JB Hi-Fi Ltd. and the Music and Electronics Retailing Market

Background and History

JB Hi-Fi Ltd. calls itself “Australia’s Largest Home Entertainment Retailer”. It operates in the following areas of the home consumer products market:

- Consumer electronics including televisions, Hi-Fi, DVD players, home theatres, digital still and video cameras, mobile phones and accessories;
- Electrical goods including whitegoods, computing equipment, kitchen appliances, air conditioners and small electrical appliances;
- Car sound systems including car audio systems and visual systems (DVD players);
- Music, games and movies including CDs and music and film DVDs, a range of games and game consoles and portable music players.

JB Hi-Fi Ltd. commenced operations as a public company following an Initial Public Offering (IPO) in late 2003. Prior to this float it was a private company. The IPO was vastly oversubscribed suggesting there was large public and investor interest in buying shares from the fastest growing domestic home entertainment business in Australia. The IPO raised $148 million from the sale of 86.6 million shares. This is a significant amount of equity to commence operations as a public company.

JB Hi-Fi Ltd. operates in many different consumer retail sectors and thus has numerous competitors in each of the market segments in which it operates. Some of the competitors are highly specialised businesses and others are not. The business trades in both Australia and New Zealand and has grown annually since the float in 2003. The store logos and the JB Hi-Fi brand are readily recognisable in many geographical areas of Australia.

JB Hi-Fi Competitors

Consumer Electronics

There are several businesses that trade almost exclusively in the consumer electronics sector. Here consumers will find flat screen televisions, CD players which are portable and those which are very large, large home theatres, digital and video cameras and a wide range of mobile phones, earphones, speakers and other accessories. In this market segment the competitors include Bing Lee, Dick Smith Electronics (DSE) and Tandy.

General Electrical Goods

There are several large department stores which have specialised sections selling computers, printers, scanners, facsimile machines, office equipment, USB keys and memory cards, GPS systems and other small electrical appliances. Businesses that trade in this segment include Harvey Norman, Target, David Jones and Myer.

Car Sound Systems

One of the niche segments is the area of car sound systems. Such systems include CD stacks, MP3 devices, in car DVD players (mounted on the back of the front seats), speakers and other accessories. Competitors in this particular market segment include both Supercheap Autos and Strathfield Car Radios.

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Music, Games and Movies

There is a particularly large and diverse segment of the consumer market which is targeted by JB Hi-Fi Ltd. in the area of music, movies and games. This segment is characterised by a wide range of music (a segment which has multiple niche targets), a wide range of movies and visual entertainment (arising from TV sitcoms to major ‘box office’ movies) and also games. The games market can be divided into consoles (such as PSP, PS2, Xbox, Nintendo and computer-based systems) as well as the actual genre of games. Competitors in this overall segment include Virgin Music, Sanity, Game and Electronics Boutique (EB).

In addition to segmenting the consumer market as shown above, it is useful to understand that in each of the consumer segments there are a number of independent stores which also provide a basis for competition and differentiation. On-line gaming and on-line stores act both in competition with JB Hi-Fi Ltd and also provides significant market opportunities for the company to expand its reach into consumer markets.

Competitors in the Consumer Electronics Segment

Oppositional elements or competitors act as a motivator for businesses to become innovative and to distinguish their products and/or services in the market. It is therefore useful to analyse the competitors of JB Hi-Fi Ltd. in order to understand the broader context in which it operates and the factors affecting the strategies it chooses and applies.

BING LEE

This business has been trading in NSW for 52 years and retails electronic goods through large stores. The business employs over 550 staff and has a turnover in excess of $490 million in 2007. The business has over 35 stores and continues to expand. It retails MP3 players, computers, digital cameras, televisions, GPS navigation systems, cooking appliances, refrigeration, air conditioners and accessories.

DICK SMITH ELECTRONICS

(DSE HOLDINGS P/L)

This business is a trading division of Woolworths and it operates in both Australia and New Zealand. Dick Smith has 433 retail stores and sells more than 30,000 products. The company employs over 5,000 people in Australia and New Zealand.

TANDY

Another business owned by Woolworths, Tandy operates in over 300 locations across Australia. It commenced operations in 1973 and offers a wide range of electronics products from global and highly recognised brands in home and business electronics, computers, home entertainment communications, and much more.

