Assessment 1 → Due week 6

CASE 4

# DAVID JONES IN 2012

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## Introduction

In 2012 David Jones (DJs) was in a state of change, selling branded goods to a good market segment and re-entering the e-market. It was also in a good position to look around and assess opportunities in a broad market that was in trouble, with many firms struggling to sell goods at satisfactory margins.

## Early history

David Jones was founded in 1838 by Mr David Jones. The original (and, interestingly, enduring) intention was to 'sell the best and most exclusive goods and to carry a stock that embraces the everyday wants of mankind at large'.[1] The store was located in the centre of Sydney in George Street. This was an excellent location in the growing colony and the store prospered. In 1856 David Jones retired but a few years later the organisation fell on hard times and he returned to restore its fortunes. Within a few years of his return the store was again profitable.

His son Edward Jones joined the firm and under his leadership the George Street premises were remodelled along the lines of a European-style department store. There were several floors of furniture and household furnishings, as well as imported clothing, and the store also had Sydney's first hydraulic lift. A profitable mail-order business was also established.

At the end of the century, the company decided to manufacture at home, and it set up a major factory for clothing. In 1906 it became a public company. It also expanded: a large new store was opened on Elizabeth Street in Sydney, and then a further store on Market Street in Sydney in 1938. The Elizabeth Street store was so successful that it attracted other stores and eventually it moved the centre of retailing in central Sydney from George Street to the fringes of Hyde Park.

After World War II, David Jones became an established fashion leader in Australia and became known for its fashion shows that highlighted the latest in European styles. The post-war boom benefited David Jones and as its sales grew it expanded numbers of stores, and by 1959 there were nine, all in NSW.[2] By the mid-1980s it had expanded into Victoria, Queensland and South Australia. It had, however, failed in an attempt to gain a foothold in the Perth retailing industry.

## The 1990s and Adelaide Steamship's sad performance

In 1980 the Adelaide Steamship Company acquired a major interest in David Jones. In the 1980s and 1990s, using borrowed funds, the two companies cooperated in the acquisition of a range of other companies, including Petersville Sleigh, Tooth and Company and Penfold's the stationers, as well as Woolworths. The Melbourne move came after the acquisition and rebranding of Buckley and Nunn, and the Adelaide move in 1985 after DJs acquired the John Martin's department store chain.

The recession of the early 1990s hit the now diversified firm of David Jones very badly and many of its lenders became nervous. Consequently, much of the portfolio had to be sold very cheaply and the two companies were led into bankruptcy. This was the end for Adelaide Steamship, which was delisted, while David Jones, with a valuable brand and excellent store locations, was spun off as a public company. In 1995 it announced an A$800 million public float.[3]

In the late 1990s the stores were again under threat and DJs began a sale-of-store-leaseback scheme to finance renovation of the ageing store chain. It also re-entered the Perth market via the acquisition of Aherns, one of the most prominent department store chains in that state. In 1997 CEO Tideman was replaced by Just Jeans CEO Wilkinson, who drove the refurbishment and oversaw a strong move back into high-end brands, redressing an error by Tideman who had moved the chain downmarket. Wilkinson also made two other less successful moves. The first was to expand the successful in-store food halls into a full-scale food business via 'Foodchain', basically creating high-quality food boutiques. The idea of this diversification was to decrease reliance on the traditional stores, and A$90 million was spent on the exercise before it was realised that it had not worked and it was closed down.[4] In 2000 DJs also moved into e-retailing with the launch of David

[redacted]

Jones online. This 'clicks and mortar' operation (created out of acquisition of an e-commerce website and TheSpot.com) was designed to revitalise the firm using the brand–supplier relationship to sell more goods at a higher margin.[5] This initiative also failed, and in three years around A$120 million had been spent on a failed growth strategy.

## The McInnes era

Wilkinson was replaced by 37-year-old Mark McInnes, who inherited a company with problems including a A$23.5 million loss in 2005 due to the e-commerce and Foodchain failures, but at the core had a chain of well-performing and nicely branded stores. His approach was simple: 'I cut all the things that made us not who we are: Foodchain, online, expensive capital expenditure. I said we are two businesses, a department store and a financial services business. If we run those businesses better we will profit.'[6]

He had six months to show that he had a good strategy and that it could be implemented, and it started to work inside that time. He continued with the 'home of designer brands' strategy and signed up a range of designers to exclusive deals, including Witchery and Lisa Ho. They were then used in stylish television ads; the idea was to make it clear that DJs 'owned' Australian fashion.[7]

The focus on well-paid, brand-conscious professionals was successful. This strategy of high-margin, brand-driven retailing has continued to pay off. When McInnes took over, the company had posted an annual loss of A$25 million and its net worth was below zero. It is now, based on market capitalisation, worth around A$2.5 billion and has delivered shareholder returns of around 30 per cent every year for the past five years.[8] By the end of his tenure, DJs was operating 37 stores and had 2009 sales of A$1.986 billion. It had experienced reduced sales with the financial crisis of 2008–09, but had recovered by July–August 2009. DJs has also continued to add brands to the stable and the stores are in good order.

