

**1/3**  
of John Lewis  
sales are  
now online


# Trouble in store

**£270m-£320m**  
Expected profits  
this year,  
down on last  
year's £342.7m

Photographs by  
Benjamin McMahon







The flagship  
John Lewis store  
in Oxford Street,  
London

**29%**  
of John Lewis  
partners say they  
are not satisfied  
with the company

**23.4%**  
Drop in operating  
profits at Waitrose  
last year

John Lewis is a much-loved British retail experiment. But now it faces discount rivals, cut-throat online competition and a fight for the future of shopping

By Michael Skapinker  
and Andrea Felsted



Nik and Zurina Noor tumble out of John Lewis's Cambridge store laden with its green-stripe-on-white carrier bags. They recently married and have come to pick up the gifts their guests chose from their wedding list.

What do they think of John Lewis? "The service is good. They're very friendly," Zurina says. "Bit expensive, though," says her new husband. "But then you pay for the service," Zurina says. Do they know that John Lewis is owned by its staff? They do not, but they can see that it might explain the shop assistants' attentiveness. "It makes sense," Nik says.

The summer sun streams through the glass roof of the shopping arcade where John Lewis has an entrance. (The main one, which makes John Lewis people smile, is on 10 Downing Street, Cambridge.) Joanne Griffiths has come from St Albans to do some shopping. "I like John Lewis a lot," she says. "Everyone seems to be very civilised." She knows the staff own the company. "They have a vested interest," she says.

John Lewis, founded in 1864 as a shop on London's Oxford Street selling goods such as Lyon silk and Calais lace, is one of the UK's best-loved companies. In the past year, it was named most admired British company for honesty and trust in an Ipsos Mori survey. It regularly comes at or near the top of customer satisfaction surveys.

It sees itself, and is widely seen, as courteous, organised, high-quality but good value. Yes, its merchandise might be a cut above what you find elsewhere, and therefore more expensive, but what it has is keenly priced. If you can buy the same product more cheaply at another high-street retailer, or on another high-street retailer's website (although not on an online-only retailer's website), the store will refund the difference. Like-for-like, John Lewis, famously, is never knowingly undersold.

It is also the UK's largest employee-owned business and one of the most successful in the world. Its central purpose is painted on the wall of the Cambridge branch as you walk up the stairs from what, in any other company, would be the staff entrance. Here it is the partners' entrance. The 93,800 people who work in the organisation are called partners. John Lewis, to them, is not "the company". It is "the partnership". Managers remind you of the partnership's purpose whenever they talk about the business. They recite it reverentially, parsing its component phrases. "The partnership's ultimate purpose is the happiness of all its members through their worthwhile and satisfying employment in a successful business."

Many of the John Lewis partners are happy enough to stay for decades. Some wear badges showing their last decade of completed service: a "10" badge or a "20". David Mayo wears a "50" badge. He joined John Lewis at 16 and is still working there at 69. His wife, whom he met when he was in furniture and she was in perfumery, has retired. But he still works in the Cambridge branch, three days a week now, selling televisions and iPads.

Mayo says he remembers a sign in the staff toilets in his early days that said "The customer is always right". But the partners are not there principally for the customers. The partners are there to be happy – and their happiness comes from working in a business that is successful because you, the customer, are so pleased with the quality and the service the partners provide.

Except the partners' happiness has taken a dip. In this year's confidential online survey, 71 per cent of those who responded said they were satisfied with their jobs, down a percentage point from last year, and 81 per cent said John Lewis was a good place to work, down from 86 per cent. To most employers, these would be outstanding results, particularly as 87 per cent of the staff completed the survey. But this is not a company owned by outside shareholders or a distant founding family. This is a partnership – and 29 per cent, nearly one-third, were not satisfied working at the company they owned.

