

# Analysing strategy and operations management



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Today's business environment is complex, dynamic and uncertain and is influencing the strategies of modern enterprises (Beirnat, 2004). It is generally understood that there is a growing change in relationships between buyers and sellers which are impacting the way in which business is conducted (Buttle, 2007). Industry reports suggest that changes in today's social and economic environment have had an impact on consumer spending behaviours. In such an unpredictable environment, the management of customer relationships becomes vital to the success of a business (Dyche, 2002).

This realisation has prompted studies in the area of strategic management with the aim of gaining an understanding of a firm's internal and external environment and developing strategies to exploit internal capabilities and external opportunities (Slack et al, 2006).

The purpose of this paper is to evaluate the activities of John Lewis and explore its business operations in relation to Michael Porters generic strategies model. The paper will continue by examining Michael Porters value chain analysis and apply the theories practically to John Lewis. The paper will also discuss how the added value creates distinctive competences and lead to a competitive advantage for the business.

## **Company Background**

### **John Lewis plc**

John Lewis is a UK retailer which comes under the umbrella name of John Lewis Partnership. The Group comprises of John Lewis department stores, Waitrose supermarkets, John Lewis Direct and the direct services company

Greenbee. It is a public limited company owned by its employees (Partners) who influence the running the business and who benefit from a share of the company's annual profits. The chain has an upmarket image which appeals strongly to a middle class core customer base.

### **Chart 1: John Lewis Plc market share 2003 – 2007 (Intel, 2007)**

The chart shows the market share growth for John Lewis from 2003 to 2007. The chart displays a steady growth pattern during this period. It would be fair to suggest that John Lewis has been performing well within the market as its market share has grown year on year. Intel reports forecast that the retailer will continue to witness steady growth within its industry and states that John Lewis will be one of few retailers who will sustain growth despite changes in the economic climate and consumer spending behaviours.

### **Activities**

John Lewis department stores offer a wide range of goods, including electrical, home & garden, sports and fashion goods, with many brands exclusive to John Lewis. Waitrose supermarkets sell a large number of own-brand goods which are mainly in the food and household-cleaning sectors. Both parties place emphasis on quality goods and customer service, rather than low prices.

To date the partnership comprises of 234 Waitrose supermarkets, 30 John Lewis department stores, John Lewis Direct – an online and catalogue business and Waitrose – a online grocery service, Greenbee – a direct

services company, which is supported by nine distribution centres, three production units and a farm.

The Partnership has implemented a programme of social activities for partners, which includes a golf club; playing fields and tennis courts; two large country estates with parklands; a sailing club with five cruising yachts and two country hotels offering holiday accommodation for partners. Partners are also enrolled in a pension scheme, given very generous holidays, and are part of a death in service insurance scheme. Additionally, upon completing twenty five years of service with the Partnership, they are given six month paid break.

## **Principles**

The John Lewis Partnership defines its business on seven distinctive principles. They acclaim that these principles are as relevant to today's business environment as they were when first introduced by its founder, John Spedan Lewis in 1906. [See Appendix 1 for Partnership Principles] These principles are considered the backbone of the Partnerships activities and ultimately the force behind the success of the Partnership. The notion of trust and respect to all its members, customers and business partners is incorporated into the Partnerships business strategy:

**“ The Partnership’s reputation is founded on the uniqueness of our ownership structure and our commercial success. Our purpose is ‘ the happiness of all our members, through their worthwhile, satisfying employment in a successful business’, with success measured on our ability to sustain and enhance our position both as an outstanding retailer and as a thriving example of employee ownership.”**

(John Lewis Partnership, 2002)

The strategy is centred on satisfying three independent objectives: partners, customers and profit. They state that these objectives demand an appetite of innovation, continuous improvement and enterprise to maintain the spirit of their commercial and democratic capability. This ideology will be explored in further detail to verify its true validity.

## **Stakeholder Groups**

The Partnership has recognised the importance of its operations in relation to their internal and external environment. This is apparent when considering the Partnerships Corporate Social Responsibility (CSR). They state that the management of social, ethical and environmental issues involve everyone and through active engagement with their stakeholders they determine their business priorities, how they manage and monitor their performance, how they determine their business goals and objectives, and how they ensure that they are living up to their promises on a daily basis.

