Detailed analysis of john lewis partnership commerce essay

The following report will provide a detailed analysis of John Lewis Partnership. The retailer has been very successful in the UK and has performed extremely well in spite of more negative financial issues and other dynamics impacting upon the retail sector at large, predominantly in light of declining consumer income, technological advances such as the internet and increased competition. The reason the company was able to achieve these was because of their commitment towards their clients in providing innovative solutions as well as improved awareness of customer needs and the significance of creating a reliable customer base which ensures positive word-of-mouth and the company has achieved this due to its commitment to providing innovative solutions to clients as well as a heightened awareness of customer needs and further recommendations to increase new revenue streams through an appropriate CRM system in place. Therefore, the reports provides an evaluation of the company’s current marketing environment assessing how the external factors impact the retail sector largely and specifically on the strategies that John Lewis chooses to adopt. The report will also evaluate the strengths and weaknesses as well as the threats and opportunities that the company is presented with and how best it can achieve a match with its own internal capabilities to the dynamics at play.

The report will also look at how the John Lewis brand and customer proposition is placed in the UK market in comparison to other competitors, with an attempt to provide understanding in to how the company gains advantage through differentiation from other competitors, essentially highlighting how the company implements a differentiated strategy which allows it to maintain advantage. At the same time, the analysis has drawn attention to how the uncertainty which prevails and the continuous rate of change in the external market highlights the implications of continuous observation and continuous re-evaluation of the strategic options applied. Ultimately, the aim is to provide recommendations as to how the company can increase the probability of its advantage over the longer term.

“ The John Lewis Partnership’s 81, 000 Partners own the leading UK retail businesses – John Lewis and Waitrose. Our founder’s vision of a successful business powered by its people and its principles defines our unique company today. The profits and benefits created by our success are shared by all our Partners” (John Lewis, 2012).

Write the report as if you were working for an external management consultancy firm, reporting to the Board of Directors of your chosen company. The report should contain sections that address ALL of the main aspects of the module syllabus: that is the report should cover both strategic analysis (internal and external) and strategy formulation. It is essential that in undertaking your research and writing your report you make appropriate use of the strategic management tools and models to conduct internal and external strategic analysis and strategy formulation that you have encountered in this module. Credit will be given for analysis, evaluation and synthesis, and the appropriate selection and use of strategic management tools and models.

2. 0 Introduction

This report will discuss the strategic management tools demonstrating skills of analysis evaluation and synthesis of John Lewis. The report includes strategic analysis and an External Environmental analysis. The report also covers the strategy formulation in which the SWOT analysis and BCG Matrix will be discussed. John Lewis Partnership plc is one of the UK's top ten retail businesses. They operate amongst 2 sectors known as John Lewis and Waitrose. The company offers food as well as household products i. e. baked foods, fresh fruit & veg, wines, household items, furniture, electronic items etc.

The company functions in a chain of 287 Waitrose supermarkets, 39 John Lewis shops that include 30 departmental stores and 8 of them at home John Lewis stores. The company operates throughout the UK and is headquartered in London, they sell their products through retail stores, catalogues, and websites. The company's strategic focus is to accomplish its non-core business strategies through partnership with other firms. There are around 81, 000 employees working in John Lewis stores who are partners in the business, they have a share in the company's profits and are given the opportunity to participate in the company's progress and growth. This is their unique source of competitive advantage as it encourages staff loyalty through being business partners (John Lewis 2012)

3. 0 Strategic analysis

3. 1 Mission statement

The mission of an organisation highlights the broad directions they need to follow and provides a brief summary of the values and reasons that lie behind it (Lynch 2012). Like other organisations John Lewis also have a mission statement, it highlights their reputation established through their ownership structure as it is unique and they are very successful in being a profitable business. John Lewis aim to keep their staff satisfied so that their business can be a success. Their strategy is based on three key elements partners, customers and profit. (Refer to appendix 1) to see their full mission statement.