The business is not performing as well as it was. Profits in the department stores and related online business have held up: operating profit rose 10.8 per cent last year. But the company's

Waitrose supermarket business is struggling, with operating profits down 23.4 per cent last year. The partnership bonus, distributed annually to the staff, was cut to 11 per cent of their pay compared with 15 per cent the previous year. Last month, the company warned that this year's profits, weighed down by tough trading and additional pension costs, are expected to fall to between £270m and £320m – well down on last year's £342.7m.

Analysts warn that John Lewis's wide popularity and ethical image cannot protect it from the ravages of an increasingly cut-throat market. "When you have a brand that is best of breed, very wholesome, rather holier than thou, there is an ever-present danger of believing your own hype," says Richard Hyman, a veteran retail analyst. "When you are very good at most things you do, it's not easy. It's a real challenge to keep your feet planted very firmly on the ground, and to always remember that in retailing you are only as good as yesterday's numbers."

Amazon has begun preparing to enter the UK food delivery business, which has sent chills through the supermarket sector. The US giant, with its vast warehouses and prompt and efficient delivery, has already upended the publishing business, forcing many bookshops to close. It has extended its reach into a huge number of other products, selling anything from laptops to garden furniture. If Amazon starts delivering the weekly grocery shop, many supermarkets could go the way of the bookshops.

Some of the John Lewis partners are critical of the company, too. In the *Gazette*, the John Lewis magazine, where they are free to vent, one partner, signing him or herself A Loyal Fan, wrote that there were too many people in charge – assistant section managers, department managers and store managers. "One can almost hear Partners across the business singing the song 'You Don't Know What You're Doing.'"

John Lewis's top person-in-charge is Sir Charlie Mayfield, successively an army officer, Lucozade marketer and McKinsey consultant, who joined in 2000 as head of business development and became chairman in 2007. Like many senior John Lewis managers, he is trim and neatly combed. He wears rimless glasses, a blue shirt and red tie.

"I think people sometimes view the partnership as some land of milk and honey where nothing bad ever happens," he says of staff complaints. "And it always makes me smile in a wry way because it really, really does a disservice to the vigorous and constant debate that goes on within the partnership about how we're performing and where we need to do better. This is a very self-critical organisation and that's actually an enormous strength."

John Lewis's democratic structures hold the top managers to account, he says. The chairman is appointed by his predecessor (all five incumbents so far have been men) but partners elect five members of the 15-member partnership board, which approves big policy decisions, and they vote for 66 members of the 85-member partnership council, which holds the chairman to account.

"Fundamentally, we own this business and so we're all concerned about how it's performing," Mayfield says. "That sometimes makes for slightly uncomfortable times but, much more importantly, it's a strength which ensures that we don't get complacent and sit back and think we're very clever and we've got it all."

It wasn't always this way. John Lewis, the founder, was no industrial democrat. Born in 1836 in Shepton Mallet, Somerset, he was fired from his first job at a draper's in Liverpool after fighting with another employee. Lewis made his way to London, where, at 28, he converted an Oxford Street tobacconist's into his first store. Success made him no less cantankerous and he spent three weeks in prison for contempt after refusing to comply with a court order, obtained by a landlord, instructing him not to change the shop façade. He was litigious and endlessly combative. Sir Edward Carson QC, the eminent barrister and politician, ►