Competitors in the General Electrical Goods Segment

JB Hi-Fi Ltd. faces very concerted competition from the larger department stores all of which retail home entertainment and electronics goods. The quality, size and range within the department stores varies and it is arguable whether the actual sales staff can be compared to those working in businesses which are less diverse.

HARVEY NORMAN HOLDING LIMITED

This is a public company that advertises extensively and has captured market share on account of its particular approach to retail sales using the “No deposit, no repayment, no interest until…” slogan. The business retails home furnishings in addition to white goods and audio visual and other technologies. Joyce Mayne is owned by the company and it specialises in electronic and computer goods. Harvey Norman has 162 franchised complexes and 14 Joyce Mayne stores. This business trades globally in New Zealand, Ireland, Singapore, Malaysia and Slovenia.

TARGET

This business operates 167 stores that offer a range of home entertainment goods including electronic products such as music players, a range of DVD and CDs and other goods such as USB devices, cameras and televisions.

OTHER DEPARTMENT STORE COMPETITORS

Other competitors include the following department stores all of which trade in the consumer electronics segments: Myer, Big W, David Jones and K Mart. These stores tend to seek to add value to their own operations through offered a wide range of products such that consumer seeking to furnish homes feel that all of their needs can be met by the one retailer.

Competitors in the Car Sound Systems Segment

One of the niche markets in which JB Hi-Fi Ltd. has a commercial interest is that of motor vehicle sound systems. Apart from retailing the actual sound systems the company also will install such systems into the purchaser’s vehicle.

SUPER CHEAP AUTO GROUP

Super Cheap Auto Group is one of Australia and New Zealand’s largest retailers with more than 300 stores across Australia and New Zealand. It has sales in excess of $800 million and employs over 5,000 people. In the car market this business is known for the range of car spare parts it sells however it also has a specialised section that retails Satellite car navigation units, car stereos, car alarms, DVD players, reversing cameras and UHF radios.
Super cheap – or super good at what they do?

Supercheap Auto was crowned the “2008 Australian Retailer of the Year” at the ARA awards, held in Sydney on Tuesday evening. The ARA Retail Awards recognise outstanding performance by national retail chains and acknowledge excellence in a number of areas including visual merchandising, customer service, staff training and product selection. Supercheap Auto’s Chief Operating Officer, David Ajala, was delighted to receive this prestigious award and said winning was quite a feat especially given the stiff competition. “Competing against successful national retail finalists including David Jones, JB Hi-Fi, Noni B, Rebel Sport, Sussan and Woolworths is an honour and I am extremely proud to receive this national award on behalf of the whole Supercheap Auto team.” At the awards, the ARA commended Supercheap for its strengths in areas of teamwork, team development and team-focused initiatives.


**MUSIC AND DVDS (VIDEOS)**

The musical section of JB Hi-Fi stores is arranged around musical genres. The stores carry a huge amount of stock and are generally well-stocked. With a good reputation the business is able to exercise considerable buying power and can thus pass on some cost savings to consumers. JB Hi-Fi is well known for its price competitiveness on music and they will leverage sales off applying a loss leaders strategy to recently released new CDs. This strategy extends to DVDs (both music and film). The range of DVDs covers three broad genres and can be further segmented into niche targets. The three genres are film, TV series and specialised films (such as imported stock).

JB Hi-Fi faces a couple of significant threats in regard to the music retailing segment of the enterprise. On-line purchasing such as that offered by iTunes which allows a strict customisation has meant that there is pressure on businesses to adjust accordingly. Downloading songs has its limitations including that consumers have to have the software to support the downloading process and also that the finished product cannot match a professionally sold item.

In response to the on-line capacity to customise the product stores such as Sanity offer a ‘sound station’ which allows consumers to create and burn their own CDs.

**SANITY ENTERTAINMENT**

One of the major musical retailers that is a significant competitor to JB Hi-Fi Ltd. is Sanity Entertainment. The businesses are often located in close proximity to one another – for example in suburban Westfield Shopping Centres.

Sanity Entertainment specialises in retail sales of games, movies, TV, music and operate both on-line and through over 240 stores nationally. Sanity Entertainment is one of Australia’s largest entertainment retailers. It incorporates Virgin Megastores, and HMV. Sanity is part of the BB Capital Retail Group (formerly Brasin), which owns the following retail brands as Divo, Bras N Things, Adairs and Dusk.

In encouraging on-line sales music retailers offer some significant discounts for on-line consumers. However note that the Sanity website contains the following disclosure: “All prices at Sanity.com.au are in Australian dollars and apply to on-line purchases only and will not be matched at any Sanity, Virgin or HMV retail location.”