4. 0 External Environmental analysis

4. 1 PESTEL Analysis

The PESTEL analysis examines the macro-environment in which the business exists in. It is a helpful tool for understanding market growth or decline as well as the position, potential and the direction for business. It is also used for evaluating the Political, Economic, Social Technological, Environmental and Legal factors that a business operates in. The Political factors discuss government regulations such as employment laws, environmental regulations, tax policy and political stability. The Economic factors affect the cost of capital and purchasing power of an organisation. These factors also include economic growth, interest rates and inflation. The Social factors impact customer's needs, potential market size such as John Lewis's goods and services, population growth and age demographics. Technological factors of John Lewis will discuss barriers to entry, making or buying decisions, investment and innovation and the technological change. Environmental factors include weather, climate and climate change. Climate change affects how John Lewis operates and the products they offer. Lastly Legal Factors include discrimination law, employment law and health and safety law. These factors can affect the way John Lewis operate their costs and the demand for their products.

4. 2 Macro- environmental Factors

It is commonly known, that those prevailing in the external environment of any firm shall have a significant influence in terms of decision making in the strategic options. Such analysis is known as PESTEL analysis and usually suggested as the first stage in the strategic planning process (Lynch, 2006). As Johnson et al (2008, pg. 56) rightly declared, " The key drivers for change are environmental factors that are likely to have a high impact on the success or failure of strategy". (Refer to appendix 2) to see the PESTEL analysis for John Lewis.

It can be concluded that each factor of the PESTEL has had an effect on John Lewis's actions, some of them are now stated in their mission statement. Previous factors are used to analyse different factors, furthermore, these factors can give a prediction for the future, so can be quiet effective if they are applied correctly. There are also some restrictions in this model, e. g. when the procedure of the checklist is applied to John Lewis it may be tough.

" The emergent corporate strategies may well comment that the future is so uncertain that prediction is useless" (Lynch 2012 page 84), however, some may still give words of caution but still predict the future. The PESTEL analysis isn't the only framework that John Lewis take into consideration, their organisation has many other internal and external factors that also have an effect on the strategy formulation, this is why Porters five Forces framework is applied. The PESTEL analysis has a lot of information but yet doesn't offer a detailed analysis of the business. Porters Five Forces (1985) observes factors that have an impact on competition in the organisation.

4. 3 Strategic Options

The external analysis undertaken has underlined how the focus and the landscape of the UK retail sector has changed dramatically over the last decade or so. Such developments clearly present both threats, primarily from new entrants and modes of distribution, as well as opportunities such as the increasing utilisation of technology within the current offering to customers. As Johnson et al (2008, pg. 3) highlights, strategy is about " exploiting the strategic capability of an organisation, in terms of its resources and competences, to provide competitive advantage and/or yield new opportunities."

However, many competitors in the retail sector at large have managed to expand into other range of products as well as expanding internationally, John Lewis seems to have adopted a more thoughtful approach and stayed loyal to its customers as well as confident in terms of its offering to the market. At the same time it has also developed a wide range of products as a lower price range to attract more customers across a wider range of segments in society. In times of economic uncertainty this also appears to be a sensible strategy in terms of situations where its loyal customer base may be experiencing declines in disposable income, thus enabling John Lewis to maintain their business through customers trading down to less expensive ranges in store. The recent introduction for its Essential Waitrose Range in 2009 was both a reaction to external events including activities of competitors but was viewed as an effective strategy highlighting the company's attention to external research as well as its innovative approach to dealing with such negative events.

Furthermore, Porter put forward the idea that there were three generic strategies; cost leadership strategy, differentiation strategy and the focus strategy, which companies follow. It is clear that John Lewis has embraced a combination of these, but essentially, differentiation has remained key to its business model which positions more favourably when compared to other competitors, particularly given the range and extent of the goods and services it provides as well as its highly effective branding and promotional events which appeal directly to customers and incite purchase. Its decision to introduce its Essentials range within its Waitrose stores may have been considered by some as an indication it was lowering its standards, but on the contrary, despite offering a cheaper alternative, quality remained key which ultimately implied that its position in the market would not be negotiated.

4. 4 Porter's Five Forces

Porters Five Forces framework highlights that the environment John Lewis is competing in is constantly changing, (refer to appendix 5). In this model it is believed that customers don't have more importance than any other aspect, however Aker, Baker and Harvey Jones argue that customers are more important than any other aspect of strategy development (Lynch 2012).

Porters Five Forces of competition (1985) is a common tool often applied within the strategic management process to firms across several sectors. It is similar to the PESTLE analysis as it takes a predominantly external perspective of the firm within its given industry looking at how it is positioned against other competitors in the same sector. Recently many have criticised the ensuring importance of the framework given the changes that have risen, particularly with regard to the diversification of business which has ultimately created blurring across many previously distinct sectors.