## 1864

John Lewis opens his first store in a former Oxford Street tobacconist

Christmas displays at John Lewis, Oxford Street, November 1936

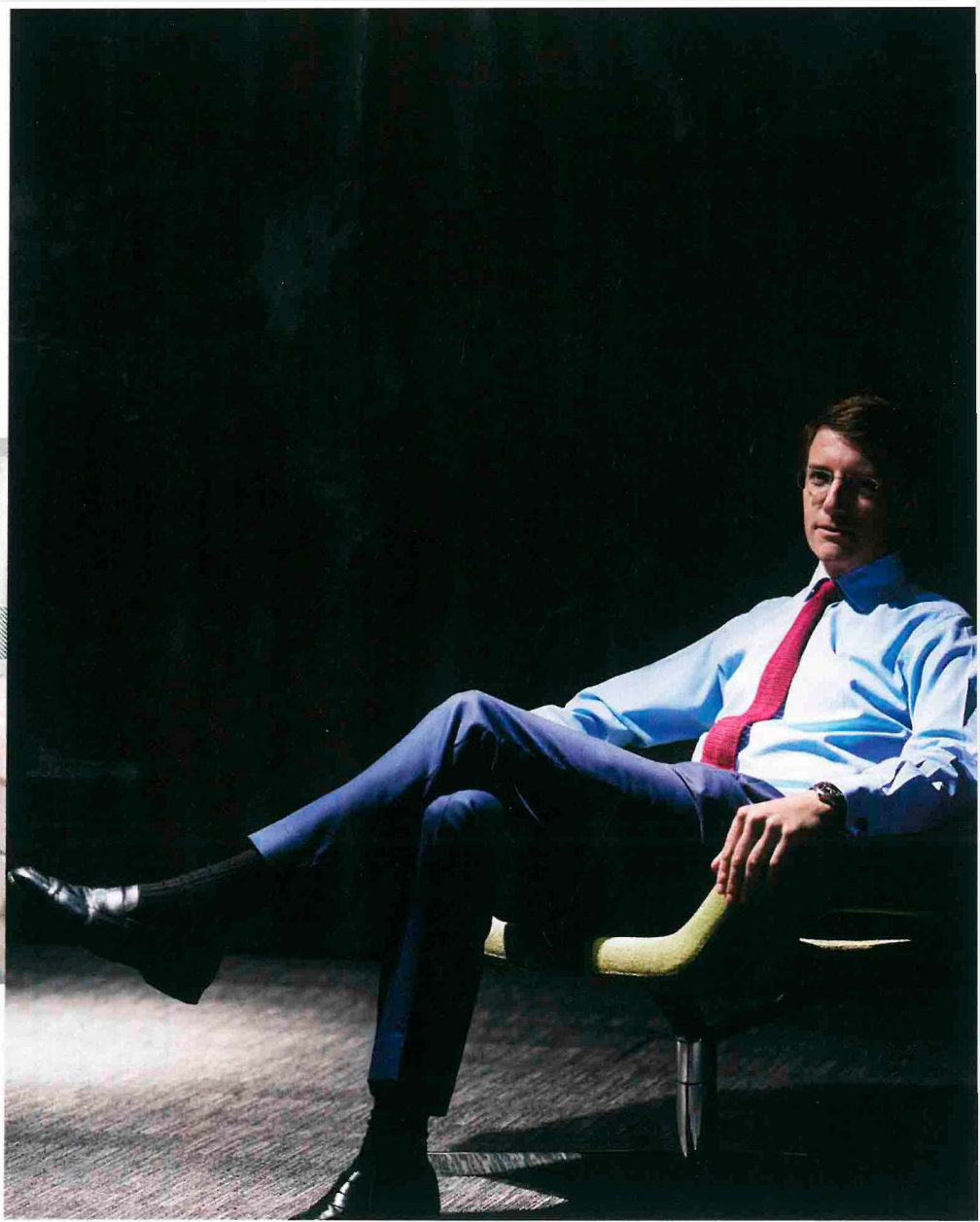




2015

45 John Lewis  
stores and more  
than 300 Waitrose  
supermarkets

Below: Oxford Street  
“partners” Piyush (left),  
with 12 years of service,  
and Pankaj, with 25 years.  
Bottom: Sonia, also  
a partner for 25 years



Charlie Mayfield  
Chairman, John Lewis

‘People sometimes  
view us as some  
land of milk and  
honey where nothing  
bad ever happens.  
It makes me smile’





The furniture department at the Oxford Street store

◀ appeared both for and against Lewis in court and said: "I would be puzzled to say which position was the more difficult of the two."