However, in August 2010 the commercially successful McInnes resigned because of issues with 'inappropriate behaviour' regarding a female employee who launched a huge lawsuit against the company. The new CEO was Paul Zahra, a very experienced retail manager. Since 2010 he has been an active CEO with considerable success in a bad market.

The share price in November 2009 was A$5.08, in November 2010 A$4.79, in November 2011 A$3.38 and in November 2012, A$2.43.[9] The slump in share price reflects the problems of retailing in difficult financial times.

## Australian society and department stores

Australian society is well suited to the department store concept. There are good numbers in the higher income categories, as the bar graphs of income and wealth quintiles indicate (see Figures 1 and 2). (What the graphs do not make clear is that incomes are steadily increasing.)[10] Another point is that slightly over 90 per cent of Australians *think* they are in the middle income bracket, while only 6.4 per cent see themselves in the bottom 20 per cent and 0.7 per cent in the top 20 per cent.[11] This is a society that values the middle.

## Australian income and net worth, 2009–10

The following two graphs summarise the income and wealth structure of Australian society. As they demonstrate, there are healthy numbers of people at the top end of household income and wealth (which includes housing and investments etc.), but there are also large numbers of people at the bottom end.

Australia is a brand-conscious society and, as the Australia Institute argues, it is one in which people strive to be, and look, affluent.[12] The target for DJs is very specific: women of three generations (grandmother, mother and daughter) with household incomes of more than $75 000 per year, which is well into the fifth quintile in Figure 1. According to DJs, this is a large group that has grown from 5.3 million to eight million people since 2001.[13] Generally speaking, this group likes to dress well and are willing to spend on new designer clothing on a regular basis.

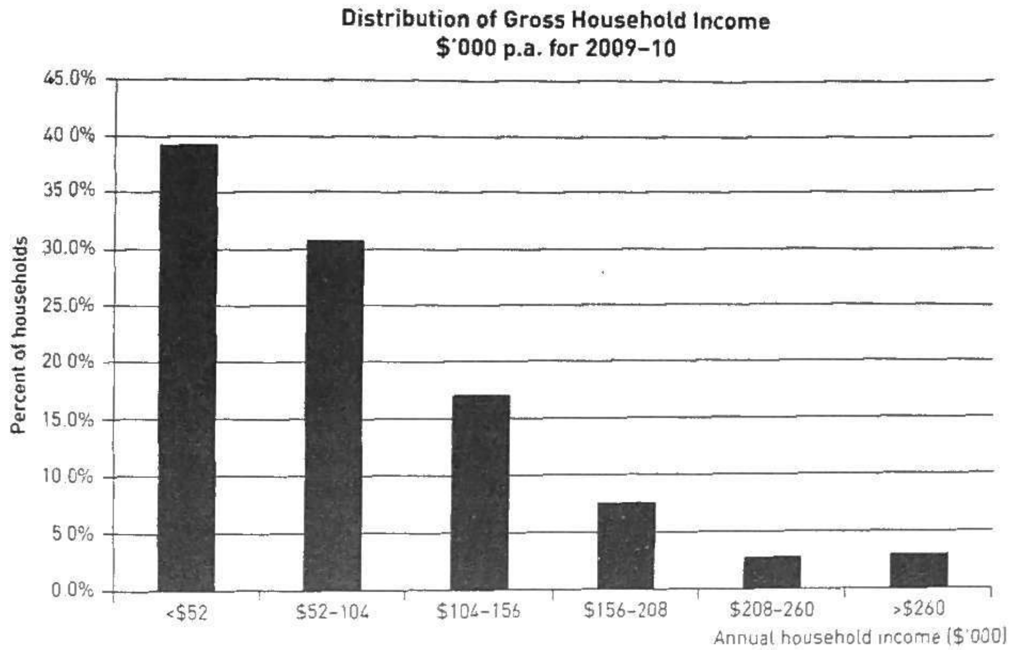
## Other players in the industry

Myer is a major player in the retailing industry; DJs and Myer are direct rivals and each needs as many customers from the high-income cohort as they can get. Myer was started by the Myer family and is a Melbourne icon with a long history. For many years it was part of the Coles Group (which also owned a chain of stores including Kmart, Target and many other firms). In May 2004 a new CEO took over, Dawn Robertson, an American who had previously worked for Federated department stores, operators of Bloomingdales and Macy's. She quickly worked out that the strategy had been wrong to that point:

> Over the past few years Myers has had many different strategies. They've been upmarket, they've been downmarket, they've been a lifestyle and destination store, they've been a productivity store. Through all of this they have lost sight of who their customer was. They were trying to be all things to all people.[14]

**FIGURE 1**

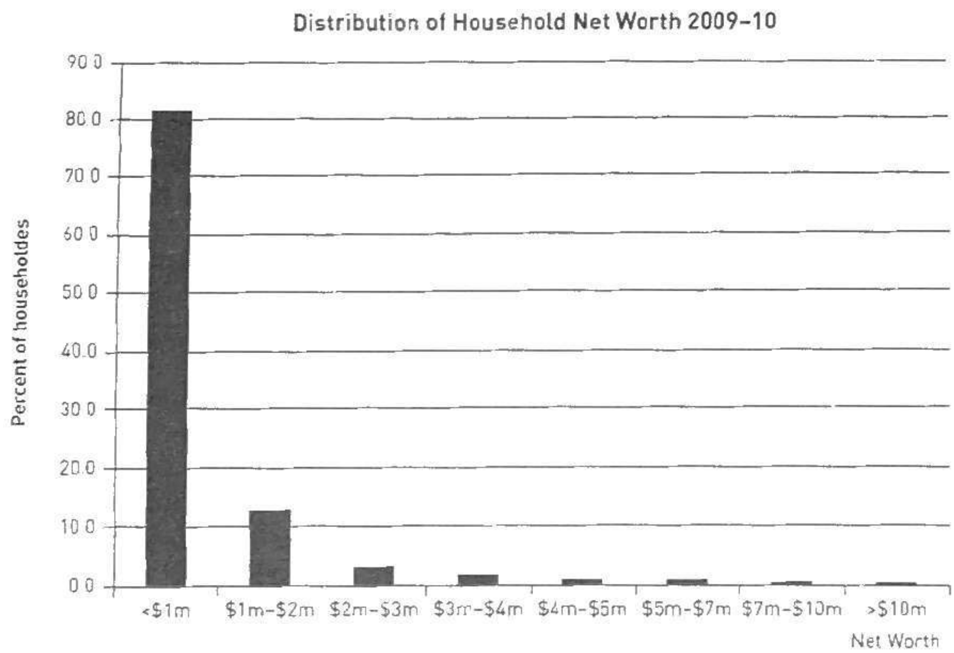
Distribution of gross household income, 2009–10




Source: Australian Bureau of Statistics, 6554.0, 6523.0

**FIGURE 2**

Distribution of household net worth, 2009–10




Source: Australian Bureau of Statistics, 6554.0, 6523.0

She announced exclusive deals with Country Road (who had been with DJs for 30 years), Cue and J-Lo. The strategy was very promising, but the firm was still not performing as well as had been hoped, and in 2007 Coles sold Myer to a syndicate that included part of the Myer family; in December 2008 Bernie Brookes took over as CEO. He has a retailing and marketing background and had worked at Woolworths in the past.

Myer has done fairly well since. It now has 65 stores and forecast a profit of A$100 million for 2009 on sales of $3.27 billion. In late 2009 it listed on the ASX at A$4.10 but quickly dropped to A$3.88. In March 2010 it was A$3:35 and in November 2012 A$1.98 after a year of hovering around the A$2 region. Their market capitalisation in November 2012 was A$1.3 million, similar to that of DJs. In 2011 Brookes was given a contract extension until 2014 at a slightly increased salary of A$1.8 million per year[15]

Myer remained focused on customer satisfaction and position in society On their investor relations site, the key statement put it this way:

> We are focused on providing inspiration to everyone, including our customers, our 12,500 team members, our 54,000 shareholders, our 1200 suppliers globally and the many communities that we engage with our strong brand. Myer is a significant employer and has a long history of philanthropy and local community engagement[16]

Its approach is very like DJs. They are often located in the same shopping centres or, as is the case on Melbourne's Bourke Street, right next door to each other. They both use glamorous female models as brand ambassadors, spend big on above-the-line advertising and attempt to nurture customer faithfulness with loyalty programs.[17]

Target (part of the Coles group, which now belongs to Wesfarmers) is another competitor but with a different target market from DJs and Myer. According to its stated aim, Target is a mid-market department store renowned for delivering to its customers great quality and great-value apparel and homewares.[18] There are 283 Target and Target Country stores across metropolitan and regional Australia.

