Strategic review of australian department store david jones

Parts of the World, Australia

David Jones Limited (DJS) is an Australian retailer tracing its origins back to 1838 when it first opened in Sydney to sell " the best and most exclusive goods" (DJS, 31 Oct. 2009). It has since expanded to become a national retail chain comprising of nearly 40 premium department stores. The subject of this analysis is a strategic business unit (SBU) that is playing an increasingly important role in the company's future growth strategy; namely the provision of financial services.

As the result of a strategic alliance with American Express (AMEX), DJS launched the David Jones American Express (DJA) card in 2008 (ASX Media Release, 20 February 2008). To effectively analyse the value proposition of this SBU and product it is important to first examine the overall value proposition of the company. As defined by Kotler, a company's value proposition is the set of benefits which it promises to deliver to consumers in order to satisfy their needs (Kotler et al. 009). In the case of DJS these core benefits are the provision of an " empowering level of customer service", a distinctive store ambiance, a unique and high quality product range and international brand portfolio offered at competitive prices, and a mission statement to " be the best full line, differentiated department store" (DJS Enterprise Agreement 2006). Key aspects of this proposition include the company's focus on quality, luxury and aspiration.

In terms of Maslow's hierarchy of needs it demonstrates a desire to deliver an experience and array of products which satisfy needs of belongingness and self-esteem in a potential buyer (Maslow 1954). It also forms the basis for the company's positioning strategy and its marketing orientation towards customer satisfaction (AFR Boss Magazine, October 2009, p. 22). The company strives to deliver these key benefits to a primary target market consisting of " three generations of women (daughter, mother, grandmother) from households with above average disposable incomes" (DJS JP Morgan Conf. October 2009). In other words DJS has a segmenting, targeting and positioning (STP) strategy that is female skewed and aimed at the affluent ' AB demographic' which constitutes the top 20% of the socio-economic quintile based oneducation, income and occupation (Roy Morgan, 2009). The value proposition of the DJA card dovetails into this broad set of company values, offering an array of additional benefits and functionality for DJS customers that compliment the company's market position as an aspirational brand (ASX Media Release, 20 Feb. 2008).

Whereas historically the company's branded store card was only accepted in DJS stores, the DJA card offers customers credit facilities at any merchant who accepts AMEX. It therefore leverages the AMEX brand as a leading global payments, network and travel company with its corresponding level of acceptance to offer DJS customers additional credit purchasing power and functionality (AMEX, 31 Oct. 2009). The DJA card also offers unique reward benefits and gift points to loyal customers, professing to " turn everyday spending into dream brands and dream destinations" (DJS, 31 Oct. 009). The value propositions of DJS and DJA can be considered effective for a number of key reasons. Firstly the core beliefs which underpin these value propositions have remained largely consistent over time, with only small changes in response to evolving markets. This is important given they act as the foundation of a company’s brand building process (MM 2009, p. 2-34). Secondly they are unique, leveraging DJS focus on luxury and aspiration to help differentiate product offerings like the DJA card from that of competitors.

Thirdly these values augment the company’s segmenting and positioning strategy by providing clear benefits targeted to their core customer base. Lastly the value proposition is well communicated, permeating all aspects of their marketing mix and integrated marketing communications strategy through mediums such as in-store branding, direct mail, print media, publicity, and online marketing. An overall analysis of the five C’s was conducted for the DJA business unit: Company| Strengths: Joining of two strong brands, reduction of risk for DJS, wealthy customer base, strong growth of financial services, distinctive ‘ house of brands’.

Weaknesses: Potential damage to DJS brand by alliance partner’s actions, fee structure, lack of acceptance of AMEX cards generally, higher merchant fees associated with AMEX. Opportunities: Store expansion increasing reach of customer base for DJA card, expansion of DJA alliance, supplementary card, status program. Threats: Cardholder resentment at annual fee, alliance partner motivations, Myer IPO, supermarket co-branded cards, AMEX debt recovery procedures. | Customers| DJS retail: “ DJ’s core customer comprises of 3 generations of women; daughter, mother, grandmother, with a household income of >$75, 000 p. . ” (Macquarie Australia Confere nce, 2009, Mark McInnes). As the DJA credit card is a product development strategy, of supplying new products to existing markets, the customers of

DJA are essentially the same as the current DJS customers. | Collaborators| Strategic alliance with AMEX in the provision of the DJA credit card. International alliances with other retail stores when the DJA card is used within their stores (eg. Harrods, Harvey Nichols, etc.). Other local ‘ bonus partners’ in the DJA reward program (eg. Vintage Cellars). Competitors| DJs competitiveenvironmentis summarised using the following adaptation of Porter’s Five Forces (Porter, 1908, in MKMT, 2009, 1-26). Industry Competitors: Mastercard, Visa, and other smaller credit card providers. Along with other AMEX co-branded credit cards and store cards. New Entrants: Barriers to entry in the credit card market are high including capital for lending and the setup of infrastructure. Although these issues can be mainly overcome by forming a strategic alliance with one of the major credit card providers, as has been done in the case of the DJA credit card.