Lewis had little interest in his workers' welfare. Eliza, his god-fearing wife, said that his only belief was "in the divine right of employers". The creator of the company's democracy was his son Spedan. Working in the business, Spedan learnt that he, his father and his brother were, between them, earning more than John Lewis's 300 employees put together. Peter Cox, a John Lewis historian and retired partner, wrote in his book *Spedan's Partnership: The Story of John Lewis and Waitrose*, that John Lewis had a fixed view of employees. "Many of his workers were lazy, and only did the minimum they could get away with. Spedan's retort was that since they had no stake whatever in the success of the business they gained nothing by extra effort."

To reduce the acrimony between them, the two agreed that Spedan would take charge of Peter Jones, the store the company had bought in London's Sloane Square. There Spedan tried out his ideas: better pay, profit-sharing, a staff council and the first editions of the *Gazette*. Assuming sole control of the company after his father's death in 1928, Spedan signed a settlement in 1929 handing the business over to a trust for the staff. He did this through an interest-free loan to the partnership, to be paid back out of future profits. In 1950, Spedan signed a second trust settlement, handing over his controlling share to the partners in exchange for a promise that the company would continue to adhere to its democratic principles.

Today, the partnership encompasses 45 John Lewis stores, more than 300 Waitrose supermarkets and the online business, johnlewis.com. In addition to the annual bonus and discounts in the shops, partners and their families can stay, at a subsidised rate, at one of John Lewis's five UK holiday venues or sail on one of its five yachts on the Solent.

**93,800**

staff work at the John Lewis Partnership

Some have called for the extension of the John Lewis ideal to other companies. Nick Clegg, the former deputy prime minister, called for Britain to become a "John Lewis economy", with workers having a right to buy shares in the companies they worked for.

Mark Price, John Lewis deputy chairman and head of Waitrose, is cautious. "I think the philosophy that underlines the partnership is replicable. I think the specifics of how the partnership works are probably not," he says. There are not that many owners prepared to sell the business to their workers – although the Employee Ownership Association says that staff-controlled businesses, which include Arup, the engineering

consultants, and Make, an architecture practice, account for 4 per cent of UK GDP. Price says companies with a more traditional structure could try to adopt some of John Lewis's three vital features: rewarding people and acknowledging that they have a life outside work, telling them what is going on – "we have a degree of what I would describe as radical transparency" – and involving them in decision-making.

He feels the corporate mood is changing. "Over recent years there is a compelling case for a fairer form of capitalism, a kinder capitalism. If you put employees first you will get benefits from doing that." He says other companies are looking at what they can learn from John Lewis. "I'm asked far more to talk about how you might take the best elements of the partnership," he says.

But if others are to learn from John Lewis, Price first has to get the Waitrose part of the business right. Waitrose has always prided itself on quality. When Wallace Waite and Arthur Rose began trading in 1904 in a shopping parade in west London, they stood out against the adulterated food sold elsewhere. At the typical grocer's of the time, Cox wrote, "bread was whitened with alum and often contained sand and ashes. Tea was glazed with black lead, and 'red' Gloucester cheese was brightened with red lead." When John Lewis bought what were, by then, 10 Waitrose stores in 1937, Spedan Lewis wrote in the *Gazette* that not only was the food of high quality but Waitrose, unlike many competitors, never bribed its customers' servants to shop there.

Today, in spite of the odd contamination scare, UK food is closely monitored and of high quality elsewhere too – often at a lower price. Outside the huge Waitrose store in Salisbury, Jean Nunn, who is retired, says how much she likes the quality of food and service, before revealing that she does much of her shopping at Tesco and Lidl, the cut-price retailer. "I come here for the luxury things," she says.

If it is not to drag John Lewis down, Waitrose needs to persuade shoppers to buy more of their general groceries there rather than at discounters such as Lidl or Aldi. But, like Nunn, people these days are happier to shop around.

Price joined John Lewis as a graduate trainee. He vigorously rejects the view that Waitrose is being clobbered because its prices are too high. "We match Tesco on baked beans. There are eight-and-a-half thousand branded lines where we charge the same as Tesco charge," he says. Yet Waitrose also sells higher-quality items than its competitors do, he says.

