is not overly dependent on suppliers as it mainly sells own branded products. This means that it largely buys raw materials and not finished goods, which is favourable for margins (John

Lewis, 2012).

Conclusion

Although John Lewis managed to conquer its financial crisis in the early 2000's, it now faces a slowdown in its profit gains. This has being partly contributed by the past economic crunch in theUnited Stateswhich spread to Europe and to theUKmainly (ABC News, 2008). As the spending power of consumers decreases, customers get more cautious and start to shop around more for cheaper products (John Lewis, 2012). Even though John Lewis has a lot of strength to help maintain its leading position in the UK retail market, it should also be on the verge of managing its weaknesses and be particularly cautious with regard to any form of bad publicity that may tarnish its name. John Lewis should consider all possible means of maintaining investor relations and consider reforming its executive management to improve its corporate image. Developing in to other markets and online sales present great opportunities and John Lewis should not vacillate in embracing them (BBC, 2012).

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