

John lewis partnership analysis



This paper focuses on the strategic formulation of John Lewis partnership in initial phases of the firm's online services, Ocado (the online service that delivers Waitrose groceries) and the online shopping (johnlewis.com) website development from the 2000 to 2010. In the first instance, an account of the company will be briefly discussed, together with the main activity, market share, key stakeholders and also financial overview of the company. Secondly, the identification of its generic strategy by using Porter's model of generic strategy will be clearly defined. This will follow the discussion of the key activities that underpin the chosen generic strategy, a value chain analysis and how the added value creates a distinctive competence which leads to competitive advantage of the business.

Company's overview

John Lewis was first founded in 1864 by John Spedan Lewis, who partnered with his two brothers in Oxford Street, London. Waitrose joined the partnership in 1937 as a chain of 10 specialist food stores, followed shortly in the John Lewis partnership is Greenbee, which is now called John Lewis Insurance and partnership card (John Lewis Partnership, 2010).

Main activities of the company include providing customers with high quality groceries and non-grocery items such as electrical goods, furniture, fashion, flowers and also financial services such as insurance and credit card services. As one of UK's top ten retailers, the company has about "31 John Lewis and 235 Waitrose supermarkets, an online and catalogue business, a direct services company, one production unit and a farm" and continues to grow at a rapid pace (John Lewis Partnership, 2010).

John Lewis Partnership argues to have a “visionary and successful way of doing business, boldly putting the happiness of Partners at the centre of everything it does” (John Lewis Partnership, 2010). It strives to differentiate itself from competitors by giving 100% ownership to partners who are also permanent staff of the company who are committed to serve “customers with flair and fairness”. (John Lewis Partnership, 2010, Bloomberg & Business Week, 2010, Hambrick & Fredrickson, 2005, Times Online, 2008).

In addition, due to the Partners dedication and hard work, the company was ranked as the 3rd of the top 100 biggest privately owned companies in the UK during the year 2008 (Times Online, 2008) despite the economy downturn which led to drop one rank from previous year (Times Online, 2008). However, in the survey conducted by Which? revealed that in January 2009 John Lewis was ranked at the top of the list and also was voted as the ‘Britain’s favourite retailer’ in 2010 the UK Consumer Satisfaction Index from the Institute of Customer Service (ICS) (John Lewis Partnership, 2010).

‘Never Knowingly Undersold’ is the company’s motto that has been used over 75 years, to promise customers that the company will always sell the lowest price in town (John Lewis Partnership, 2010, Bloomberg, Business Week, 2010).

Charley Mayfield, the chairman of John Lewis partnership reports a strong performance within the first six months of 2010, an increase of gross sales by 12.4% and operating profit by 15.1% compared to last year (London Stock Exchange, 2010). Mayfield further reported a market share gain and strong growth in both John Lewis department store and Waitrose, one of the most

notable increases was the underlying operating profit which rose by 59.4% (Bloomberg, Business Week, 2010) despite of the credit crunch. The benefits and profits gained from the business are shared equally among partners who are also permanent staff and co-owner of the business (John Lewis Partnership, 2010).

The Formulation of strategy: Strategic aims

Strategy is defined as “ the direction and scope of an organisation over the long term, which achieve advantage in a changing environment” (Scholes et al., 2008). It is important for all organisations to have a strategy as without it, time and resources can easily be wasted (Hambrick & Fredrickson, 2005). Organisations should analyse the competitive position of the market, formulate strategic aim then acquire the needed resources for implementing those chosen strategies (Porter, 1980).

Furthermore, it is possible for the organisation to increase its resources and capabilities through sharing and generation of knowledge, learning and redeployment of existing resources in a new and more effective ways (Steve B. & Alex H., 2007, Barney, 1991).

In 1929, the founder of John Lewis partnership gave up the ownership of the company to the employees for the purpose of balancing the employee’s happiness and successful business (John Lewis Partnership, 2010). John Lewis (2010) had an ambitious vision of co-ownership by making employees happiness whilst developing steady business profit at the same time. This assertion has left a remarkable commercial history and ‘ is as alive today as it was 80 years ago’ (John Lewis Partnership, 2010).

In addition, the founder created a governance system that is both commercial and democratic which will allow the company to gain competitive advantage by moving ahead quickly and also giving voice to every Partner's who also co-owned the company (John Lewis Partnership, 2010).

A recent study conceded that “ the more satisfied workers are with their jobs, the better the company is likely to perform in terms of profitability and particularly productivity” (Hobson, 1998) with a variation of between 19% profitability and 18% productivity which are accounted in the way people are managed (Hobson, 1998, Steve et al.). According to the John Lewis partnership (2010) financial statements as shown on Table 1 below, illustrates that the business has grown significantly over the past 10 year, the turnover increased by 50% and net profit were also increased by 96% over the past 10 years. Therefore, the findings of the study (Hobson, 1998) conceded with the performance outcome of John Lewis (2010).

At the onset, the strategic aim of the partnership was to ‘ experiment in industrial democracy’ and to establish a ‘ better form of business’ (John Lewis Partnership, 2010).

As first movers of employee owned-business model, the partnership takes advantage of the resource and capability extending sources as the company was already in maturity. The resources that the company possessed extended the advantages of co-ownership structure that the partnership needed to sustain and enhance the strategic position as an ‘ outstanding

retailer and a thriving example of employee ownership' (John Lewis Partnership, 2010).

Many public sector workers are now consider utilising John Lewis employee owned-business model after John Lewis staffs who are also partners embrace a big bonus of 15% that is equivalent to almost twice of monthly salary whilst public sector workers are threatened for a job loss due to government spending cuts (Julia, 2010). Therefore, the company's key strategic aims were built around the capabilities that employee owned-business model offered for creating added value to partners and customers (John Lewis Partnership, 2010).