This is achieved through the alignment of the Partnership seven business principles and current thinking on their corporate social responsibility. This alignment sets out how the business perceives its responsibilities in terms of

community investments, environmental protection, responsible sourcing and trading and workplace equality, diversity and dignity. This is communicated through the Partnerships corporate social responsibility policy:

**“ As a responsible retailer, owned beneficially by our employees (Partners), we believe that the long-term future of the Partnership is best served by respecting the interests of all our stakeholders: Partners, customers, suppliers and the wider community. We look actively for opportunities to improve the environment and to contribute to the wellbeing of the communities in which we trade. Our CSR policy sets out the principles we follow and the programmes we have developed to focus on the areas where we have significant impact or influence.”**

(John Lewis Partnership, 2002)

The corporate social responsibility policy is based on four key principles: shared responsibility, honesty and accountability, sustainable progress, and demonstrable progress; and four programmes are set in place to ensure its governance: environment, relationships, communities and partners [see Appendix 2 for CSR principles and programmes].

## **Competition**

Keynote reports state the retail industry is one which is face with strong competition from small family-run stores to larger multinational well established outlets. Mintel reports state that each retailer tries to differentiate itself from the competition, but the strategy that the company uses to sell its products is the most important factor. Mintel reports further

state that the department store market can be divided into the following main areas:

Luxury department stores: Harrods, Harvey Nichols and Selfridges.

Middle market department stores: Debenhams, Marks and Spencer (M&S) and John Lewis.

Price-led department stores: The Co-operative, TJ Hughes and Boyes.

John Lewis falls into the category of middle market department stores. The middle market retailing area will be the focus of this paper. The key players in this market are: Marks and Spencer, John Lewis, Debenhams and House of Fraser [See Appendix 3 for company profiles]. Industry reports state that the market leader is Marks and Spencer despite having a dip in sales and market share over recent years. The number two player, John Lewis is said to be further widening the gap between itself and rival player number three Debenhams. House of Fraser is the number four player who appears to have struggled most during the recession. [See appendix 4 for industry trends]

## **Analysis**

### **Competitive Advantage**

The early 1980s witnessed growth of theoretical studies surrounding the concept of competitive advantage with the objective of defining strategic goals of a business (Kak & Sushil, 2002). A key writer on competitive advantage is Michael Porter (1985) who stated that the goal of all businesses is to achieve a competitive advantage in relation to its industry rivals.

Porter (1980) developed the five forces model as a framework for analysing industry competitiveness. This model enabled managers to understand the external business environment, identify opportunities and threats, and allowed them to develop strategies to compete with industry rivals. The PEST analysis (Political, Economic, Social, and Technological) or PESTEL analysis (including Environmental and Legal factors) is another framework developed to allow managers understand the external environment.

### **John Lewis Partnership PEST Analysis**

Political: Political stability, tax policy, environmental regulations

Economic: Economic growth, inflation rates, unemployment rates, interest rates

Social: Demographics, class structure, attitudes

Technological: Technology incentives, R&D activity, technological developments

These are the key factors of the external environment that affect John Lewis based on the PEST analysis. Factors such as class structure and technological developments have a direct impact on the Partnership due to the nature of the business and because of its core customer base. Other factors such as political stability, economic growth and unemployment rates have a greater impact on the retail industry and influence consumer buying behaviour.

It is fair to conclude that the Partnership as responded effectively to changes in the external environment based on considering the activities of the

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business. Industry rivalry has witnessed a shift in core business activities from traditional methods such as bricks and mortar and high street store to bricks and clicks where stores also have an online presence. The partnership adopted an online presence in 2001 and has since witness rapid sales and profit growth as a result.

According to Porter (1985), merely achieving a competitive advantage is not enough for long term success but rather developing a strategy that allows for creating and sustaining a superior competitive advantage is essential for long term business success. Porter (1980), also states that a sustainable competitive advantage is one which is difficult to duplicate and allows a firm to gain higher profits than its rivals. Acquiring and sustaining a competitive advantage can be seen as the primary strategic aim of a firm in today's dynamic business environment (Beirnat, 2004).