Isn't that contradictory? How can Waitrose be price-competitive on baked beans and expect people to pay more for everything else? When you look at rivals such as Tesco, Sainsbury's, Morrisons and Asda, Price says, "The simple truth is that we trade above them. They sell products of a quality we would choose not to sell. And at the top end we sell significantly more. We do sell, I suspect, far more lobster than any of our competitors."

Waitrose's push back to health is two-pronged. The first is persuading people that, rather than just a supermarket, Waitrose is a day out. The Salisbury store, refitted in November, is the model. Along with the extensive shopping aisles, there is a restaurant, café and wine bar. Chris Blows, branch manager, says: "What we're trying to do is create real theatre, real atmosphere."

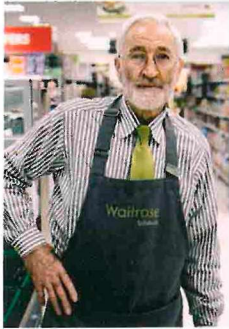
Passing the juice bar, we make our way to the kitchen, where the branch has its theatrical centrepiece: its cookery school. There is a £15-a-head "Time for a G&T" course, a £10 "Sweet Summer" three-seasonal-dishes course and a £50 "Perfect Pizza" course. The children's cookery parties, at £200 for 16 kids, are particularly popular.

The supermarket as day out – with customers who are well-informed, want to know the provenance of their food and demand diversion – will need staff that can do more than swipe items through a till, Blows, a 40-year Waitrose veteran, says. "The standard of partner will have to improve dramatically over the next few years. They will have to have the ability to communicate." Job descriptions for new hires make that clear. ▶



1928

Spedan Lewis (right) took control of the company on his father's death and began implementing his democratic ideas: better pay, profit-sharing and a staff council



'It's a real challenge to always remember that in retailing you are only as good as yesterday's numbers'



## Partners

Some of the people who work at John Lewis photographed at the Oxford Street store and at Waitrose in Salisbury



Mark Price  
John Lewis deputy chairman and head of Waitrose

'We match Tesco on baked beans. There are eight-and-a-half thousand branded lines where we charge the same as Tesco'





£2

The new charge for "click and collect" orders under £30



Right: the Salisbury branch of Waitrose

◀ What about existing partners? What if intense customer interaction is not for them? There will still be jobs for some, such as shelf-stacking, he says. As for the others, "will we have to performance-manage them? Yes." As Mayfield says, the partnership is not always a land of milk and honey.

The second prong of Waitrose's future is the internet. People may no longer send servants to do the shopping but many expect their shopping to be brought to them. Waitrose has its own online delivery service but what really launched it into internet shopping was its tie-up with Ocado, which it helped start in 2000. The relationship between the two has occasionally been tetchy, and Ocado also now does deliveries for Waitrose rival Morrisons. But the Waitrose-Ocado agreement runs until 2020 and, while either side can terminate it in 2017, Price expects it to run its course.

John Lewis initially thought that online shopping would help it to sell in the parts of the UK where it did not have a department store. It hasn't worked out that way, says Andy Street, the waspish, birdlike head of the John Lewis side of the business. Instead, the company discovered that the presence of a department store boosted its internet business. "When we opened in Cardiff in 2009, online sales in Wales went up 40 per cent," he says.

The department store business has, historically, grown opportunistically, with John Lewis buying shops when owners wanted to sell, leaving significant gaps. The company opened its first John Lewis in Birmingham in September and is only now building a store in Oxford. To make all this building work, the company needs to attract custom beyond the well-heeled shopper. "John Lewis is actually a very broad church of customers," Street says. "Because department stores are big and expensive to run, they have to reach a good proportion of the people in that catchment area." In cities such as Sheffield, Liverpool and Nottingham, around 60 per cent of the population shops at John Lewis at least once a year, he says. In Peterborough, the number is 79 per cent.

