Case Study 2.1

John Lewis – Retail Bonds

John Lewis Partnership is one of the UKs eponymous retailers with over 30 department stores, 244 Waitrose supermarkets, and an online and catalogue business www.johnlewis.com. It is also one of the UKs most recognisable and successful employee-owned companies. Ownership of John Lewis resides with a trust, which is run for the benefit of the company's 70,000 employees, or 'partners'.

Raising finance in a conventional company occurs by issuing shares in the business in return for investment. This is not possible in a company like John Lewis as the shares in the company are 'locked into' the EBT and cannot be transferred to external investors. Therefore, employee owned companies, as well as co-operatives, traditionally raise finance from members or through debt instruments e.g. loans. On the 7 March 2011, John Lewis announced the details of what it considers to be an innovative method of raising finance for employee-owned companies.

The John Lewis Partnership retail bond, aimed at the company's 70,000 partners and 1.5m card holders, aims to raise £50m in finance. Partners and customers can invest between £1,000 and £10,000 in five year bonds with a fixed annual return of 6.5%. 4.5% of this return is payable in cash with 2% returned to investors in the form of John Lewis vouchers. The issuing of these bonds comes on the back of a strong trading performance in 2010, with the company expected to announce profits of £353m. Investors should be aware that the bonds are not covered by the Financial Services Authority's compensation scheme and that the bonds are non transferable.

The company claims that its bond issue is the first opportunity for customers to invest directly in an employee-owned business.

Source: I. Cowie, 'Why cash returns from John Lewis bond may disappoint' *The Telegraph* 7 March 2011.

A. Felsted, 'John Lewis to report higher profits' *The Financial Times* 6 March 2011.

J. Hurley 'John Lewis asks customers to invest in exchange for vouchers' *The Telegraph* 7 March 2011.

T. Macalister, 'John Lewis launches "retail bond" to raise £50m' *The Guardian* 6 March 2011.

M. Vincent, 'John Lewis bond to pay 6.5 per cent' *The Financial Times* 7 March 2011.

Considerations

1. Is this method of raising finance replicable amongst other employee owned companies and co-operatives?
2. What are the problems with raising finance from employees and customers?
3. The Partnership's purpose is "to secure the happiness of its employees". Is it achieving this by taking money out of the company (and away from the employees bonus pool) to pay investors, considering the company is in a very strong position financially?
4. Does the issuing of the bonds place John Lewis under pressure to deliver returns to bondholders i.e. shareholder value creed in disguise?