Heerkens (2006), states that the following elements are required to enable a firm to develop an effective competitive strategy:

A firm must clearly define itself in terms of its basis for competing, and its standards for measuring its success.

A firm must develop a methodical understanding of its internal strengths and weaknesses.

A firm must evaluate its strengths and weaknesses and specifically focusing on its position relative to the external business environment.

A company must develop policies and methods to communicate information to all areas within the business.

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Buttle (2007) stresses the importance of understanding a firm's internal environment and building on unique capabilities for gaining a competitive advantage. The SWOT analysis (Strengths, Weaknesses, Opportunities and Threats) was developed as a tool for analysing the internal and external environment. It provides a firm with useful information for matching its resources and capabilities to the environment in which it operates. It is argued that successful strategies depend on accumulating competencies and exploiting them by matching these competencies to the market opportunities (Kak & Sushil, 2002). Identifying a firm's core competences is the key to making this connection. [See Appendix 5 for John Lewis SWOT Analysis]

## **Core competencies**

Core competencies are often described as a collection of skills and resources that enable a firm to add value to its business operations (Porter, 1980). Kak and Sushil (2002), state that a firm's organisational learning, effective technology management, and people provide important sources of core competences. The effective management of such resources and the ability to link between a firm's resources and business strategy can be considered as key for sustaining a competitive advantage (Slack et al, 2006).

Heerkens (2006), suggest a firm's core competences should possess the following five characteristics in order to add maximum value to its operations:

They should provide a firm with an opportunity to gain access to a wide variety of products and markets.

They should be capable of contributing in a demonstrative way to the benefits of end products, as perceived by customers and they are able to impact what customers care about.

They should make a company unique in comparison to industry rivals.

They should be difficult for competitors to duplicate.

They should be stable and sustainable.

It is fair to suggest that the core competences in the case of John Lewis are its employees (Partners). The Partnerships unique structure means that each partner has a vested interest in the success of the business. They strive at serving customers to the best of their abilities to ensure customer leave with a memorable and pleasurable experience thus strengthening the brand of the business and instilling customer loyalty. These are intangible core competence which can prove difficult to measure and manage. As a result, rival firms have found it difficult to replicate such a competency and this is evident when considering industry market share figures and customer satisfaction surveys. It is argued that this strategy has proved successful to the Partnership and has resulted in long lasting relationships with customers crossing generations.

The Partnerships outlets can be considered as tangible or physical competencies. The Partnership has carefully selected the locations of its large multifunctional outlets in popular busy cities to focus their efforts towards their core customer base. Oxford Street is the location of their head office branch and with 3 other outlets in London, 3 in Scotland and many

other outlets across England and Wales. It is fair to suggest that these outlets have been strategically placed at busy upmarket locations to maximise their sale potential.

Arguably, the added value created by the Partnerships core competences can also be regarded as its distinctive capabilities because these attributes characterise the business and has given the Partnership a competitive advantage superior to that of its rivals. Competing retailers have attempted to replicate these capability but arguably have not witness equal measures of success as John Lewis,

## **Generic Strategy Model**

Porter (1980), states that a firm can achieve a competitive advantage either by selling its products and services at a lower price or by differentiating its products and services. This calls for an understanding of Michael Porter's generic strategies model. The model identifies 3 distinctive strategies as sources of a competitive advantage: Cost Leadership Strategy, Differentiation Strategy and Focus Strategy. [See Appendix 6 for Generic Strategies]

It is fair to suggest that John Lewis has implemented a hybrid strategy which includes elements of a focus strategy and a differentiation strategy. Their strategy is deemed a focus strategy in terms their core middle class customer base instead of aiming their product to the mass market. Arguably, this is because of the type of products the retailer is offering to its customer and due to the price of their products which are often higher than competition. The Partnership believes that their higher prices are justified

and that their customers do not just benefit from a transaction but leave with a memorable experience. It is fair to suggest that this strategy has been successful for the business when considering their sale figures as the Partnerships sales were up £204. 7m, 3%, to £6. 97bn at the end of 2009. Notably, the Partnerships online operations witnessed a sales increase of £64. 8m, 24. 2% to £332. 9m.