Still, the high cost of running stores is, in the view of some observers, a problem. Nick Bubb, an independent analyst, says that rivals, such as Marks and Spencer and Next, have outpaced John Lewis in cutting costs. "That is partly to do with the nature of the partnership, partly the trade-off between investing in staff and good service and partly, inevitably, their longer-term focus," Bubb says. "But eventually profits have to materialise, otherwise bonuses go down, and investment goes down."

That around one-third of John Lewis department store sales are now online, with the associated cost of delivery, adds to that cost, as does customers' increasing preference for ordering online and picking up their goods at the shop. John Lewis recently became the first department store to charge for "click and collect",

with Street announcing a £2 charge for orders under £30, ending what he called a "bonkers" and "unsustainable" business model. Street accepts that profits from selling products are unlikely to improve. One solution is to concentrate on selling services. The drivers of John Lewis's green vans now install ovens and washing machines, rather than recommending outside contracts to do so.

Given that retailing is so tough and that John Lewis's purpose is to make its partners happy, could the company go into another line of business? "It's a very good question," says Mayfield. "We do go round that track quite a bit and think about it." The company has been considering what it might do in the future, with a group set up to look at what the world might be like in 2028. "The reason we chose that date was it's 100 years after Spedan Lewis inherited the business from his father," Mayfield says.

Could the company use its existing insurance business as a way into other financial services? "You're going to say are we going to launch a bank?" Mayfield says. "I get asked this quite a lot by partners and I say that my real hunch is that if we were to launch a bank we might be able to have a very popular but very, very unprofitable bank, because the reason that perhaps banks aren't generally speaking – I'm not casting aspersions on them – seen as trusted and reliable is because in order to make money they have to do things like inertia selling."

So what markets could John Lewis go into? "I don't look at just what markets we can see today, like holidays or hotels or restaurants," he says. "Instead what's more interesting is to think about what markets might grow from almost tiny beginnings – maybe they're not even present today – but in 20 years' time could be really significant. In which of those markets would our competitive advantage count for most?"

And which are they? "That's what we haven't figured out yet, and if we had I probably wouldn't be telling you," Mayfield says.

Until John Lewis does settle on other businesses to go into, it will have to make a success of retailing. That is likely to become more difficult rather than easier. The way Britons – and others throughout the wealthy world – shop has changed. Customers are no longer loyal to one company, however admired it is. They are well-informed about what things cost and they expect goods to be brought to them – and fast.

Amazon's expected entry into the UK grocery market will increase pressure on Waitrose. Amazon has begun to deliver a small range of chilled and frozen products in Birmingham. This could be just the start. An all-out assault by Amazon would leave no supermarket group, Waitrose included, untouched.

Lidl warned last month that it was going to take its sharp discounting even further into middle-class heartlands. It is looking for sites in London's Notting Hill, Mayfair and Chelsea and says it will be offering Waitrose-style treats at low prices – lobster at £5.99 and champagne at £9.97 a bottle. Aldi plans to sell wine by the case online next year – a way of attracting more affluent wine drinkers. Matthew Barnes, chief executive of Aldi UK, says: "Many of our most loyal shoppers began by sampling our wine offer first, before doing their full shop with us."

Will these middle-class Lidl and Aldi shoppers give up on Waitrose entirely? Probably not, but they can nibble at its edges, persuading its customers to do at least some of their shopping with them. "Aldi and Lidl undoubtedly aspire to capturing a more affluent customer who will buy higher-margin, higher-category products," says Clive Black, analyst at Shore Capital. "That is proving to be a challenge for the mainstream supermarkets. Waitrose is not totally immune from that threat. It is at the fringe of it."

John Lewis still has enormous advantages. It can draw deeply on the respect and loyalty it has built up over 151 years. And for all the grumbles, the partners, as surveys show, still generally provide top-quality service. The question, in a mobile and screen-crazy world, is whether that will be enough to sustain Spedan Lewis's remarkable democratic experiment. **FT**

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## Charging for 'click and collect' ended a 'bonkers' business model

Andy Street  
Managing director,  
John Lewis