Big W (which is part of Woolworths) is also in a broadly defined department store market and in 2011 had 165 stores.[19] Its new stores tend to resemble USA's Walmart in size at around 10 000 square metres of space. Target appeals to budget-conscious people generally, but with offerings of unbranded (or non-exclusively branded) merchandise to meet the needs of middle- to lower-income people (mainly the lowest to third quintiles).

Kmart is stuck in the middle of this tangle of firms. It offers reasonable quality clothing and other products at reasonable prices. Kmart is a division of the Coles empire, itself part of Wesfarmers, which is planning to put A$500 million into Kmart over the next few years.[20] The operation is considered to be 'lacklustre' and had been run down by Coles, but with refurbishment of stores and the construction of new stores in good areas it could become more competitive.

*B&T*, which claims to be Australia's leading marketing and PR magazine, used a panel of experts to rate DJs and Myer on marketing and sales strategies in mid-2012 They were scored out of 20 on five central aspects of the business. On 'brand ambassadors', Jessica Hawkins for Myer scored 18/20, while Miranda Kerr for DJs scored 16/20. She scored well as an internationally known person and was seen to be young and attractive, but lost because of some confusion about Megan Gale, the ex-ambassador who was still associated with the brand

On advertising, Myer, who spent A$56.1 million in 2011 (down 9 per cent) was rated at only 12/20 because most of the spending was on advertising discounts and most was in newspapers. DJs also received 12/20 because the tagline 'Was. Is. Always David Jones' was regarded as muddled. One expert liked it, however, since it recalls their past brand glory. DJs spent A$32.2 million on advertising in 2011.

On e-commerce, both were caught by surprise and were seen to be inadequate. Myer was rated at 11/20 because it at least had a net presence, but was very old-style – a net catalogue basically. DJs was rated at 6.5/20 because its site was unattractive, incomplete and very hard to navigate (and the hardest bit was, bizarrely, the checkout). Essentially it was not operating a readily useable site. The capabilities for operating a good internet sales site are hard to acquire but given the time that e-commerce has been around it is nevertheless surprising that these organisations – and the rest of Australian retailing – is so far behind best practice (exemplified by firms such as Amazon).

For loyalty programs, Myer rated at 14/20 because of its 4.5 million members and rich voucher system. It spent A$48 million on the scheme in 2011, which reportedly prompted shoppers to spend 38 times their value redemption – a good return for Myer. It has a smartphone app and is strengthening its loyalty program, which is working and worth the effort. It also produces rich data on clients that is useful for marketing. The DJs loyalty program was tied in with American Express. It is one of the richest programs around, but holders also get points from supermarkets and petrol stations, and holders do not have to redeem their points at a DJs store. DJs also has a specific store card, but this does not have points attached to it. Overall, a score of 12/20.[21]

The two big players in this industry therefore operate in all major marketing areas, but differently (Myer ended up scoring 55/100 and DJs 46.5/100). Target and Big W also run marketing programs, concentrating on catalogues and appeals to families. The broad retailing industry in Australia is, however, far behind international standards on e-commerce.

The approach by these players to locating stores in the total retailing market is highly structured, as indicated by Figure 3.

It is clear from Figure 3 that DJs stores are extremely well located for the high-income segment it targets, with Myer in a similar but not quite as exclusive set of locations. Kmart, Big W and Target are also located within reach of their (lower-end) market segments. Target, however, has a good exposure to higher-income areas and an excellent exposure to regional (non-big-city) areas. This may provide it with an opportunity to expand its market share. Target USA may be a model for them: it is moving upmarket with branded goods via advertisements in magazines such as the *New Yorker*, which appeals almost exclusively to the top-income/high-education demographic. The idea is to carry on with broad family appeal but have selected high-end branded goods also available. This delivers the shoppers who buy branded in some areas but are budget shoppers for most items (this is a growing market).