Differentiation is another strategic direction the business strives towards. One way in which this is achieved is by ensuring that their Partners receive extensive product knowledge training in order to answer almost any possible question their customer may have about their products. Another way in which this is achieved is in their efforts in satisfying their customers. They strive at providing their customers with the best possible service and setting their standards above what they perceived to be satisfactory within the industry they operate. It is fair to suggest that they have been successful in their efforts as they their online business, John Lewis Direct was voted best online retailer of the year by ' Which' in May 2010. The Partnerships sister company Waitrose was also voted best supermarket of the year in September 2010, for a second year running.

Murray (1988), states that the Porters generic strategies concept is disappointing because it does not explain how any generic strategies can be implementing, it is confusing and it disfavours practicing managers by advocating limitations to adopting a single generic strategy where no empirical evidence exist to support such a limitation. He argues that the contingency approach is a way of overcoming such limitations associated with Porters generic strategy model as it dismisses the perception of limiting

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oneself to a single strategy and it also demonstrates that each generic strategy is associated with a cluster of generic means.

This argument and other alternative theories must be explored in greater detail by researchers and decision makers to gain a truly holistic perspective on current strategic thinking. It is of value exploring contrary conceptual frameworks and supporting theories in order to gain a true understanding of the study area and for discerning which concepts and theories can be applied practically to a saturation or a unique business.

## **Value Chain**

Organisational planning and control often focus on the performance of several different business functions within a firm (Buttle, 2007). Porter's value chain analysis is a common way of displaying these business functions and is a useful framework to analyse specific activities which enable a firm to create value and ultimately develop a competitive advantage (Heerkens, 2006). The framework displays a sequence of business functions from which a firm can add value to its operations through various primary and support activities (Porter, 1985). [See Appendix 7 for Value Chain]

Porter (1980), states that the value chain model is a useful tool for analysing a firm's core competences and identifying its distinctive capabilities.

Heerkens (2006) suggests that the successful management of value chain activities involves the management of the outcomes with an awareness of inputs, rigorous management of the several channels and flows, and the management of relationships which include: internal relationships, business relationships and customer relationships.

In the case of John Lewis, it can be argued that service is the businesses core primary activity with marketing and sale being secondary. This assessment is based on their applied differentiation strategy from porter's generic strategies model where interactions with their customer are at the centre of their business philosophy. It is fair to suggest that service ensures customer satisfaction and customer retention for the Partnership whilst sales and marketing facilitates continued profit and growth for the business which will ultimately benefit their partners who are the owners of the business and receive a percentage of the profits the business generates.

The partnership has two key support activities which complement its primary activities. It can be argued that the Partnership Human Resource Management through recruitment and selection practices ensures that the business attracts and retains high standards within its workforce. It is in the best interest of the business to employ individuals with the passion and drive for success and who will also adopt the spirit of the Partnership in order to maintain its strong reputation and high standards.

Technology developments such as having an online presence is said to be another means adopted by the Partnership to exploit its core competencies. Mintel reports states that the Partnerships online presence has grown from strength to strength since its initial introduction in 2001. Arguably, the Partnership is using their website as a mean to not only reach customer in remote location but also to target their marketing and sales activities and increase the growth potential.

## **Conclusion**

The strategic direction of a firm is one of great importance to managers in today's business environment. Michael Porter provides several conceptual frameworks which support decision makers in understanding their internal and external environment as well as evaluating potential threats and possible opportunities. Key theorists within the study area discuss Porters Generic Strategies Model and Value Chain Model as exhibiting essential characteristics in understanding a firms activities and exploiting core competencies.

In the case of the John Lewis Partnership, Porters theories have provided valuable information to facilitate the understanding of the business and the environment in which it operates. Gaining such an understanding will allow decision makers not only to measure and control performance but also develop and implement future strategies to ensure continued growth for the business.

It is of value to explore alternative conceptual frameworks in addition to Porters theories when conducting research in the study area to enable a truly holistic perspective on future studies and to mitigate any limitations associated with past theories and isolated or abstract theoretical deductions.

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## **Appendix 1**

### **Partnership Seven Principles**

The Partnership's Seven Principles which define the business (John Lewis Partnership, 2002):

**Purpose:** The purpose of the Partnership is the ultimate happiness of its members. This is through their worthwhile and satisfying employment in a successful business. The Partnership is owned in trust for its members who share the responsibilities of ownership of the business as well as its profit rewards, knowledge and power sharing.