This is emphasized by the supermarkets entering into the clothing and electronics sector for example, as well as retailers including John Lewis expanding into financial services through insurance and credit facilities to customers. Barney (1995) and Henry (2008) underlined how Porter's model is more helpful when it is applied at a strategic business unit level rather than at higher levels of industry analysis such as the sector at large as it cannot be expected that all competitors will be competing against one another. This tool is also believed to be useful in terms of assessing a company's strengths and weaknesses in light of how it stacks up against competition. As Barney (1995, pg. 49) highlights, " A complete understanding of

sources of competitive advantage requires the analysis of a firm's internal strengths and weaknesses as well. The importance of integrating internal with environmental analyses can be seen when evaluating the sources of competitive advantage of many firms."

Looking at Porter’s five forces of competition, it is clear that John Lewis has attempted to not to just react to the external dynamics and actions of competitors, but actively be a step ahead. It has constantly adapted its business model, such as the introduction of store cards, its online offering and the Waitrose Essentials range in order to provide its business with a more appropriate fit to the market in line with Mintzberg’s (1994) theory. A major element of its strategy however, is its reputation, branding and subsequent positioning in the market and how consumers view the business in its entirety. It has remained rather committed to its original proposition and further enhanced its appeal through appropriate branding and its reputation for quality and enhanced service to customers.

5. 0 Internal Resource analysis

5. 1 Value analysis chain

The term ‘ Value Chain’ was used by Michael Porter (1985), the purpose of the value chain is to analyse the activities that are performed by the business, linking them to the competitive position. It also evaluates the particular activities to see which add value to the businesses products or services (quickmba 1999-2010)

While many critics and leading authorities dispute the validity of Porter’s earlier theories, many of his ideas do still appear useful from the perspective of strategic analysis, particularly the notion of the value chain. Ultimately, it is within the value chain which John Lewis has created that it has succeeded in terms of sustaining advantage in its market sector. It has created efficiencies and synergies through the interrelationships within (Mintzberg and Ghoshal, 2003). Value Chain Analysis which is often compared to the RBV of the firm as it looks to both internal and external dynamics impacting an organisation.

In recent years importance has also been given to joint ventures, collaborations and relationships which add value to the company's positioning. Elements of the chain such as HR which were previously considered as supporting elements are now viewed as core and this is demonstrated by John Lewis in terms of its commitment to and investment in staff. By enhancing the quality of its internal resources it can achieve distinctive competencies which are difficult to emulate by other competitors (Teece et al, 1997; Terwiesch and Ulrich, 2009). As Porter (1985, pg. 36) emphasises, " the way it performs individual activities are a reflection of its history, its strategy, its approach to implementing its strategy, and the underlying economics of the activities themselves."

6. 0 Strategy formulation

6. 1 SWOT Analysis: John Lewis Partnership

A SWOT analysis is a useful tool for understanding and decision-making, businesses such as John Lewis use this tool in all sorts of situations, a SWOT summarizes the Strengths, Weaknesses, Opportunities and Threats. This framework covers a crucial part of the strategic planning process a scan of the internal and external environment. Strength, Weaknesses are considered to be internal to the business whereas, Opportunities and Threats are part of the external environment.

Looking at the SWOT analysis (refer to appendix 6) it can be concluded that John Lewis take this tool into consideration when making business decisions based on their customers. However, John Lewis need to expand their target audience because at the moment they are only targeting an older audience " need to improve the diagnostic power of a SWOT analysis is to define the elements from a customer perspective rather than the organizational point of view". (Baker 2007, pg. 267). By doing this they will generate a higher profit margin. If john Lewis wants to stay ahead of their competition they need focus on their weaknesses such as they need to ensure their prices are similar to their competitors. Also John Lewis need to focus on threats the business may have to face but they can avoid such matters by acting upon the threat before it occurs.

Although the SWOT analysis tool is useful to businesses when making decisions, it has been criticized due to its simplicity and possible misleading approach to strategic analysis. This is because companies have failed to follow a few simple procedures. The SWOT analysis is a focused methodology (Baker 2007), therefore, when John Lewis the using this tool they need to ensure they are able to follow correct procedures of this tool to ensure they are able to achieve success.