All players have benefited from changes to computer-based technology that has made ordering, sales and warehousing easier. Gathering data on customers is also far easier with point-of-sale systems that collect standard demographic information. This allows targeting of sales to the small group or even individual level.[22]

## The GFC and strategies for DJs and Myer in 2012

The retail sector in Australia has experienced considerable problems related to the global financial crisis. There has been a downturn in consumer expenditure and an upturn in consumer savings rates. In the first quarter of 2011, DJs' sales went down 11 per cent, and down 15 per cent on that financial year. Zahra warned that profits would fall 15–20 per cent. Myer also suffered falls in sales and profit, but to a lesser extent.[23]

In addition to losses of consumer confidence, retailers suffered from the move by many shoppers to online buying. New models of internet trading had emerged with London's Net-A-Porter as the first mover. Net-A-Porter's insight was that the online experience needs to replace the 'champagne in the change room at Prada and doormen and impeccable service at Chanel on a computer'.[24] It provided great boxes for products, with ribbons and bows, and dressed up the mail experience. The innovator, Megan Quinn, has moved to Melbourne and is talking extensively about this new model.

By late 2011 commentators were negative about the industry, suggesting store closures and changes to the overall cost base of DJs, Myer and the discount department stores.[25]

DJs' response to crisis has been aggressive. In March 2012 CEO Zahra released a three-pronged strategy. The first was a

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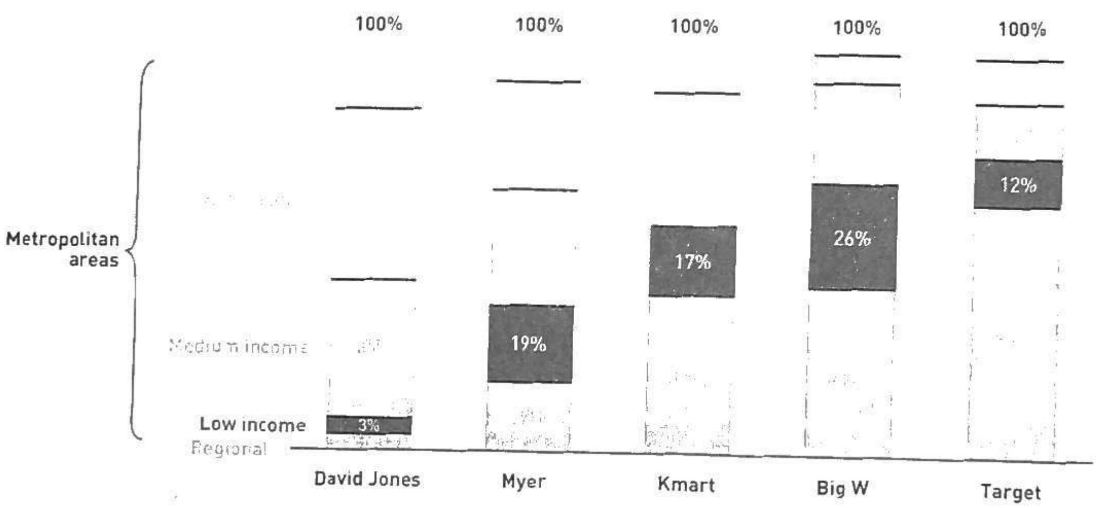


Source: Pitney Bowes MapInfo, PJPL Analysis. Copyright David Jones 2009. Reproduced with permission.

'business as usual' idea, optimising brands, cutting costs and reinvigorating the 'house of brands' idea.

The second prong was to chase further sales growth by adding six new stores to the network, building them where populations are growing and where people live. Zahra claimed they would add A$30 million to operating profit, therefore implying, at current margins, A$300 million in sales growth. DJs will also refurbish their flagship stores in central Sydney and Melbourne. (Myer will build 13 new stores and will end up with 79 stores to DJs' 42 stores.)

The third strategy for DJs is to become a multi-channel business, going back into the online business and also adding a mobile-based mail order service. It is to increase products offered online from 9000 to 90000 This is a big change and needs a terrific web and social media presence.

In September 2012, DJs announced a 40 per cent drop in profit on the basis of a bad year. It broke into positive returns in the second last quarter of 2012 after seven quarters in decline. Zahra, putting a brave face on this, said: 'We're on positive growth, our core competency in fashion and beauty is doing well, but we're still having a tough time in electronics.'[26] At the same time, Myer posted a 0.3 per cent gain in sales after eight quarters in the red.

So, it's a bad time to be a retailer: they are all feeling pressure and need to be lively in their responses. The consumer dollar is hard to get. Is DJs' suite of new strategies enough? Can they implement them? Is Myer better able to attack them now, given they have more stores and greater coverage of Australia? Can Target, backed by Wesfarmers' cash reserves, steal some of their market share?

## Notes


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