**Power:** There are three main governing authorities within the Partnership who share power; the Partnership Council, the Partnership Board and the Chairman.

**Profit:** The aim of the Partnership is to make acceptable profit from its trading operations to sustain its commercial presence, to finance its continued development and to distribute a share of its profits to its members each year. The profits also enable the Partnership to undertake other activities consistent with the aims of the business.

**Members:** The aim of the Partnership is to employ individuals of ability and integrity who are committed to working together and ultimately to supporting the principles of the Partnership. Relationships are based on mutual respect and courtesy, with equality between its members as differences of responsibility permit. The aim of the Partnership is to recognise each individual's contributions and to reward them fairly.

**Customers:** The aim of the Partnership is to deal honestly with its customers and to secure their loyalty and trust by providing excellent choice, value and service.

**Business Relationships:** The aim of the Partnership is to conduct all its business relationships with integrity and courtesy and to honour accurately every business agreement.

**The Community:** The aim of the Partnership is to obey with spirit and the letter of the law and to contribute to the wellbeing of the communities in which the Partnership operates.

## **Appendix 2**

### **Corporate Social Responsibility (John Lewis Partnership, 2002)**

#### **Principles**

**Shared Responsibility:** The Partnership's unique structure means that its members share the responsibilities of ownership and benefit from its rewards. The aim of the Partnership is to develop and implement social and environmental policies which fit in with its member's everyday responsibilities and activities.

**Honesty and Accountability:** The democratic ownership structure means sharing power, profit and knowledge. The Partnership communicates its environmental policies, objectives and performance openly and honestly to its partners and to others who share an interest in the business activities, including customers and suppliers. The Partnership encourages them to communicate with the business and continuously seek their views.

**Sustainable Progress:** The Partnership is committed to improving its performance. They take into account technical developments, changing scientific evidence, costs and customer concerns and expectations in the development and implementation of all new social and environmental policies and procedures. They monitor their performance, set regular objectives for improvements and report business progress.

**Demonstrable Compliance:** The Partnership guarantees to meet all relevant legislation and exceed where possible. Where no legislation exists they aim to develop and implement their own appropriate working practices and business standards.

## **Programmes**

**Environment:** The aim of the Partnership is take all reasonable steps to manage its operations so as to minimise the environmental impact and to promote good environmental practice. They set and follow high standards in food production, quality and safety. They promote responsible and sustainable methods of agriculture, animal husbandry and biodiversity; and review regularly the business practices and performance to identify how they can improve their energy efficiency, minimise packaging and reduce water usage, waste disposal and air emissions.

**Relationships:** They will conduct their business relationships with integrity and courtesy, and honour all trading commitments. Their aim is to build long-term relationships with suppliers and provide support for small, local, specialist producers. The Partnership is committed to trading fairly with all its suppliers, and will communicate their responsible sourcing expectations to

them in the areas of health, safety and worker welfare, sustainable and profitable agriculture, high animal welfare standards, biodiversity and good environmental practice.

**Communities:** They aim to build lasting relationships with their customers, suppliers and the local communities by encouraging Partners to consider the needs of others and involve themselves in public service. They obtain a wide range of views on their social and environmental policies and performance.

**Partners:** They will respect their Partners and encourage individual training and development. They will promote equality as differences in responsibilities permit and consider the interests of their Partners including their welfare, health and safety. The aim of the Partnership is to empower Partners and they will recognise individual contributions and reward Partners fairly. Their ultimate aim is the happiness of its members through their worthwhile and satisfying employment in a successful business

## **Appendix 3**

### **Marks and Spencer plc**

Marks and Spencer is a leading clothing retailer in the UK and a major operator in the grocery sector. The retailer operates 600 stores in the UK and 300 stores internationally in over 40 territories. The company has witnessed a rapid recovery within the retail sector under the management of Stuart Rose until a more subdued second half of 2007/08 (Mintel, 2007).

According to Keynote reports, Marks and Spencer has made promising progress towards resurrection in recent years. This has been achieved by re-

establishing its style and value credentials through improvements to product offer, price positioning, stores an