However, the long term strategic aims of John Lewis partnership were to give personal satisfaction to Partners by becoming members of a co-owned enterprise, retain customers loyal by giving value, choice, service and honesty, and create real influence over working lives whilst sustain business strength and gain competitive advantage which will allow continued development. To achieve these aims John Lewis Partnership would have to demonstrate the benefits of co-ownership and competitive behaviours that will differentiate the company from its competitors including outperforming the conventional companies.

Internal Analysis: Generic strategy

' How firms compete and what strategies they choose are important questions for the economy' (Ormanidhi & Stringa, 2008) and a vital decision have to be made in order to determine the generic strategy of a business (Porter, 1980). In the case of John Lewis Partnership the choice was relatively

simple. Although the Partnership sought to create a happy working environment, the key to competitive advantage lay in the real influence over working lives whilst providing added value and unrivalled service to the customers.

The employee-owned business model for the retail venture entailed employees ownership and responsibilities for the business success by delivering the ‘right experience for all customers’ whilst generating profits for the partners to share. In effect, John Lewis Partnership is a top ten retail company in the UK. It operates department stores, supermarkets chain and John Lewis Direct website which focus on home and giftware that have been ranked UK’s top online shopping destinations consistently. A well known for its high customer satisfaction rating, upmarket chain targeted middle to upper class customers. However, the Partnership expanded its marketing strategy and has recently introduced a ‘Value’ and ‘Essential’ range to target all types of customers (John Lewis Partnership, 2010).

The ability and efficiency to engage customer’s loyalty and trust by providing outstanding value, choice and service, the more customers would be retained and attracted to their departments, supermarkets and websites. The key to achieving this was to differentiate the benefits of co-ownership and partners behaviours against rivals including conventional retail companies.

The key differentiators were to offer security, stability and fulfilling employment for the Partners who are also permanent employees of the company. Another compelling differentiator was the lower prices John Lewis

could offer using 'Never knowingly undersold' slogan. It was the first mover retailer to offer its customers the confidence that promised the customers' cheapest price in the town. This principle has been used to monitor competitors and reduce own price if being 'undersold'. Thus, this allows the Partnership to retain customer's loyalty and trust by giving them confidence that they will never purchase similar product elsewhere which is 'undersold' and if that is the case, then the customer is guaranteed to get a refund.

As the employee-owned business model continues to grow in a rapid pace, in 2000 the Partnership successfully managed a network of over 31 major department stores and over 235 supermarkets stocking around 350,000 products. Particularly, the launch of Ocado online service that delivers Waitrose groceries and online shopping site (JohnLewis.com) led the business to be complex. The Partnership incorporated the use of RedPrairie's Warehouse and workforce management system in order to build and retain customer loyalty whilst increase sales growth by maximise efficiency, ensure the product availability and speed delivery. This was another differentiator that underpinned the company's strategy for competitive advantage.

John Lewis Partnership noticed that the cost reduction, sales growth and make the business profitable can be gained through the use of warehouse and workforce management system. Thereby, this allows them to practice 'Never knowingly undersold' slogan thus reducing the cost burden to customers and offer products at a lower price. The Partnership and customers relationship depends on the ability of the company to sustain its competitive advantage (Scholes et al., 2008) despite many potential rivals imitating their business model (Pearce & Robinson, 2008).

Internal Analysis: Value chain analysis

The value chain analysis focuses on how much value an organisation's activities add to its products or services compared to the costs incurred in utilising resources in the productive process (Scholes et al., 2008, Rayport, 1995). Rayport (1995) further states that efficiency and effectiveness can be improved significantly if managers redesign their internal and external processes by doing value chain analysis. As value chain analysis helps managers to focus attention on configuring and coordinating resources on those activities that produce the product in the most efficient and effective way (Scholes et al., 2008, Pearce & Robinson, 2008). Porter (1980) states that in order for the company to achieve competitive advantage, the managers should focus on two main areas when conducting a value chain analysis, one is the identification of the activities in which the company should perform and also the configuration of the firm's activities that best enables added value to the product and allows the firm to compete.

As previously mentioned, John Lewis Partnership can be described as a retailing company conducting its businesses online and in store. Primary activities have been described as 'directly concerned with the creation and delivery of product and services' (Sholes, 2008, Porter, M. 1980). Thus, the key value adding activities that is associated with John Lewis Partnership can be identified using Porter's Value Chain model (1985) are inbound and outbound logistics. Service can be added to these as ultimately, the success of the business model is determined by the superior service provided to customers.

The use of warehouse and workforce management system allows optimisation in people, inventory and equipment to create a more agile, efficient and least distribution and also focus on performance culture. The Partnership in return, sees the productivity increased by 16%, labour costs reduced by 8%, enhanced stock availability, 40% improved of warehouse order picking and also delivery time decrease by 25%. Thus, the support activity underpinning the added value is in technology development. The ease of use system allows the company to cut overheads thus led to business growth and value-added developments that increase customer service and also when combined with other attributes as illustrated earlier creates a distinctive capability that rivals find difficult to match and hence lead to a competitive advantage.

Conclusion

The strategic aims of John Lewis Partnership depicts high level coherence between the partnership and the strategic choices, resources and capabilities that have been used to achieve its aims. The strategic choice of differentiation/narrow focus has enabled the company to focus on developing capabilities that improve performance and add value to customers. This, in turn, has led to the exponential growth of the business throughout the period 2000 to 2010 evidenced by increasing market share, turnover, profit, (as shown on Table 1) including increase in sales of products and services and strategic alliances and partnerships were also increased. Therefore, the key findings of the work clearly show that a competitive advantage has been achieved.