6. 2 BCG Growth-share Matrix

“ The Boston Consulting Group (BCG) growth-share matrix was developed by Bruce Henderson, founder of BCG, in the late 1960s” (Baker 2007, pg. 125). The BCG Matrix is a simple tool used to assess a company’s position in terms of its product range. It simplifies how a company’s thinks about the products and services and makes decisions about which it should keep and let go and which products to invest in further. It provides a useful way of seeing the opportunities that are open to the company and also helps to consider how the company can maximise the profits in the future. Below is the BCG Matrix for John Lewis, highlighting where in the market the different departments of John Lewis are positioned.

John Lewis was voted Britain’s best retailer in 2009 and have won awards “ House Beautiful Awards 2008: Online Home Retailer of the Year Gold Award” (washerhelp 2012), making them leaders in departments such as House and Garden, Electrical Appliances, Fashion, Gifts and Toys. They now have a high growth and a high market share in this segment, thus putting them in the star category. Further, technology and baby departments are between the star and question mark category this could be due to high growth and market share or high growth and low market share as they are faced with high demands but have low returns. Moving on to the sport department as it is in the cash cow category, as a markets it isn’t growing but yet the market share for the products is high. Looking at the final category it can be said that John Lewis are safe as there isn't any products in the dog category.

7. 0 conclusion

Overall, the company has responded admirably to the changing dynamics impacting upon its market and customers, it is also clear that going forward, more challenges and threats shall be presented to it, particularly given persistent uncertainty relating to the global economy as consumer confidence within the UK. It would appear that in addition to a thorough and consistent approach to its markets in relation to external analysis of those factors deemed to impact most significantly; the company also adopts an internal approach, evaluating its inherent resources and competencies within the business. In line with the resource based view of the firm (Barney, 1991) and subsequent research by other authors such as Grant (2005), this analysis is often viewed as a more appropriate approach to the task of strategic management as ultimately, organisations have much more control over their internal resources than external market variables. Such an approach enables companies to incite the innovation process and thus create change in the wider environment as well as improvements to its value chain. This appears to be exactly what John Lewis has done to date through its expansion into other areas, as well as extending its range to customers through on-line facilities as well as credit, insurance etc.

Threat of New Entrants

This is considered to be fairly low for John Lewis given the original capital investment required as well as the regulations governing the market. At the same time, the fact that discount retailers and the supermarkets who benefit from vast scale economies can offer many of the same goods at substantially lower prices, is a concern and is perhaps indicative of why many retailers such as John Lewis now provide an electronic service in addition to their store offering. More entrants to the online space does seem inevitable though may become increasingly difficult given the variety currently in existence as well as the perception that customer service is often diminished. In this respect, John Lewis is clearly at an advantage given its reputation in the market.

Threat of Substitutes

The threat of substitutes is low from a product viewpoint yet in terms of suppliers, is high and is underlined by the success of the supermarket chains in their clothing lines as well as the competitive landscape in the online space and the continuing popularity of price comparison websites and similar forums. Over time, online retailers could exert increased pressure on officials such as John Lewis, particularly in terms of pricing as well as sourcing of product ranges.

Bargaining Power of Buyers

This is considered as being extremely high given the range of suppliers in the market and the realisation that customers are faced with unprecedented choice. Price is clearly a key advantage for the retailers, but at the same time, in the particular segment in which John Lewis manages factors such as location, quality, customer service and atmospherics and added benefits to be derived from the in-store experience are significant. Such variables also assist in terms of differentiating the store from other competitors in the High Street.

Bargaining Power of Suppliers

Though it was just few years ago the retailers were considered as having a major effect over suppliers, this seems to be fairly changing, particularly with regard to restrictions in supply of some raw materials as well as other concerns in the global supply chain which might put the suppliers in a more favourable position and increase their bargaining power.

Degree of Rivalry

Rivalry is obviously intense mainly due to the immense choice available as well as the increasing pressure from on-line retailers. On this basis, competitors are ultimately “ jockeying for position” (Porter, 1979) and increasingly retailers challenge themselves to differentiate in some manner through providing expanded ranges as well as complementary goods and other services. The success of John Lewis Christmas promotional campaigns in the last few years highlights how the company attempts to differentiate itself, particularly focusing on those matters which are considered to impact most on subsequent motivation of customers to make a purchase.