Substitutes: There are a number of substitutes to the DJA credit card including EFTPOS direct from bank accounts DJS store cards, Visa Debit and cash. Power of Suppliers: Threat of forward integration by alliance partner AMEX. | Context| DJA’s operating context is defined using the following adaptation of PESTLE model (MKMT, 2009, 1-29). Political: Operating within each Australian State requires understanding of a multitude of separate state governments’ regulators, government policy and the impact on consumer confidence in the provision of credit cards.

Proposed changes to the National Consumer Credit Regime currently being considered by the Federal Treasury. Economic: Performance of the credit card sector is closely linked to consumer confidence within the market, key indicators affecting consumer confidence include; GDP growth, unemployment rates, interest rates, banking sectorhealth, public sector debt. Increasing levels of private sector credit card debt. Socio-Cultural: Current trends in fashion affecting ' house of brands' and indirectly the DJA card. Societal downward trend away from carrying and transacting with cash towards the use of alternative point of sales payments.

Technological: New competitors in the form of online shopping experience. Legal: Operating within numerous legal jurisdictions requiring understanding of each unique jurisdiction in relation to providing financial services. Environmental: Current push towards credit card companies to introduce paperless billing. Demographic: Increasing standard of living in Australia leading to greater take up of credit cards and other lending avenues. Ageing population in Australia which is aligned with the DJS brand and the DJS core customer base. |

SWOT Analysis (MM 2009, 1-25) Strengths: (S1) Brand strengths: David Jones is a strong iconic Australian brand with 170 year history (DJS JP Morgan Conf. , Oct 2009) and David Jones has offered branded credit cards to its customers for 48 years (McInnes, National Consumer Credit Regime, 12 June 2009). American Express formed in 1850 and in the 1950s, issued its first credit card (AMEX, 31 Oct. 2009). The DJA card capitalises on the strength of both brand heritages and service cultures, both locally and internationally (ASX Media Release, 20 Feb. 2008). S2) Strong financial structure with reduced risk to DJS: Alliance partner is responsible for the credit policy and owns the receivables of the Financial Services business with the transfer of

$374. 3m of largely debt funded receivables to American Express (DJS FY09, 24 Sept. 2009) and so the risk associated with the portfolio sits with AMEX not DJS. (S3) Wealthy customers: Core customers have above average disposable income with a household income of greater than $75, 000 (DJS JP Morgan Conf. , Oct 2009). (S4) Strong growth of financial services: 7. % growth in past year and same projected over next four years and large growth in core customer base (DJS JP Morgan Conf. , Oct 2009). (S5) Distinctive House of Brands: positioning with the best product range, great service and the reinvigoration of high-value stores (David Jones FY 09, 24 Sept. 2009). Each DJS offering needs to be distinctly branded in a way which creates an individual brand relationship with the customer whist also aligning with the overall position of the master brand of DJS itself (Aaker and Joachimsthaler 2000). (S6) Growth of brands: Strong range of national and international brands (DJS JP Morgan Conf. Oct 2009). The growth of these brands via ‘ the introduction of 50 new department store exclusive brands to its portfolio across all categories’ at DJS stores is more attractive to buyers (Samador, 28 Nov. 2008). (S7) Fee structure: High membership fees, merchant fees, and credit fees generate more cash for generous rewards program. Weaknesses: (W1) Risk of DJS brand being linked to AMEX: DJS brand linked to AMEX credit policy and debt recovery. AMEX are perceived to be a pushy credit provider, with one shareholder describing AMEX as a " low grade" card that diminishes David Jones' " prestigious reputation", (Samador, 28

Nov. 2008). (W2) Fee structure: Internal shareholders resistance to the $99 annual membership fee and 20. 49% per annum interest rate (the DJS Store card was free to join). (W3) High merchant fees and low merchant acceptance: AMEX merchant fees are the highest of all mainstream credit cards on offer in Australia (RBA, 6 Nov. 2009). This has led to lower acceptance of AMEX compared to MasterCard and Visa Australia wide. Overall AMEX and DJS have complimentary and mutual strengths that compensate for their individual weaknesses, giving them greater combined strength.

Opportunities: (O-1) DJA credit card usage outside DJS stores: The strong history of the store-card (McInnes, National Consumer Credit Regime, 12 June 2009) and the high proportion of store-card holders in the DJA card program (Samador, 28 Nov. 2008) imply that card usage is likely to continue to be concentrated in-store. Given national expenditure in Department Stores accounts for less than 9% of total retail spending (ABS Retail Trade, Sept 2009); there is large opportunity for DJA to grow revenue through usage in the wider retail market. O-2) DJA credit card usage inside DJS stores: The DJS store-card is held by many cardholders as a status symbol (Hanson, 2009, pers. Comm, 30 Oct.). DJA may build on this perception to encourage greater spending in-store and greater in-store usage of the DJA card. (O-3) DJA cardholder expansion: The DJA card program inherited 400, 000 active accounts from DJS (McInnes, National Consumer Credit Regime, 12 June 2009). However this is a small percentage of the market, given there are over 14. 3 million credit card accounts in Australia (RBA, 6 Nov 2009).