**GAMES AND GAME CONSOLES**

The home entertainment market has grown very significantly since the advent of the personal computer and early computer games such as Space Invaders. Home entertainment units and game consoles are often known by their brand name. Thus, the following would be very familiar products to most people:

- Play Station 2 and 3 ("PS2" and "PS3") and Play Station Portable (PSP), brands which are created by Sony;
- Nintendo Wii and Nintendo DS which offer ‘active’ gaming options;
- XBOX 360 which is created by Microsoft;
- PC games for a home computer.

**STRATHFIELD CAR RADIOS**

Despite its name suggesting that the business only trades in the car accessories market, Strathfield Car Radios retails a broad range of electronic products to consumers. Broadly, it divides the consumer electronics market into four categories as follows:

- **Mobile phones** – including prepaid, post paid and a range of phone accessories;
- **Car audio** – including amplifiers, tuners, security systems, speakers, subwoofers and visuals (DVD players);
- **Navigation** – including a small range of Navman devices;
- **Home entertainment** – including DVD players (portable and non-portable), set top boxes, speakers, home theatres and sound systems, MP3 players and associated accessories.

In terms of the breadth of the products sold Strathfield Car Radios provides strong competition in the car sound systems market and it may even be the market leader.

**Competitors in the Music, Games and Movies Segment**

One of the main aspects of JB Hi-Fi Ltd. and for which the business is arguably best known, would be the range of music, music players and related accessories and games (and game consoles) that it retails. Located on accessible geographical areas, the company ensures that the consumer market is accessible.
JB Hi-Fi Ltd. offers a broad range of games and game consoles. The actual consoles are often sold quite cheaply as they really only provide the platform for the software (the actual games played). Gamers enjoy the benefit of technological advances that enable people to play in a virtual world with graphics that are increasingly life-like and three dimensional in view.

As would be expected JB Hi-Fi Ltd faces a number of competitors which trade in a similar segment, some of which are highly specialised niche operators and others which are not. In Australia and New Zealand the best known specialist electronic game retailer is Electronics Boutique and it would be the market leader in the games segment for both knowledge and market reach.

**ELECTRONICS BOUTIQUE (OR EB GAMES)**

Electronic Boutique, which also trades as EB Games, is Australia and New Zealand’s largest video game retailer. It has over 315 stores located throughout Australia. EB also trades in New Zealand where it has 39 outlets. The EB Games and Electronics Boutique retail locations make them highly proximate to consumers and consumer markets. The business has a reputation for carrying an extensive product range and for offering pre-owned (or second-hand) games and consoles at very low prices, thus making the products accessible to a number of market niches. As with the other retailers listed, the retail store network is complemented with an active on-line portal.

**GAME**

This is a smaller retailer of electronic and computer-based games and game consoles. Game and EB both will both compete on price in aiming to capture market share.

**Consumer markets and the pricing decision**

Consumers make purchasing decisions based on numerous factors: the cost, availability, perception of need and utility (benefits associated with a product), the quality of particular products and the extent to which consumer tastes are perceived by consumers to be being catered for. One of the restrictions on the capacity for price competition is that often prices are set by the supplier. The retailer has to find creative means by which to ‘package’ goods in order to entice a sale. At JB Hi-Fi Ltd, this is achieved through the sale of complementary products which are offered free with the purchase of a console. Alternatively pre-owned games and/or consoles can be exchanged in order to reduce the cost new games or consoles. This strategy is typically offered by Electronics Boutique.

Australian consumers are very active consumers of electronic products. The quality of life benefits that music, games and electronic products offer has meant that such products are an expectation rather than a luxury. Moreover, Australians are said to be ‘early adapters’ meaning that they are very likely to purchase and trial new technologies. This is evident with the use of mobile phones, MP3 players and the increased focus on purchasing on-line. JB Hi-Fi Ltd. and its competitors continue to grow and succeed despite actively competing.

References: JB Hi-Fi Annual Report 2009, JB Hi-Fi Annual Report 2008; and the following websites:

- [http://www.jbcom.com.au/cp-bin/jbcom/fileadmin/40a3a3d2090b4e7a2771000a87e010683+EN/catalogs/1NF0036360](http://www.jbcom.com.au/cp-bin/jbcom/fileadmin/40a3a3d2090b4e7a2771000a87e010683+EN/catalogs/1NF0036360)
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