Increasing the number of DJA cardholders, within the target segment, is a significant opportunity for DJA. Leveraging the increased market coverage, to be achieved by the DJS store expansion program (DJS JP Morgan Conf. , Oct 2009), is one such means of increasing cardholder numbers. (O-4) Expansion of the DJA alliance: In addition to credit cards, AMEX offers a range of insurance products, travel and financial services (AMEX, 31 Oct. 2009). DJA currently offers insurance products and travel services to their cardholders through their Gift Points program (DJS, 31 Oct. 009). DJA may offer a wider range of AMEX insurance products, travel and financial services, under the DJS brand, to their existing DJA cardholders and DJS customers. Threats (T): (T-1) Resentment of the annual fee: Many DJA cardholders, whom had migrated from the DJS store-card, resented the newly imposed $99 annual fee (DJS, 31 Oct. 2009). The resentment of the fee is re-ignited annually when the fee is levied, such that cardholders will continue to re-evaluate the on-going benefits of the DJA credit card. T-2) Alliance partner AMEX: Under the DJA alliance, the merchant fee is waived on purchases made within DJS stores on DJA credit cards (Hanson, 2009, pers. Comm, 30 Oct.). Given the DJA credit card history as a DJS store-card, a high proportion of spending is conducted within DJS stores, thereby limiting the merchant fees collectable by DJA. AMEX would benefit significantly by luring DJA credit cardholders to alternate AMEX products, so AMEX would receive merchant fees on card purchases within DJS stores. (T-3) The Myer IPO: Preferential share allocations were offered to Myer One cardholders in the Myer IPO (Business Day, 23 Sept. 2009). Current and potential DJA credit card customers may have been swayed away to the Myer One card program to benefit in the

Myer IPO. (T-4) Supermarket linked credit cards: The co-branded credit card market is keenly contested by department stores, supermarkets and petrol companies to name a few. Monthly retail expenditure onfoodis over five times greater than department store expenditure (ABS Retail Trade, Sept 2009). Customers may elect to align their credit card with the retail store where they spend the mostmoney, the most frequently. (T-5) AMEX Debt recovery procedures: Under the DJA alliance, debt recovery is handled by AMEX.

Strong debt recovery procedures and activity from AMEX may reflect poorly on the DJA card and the DJS stores as customer may not differentiate between the two. References Ansoff, I. Strategies for Diversification, HarvardBusiness Review, Vol. 35, Issue 5, Sep-Oct 1957, pp. 113-124. Maslow, A. 1954, Motivationandpersonality, Harper and Row. Aaker, D. A. , ; Joachimsthaler, E. 2000, Brandleadership: Building assets in the information society, Journal of Consumer Marketing. Kotler, P. , Adam, S. , Denize, S. ; Armstrong, G. 2009, Principles of marketing, 4th edn, Pearson Prentice Hall.

Marketing Management, 2009, AGSM MBA Programs Graduate Diploma in Management. ASX Media Release, David Jones selects American Express as its strategic alliance partner for its general purpose card, 20 February 2008. Mitchell, S. , AFR Boss Magazine, October 2009, p. 22 McInnes, M. , ; Goddard, S. , David Jones - JP Morgan Conference Oct 2009. David Jones, Full Year (FY09) Results: August 2008 – July 2009, http://www. davidjones. com. au/images/corp/pdf/2009/FY09_Results_24Sep09. pdf, 24 September 2009. McInnes, M. , National Consumer Credit Regime, http://www. treasury. gov.

u/consumercredit/content/consultation/submissions/downloads/national_consumer_credit_regime/David_Jones. pdf , 12 June 2009) Reserve Bank of Australia, Credit and Charge Card Statistics, http://www. rba. gov. au/statistics/bulletin. html , September 2009 @ 5pm. Australian Bureau of Statistics, Retail Trade, http://www. ausstats. abs. gov. au/ausstats/meisubs. nsf/0/0C3F2426BB831DF3CA257662000E0A71/$File/85010_sep%202009. pdf , September 2009, p6 ASX Media Release, David Jones Selects American Express as its Strategic Alliance Partner for its General Purpose card, http://www. asx. com. au/asxpdf/20080220/pdf/317jmwgpqdm2qr. df , 20 February 2008. Samador, L. , Investors Turn on David Jones Amex card, http://news. theage. com. au/business/investors-turn-on-david-jones-amex-card-20081128-6mtb. html, 28 November 2008. Business Day, Premier results add weight to timing of Myer float, http://www. businessday. com. au/business/premier-results-add-weight-to-timing-of-myer-float-20090922-g0ly. html, 23 September 2009. David Jones, David Jones Enterprise Agreement 2006, http://www. sda. org. au/images/awards/award13. pdf, Accessed 2 Nov. 2009. www. americanexpress. com, Accessed 31 October 2009 @ 5pm www. davidjones. com. au, Accessed 31 October 2009, @ 5pm