Marketing and JB Hi-Fi Ltd

JB Hi-Fi Ltd is a publicly listed retail company, operating in the home entertainment market, which is strongly branded and utilises the mass media to great effect in terms of creating and retaining market presence. It is a business that has grown despite the downturn and it is outperforming its competitors. Marketing, or those aspects of the business that are concerned with managing the stakeholders in order to realise the financial goals of the business, is intrinsic to the success currently being enjoyed by the company.

Marketing at JB Hi-Fi is influenced by a range of external factors including legislation (government), consumer and social trends, economic factors and technology. Marketing is also shaped by the strategies and tactics adopted by the business from market research policies and approaches through to the various product, pricing, promotional and place/distribution strategies applied.

Marketing orientation used by JB Hi-Fi Ltd

JB Hi-Fi predominantly applies a customer orientation to marketing. Whilst the business does have a very strong sales/ retail focus, primarily the home entertainment sector of the market is driven by consumer preferences. It is therefore important for any retailer trading within the sector to place customer preferences and desires foremost when selecting the product mix and selecting its augmented products.

Relationships marketing and JB Hi-Fi Ltd

A feature of relationships marketing is a focus on adding value to customers through encouraging and rewarding loyalty thereby generating repeat sales. This is done by meeting consumer expectations and by delivering a perception to consumers of meeting their needs:

- Their perception of being looked after as a valued customer through the personal interactions with JB Hi-Fi staff.
- Their perception of being looked after through pricing, which reflects consumer anxiety about spending.
- Their perception about a product range, which meets their needs as a consumer.
- Their perception about how inquiries are treated and any follow up to inquiries. This extends to after-sales contact with the business.

JB Hi-Fi can clearly demonstrate a customer focus as evidenced through the sustainable and growing financial returns being achieved.

JB Hi-Fi Ltd marketing objectives

The typical marketing objectives of a business are centred around increasing business wealth and returns for the owners (shareholders). There is an intrinsic link between the marketing objectives and the financial objectives of the company. A measure of the marketing success is the financial success of the company. The marketing objectives of JB Hi-Fi are:

- Increased sales (domestic and offshore)
- Growth
- Increased market share
- Diversification
- Increased geographical representation and
- Increased customer satisfaction.

Increased sales (domestic and offshore)

In its recently released financial results JB Hi-Fi emphasises the increase in revenue and profits (together termed ‘financial returns’) from year to year. On 8th February 2010, the company made its latest public announcement about its earnings and profitability. Of note the businesses reported:

- Sales up by 23% 
- Profit up by 29%
- Dividends (returns to shareholders) up by 120%

The public announcement confirmed JB Hi-Fi’s previous sales estimates of $2.8 billion, or a 20% increase on the previous financial year’s sales. Moreover, managers expect the Net Profit after Tax to be in the range of $117 million – $120 million or a 24%-27% increase on the prior year. For more information about the sales and profit figures for the first half of the current financial year (July 2009 - June 2010), see the information in the box below.

Up, up... sales away...

JB Hi-Fi Ltd. has announced its half year profit to be $76.0 million. The same time last year, with the government stimulus, the half year profits were $59.0 million. The store sales derived were $1.554 billion as compared to $1.262 billion for the 08/09 half year. Gross profit margins remained fairly steady (they fell slightly) even though customer discounting was a feature, and the sale of low margin products was up.

Growth

Growth can be measured in a number of ways including the following measures: an increase in revenues over time, an increase in overall scale, an increase in market share, a rise in custom, an increase in diversity or increased geographical representation. JB Hi-Fi tends to measure growth in terms of sales and in terms of numbers of retail sites opened. Recent growth figures are shown in the box below.

JB... You've grown again!

The company opened 15 new stores in the half and should open 7 new stores in the second half of the 2009-10 financial year; bringing the total new stores for the year to 22; which will be the largest number it has opened in any year since formation. The maturing of the 39 stores opened in the last two financial years and the 22 new stores in 2010 will continue to drive solid top and bottom line revenue and earnings growth.

New Zealand is starting to show signs of improved trading from the 9 JB Hi-Fi stores (JB Hi-Fi store comp 12.1%) as JB Hi-Fi increases its scale, buying power and grows brand recognition. In January the company closed 3 of the remaining 4 Hill and Stewart stores whose leases had expired. "This will allow us to concentrate on what we do best - grow the strong JB Hi-Fi model", said CEO Richard Uechtritz, adding "We expect to open at least a further 3 to 4 stores in New Zealand [in this] calendar year 2010".

The group currently has 134 stores (124 Australia, 10 NZ) of which 122 are JB Hi-Fi branded stores. The company is targeting 210 JB Hi-Fi branded stores and plans to open 13 to 15 stores per annum. With this rollout the company can look forward to at least 3 to 5 years of good sales and earnings growth.


Increased market share

“We continue to grow our market share as recently opened stores mature, we open new stores, expand our offering and reduce our prices on the back of increased economies of scale and a continued focus on costs”

CEO Richard Uechtritz, 08/02/2010

It is very hard to determine whether JB Hi-Fi is actually increasing market share or whether the increased sales are driven by an increase in market scale (that is, growth in the size of the overall market). As consumer markets grow in size through population increases and as consumerism spreads, it is difficult to ascertain whether more people are buying or whether the market share being held by the major businesses within the consumer electronics sector is changing.

Diversification

Businesses such as JB Hi-Fi need to respond to changes in the market through the application of various marketing strategies. One strategy is that of diversification. JB Hi-Fi has diversified its product range. The extension and adjustment of the range of products sold arose through necessity. This is outlined below.

Diversifying in order to survive and grow...

In the age of illegal downloading, selling CDs and DVDs is a big ask, so JB Hi-Fi has sensibly moved further into the digital products area, focusing on televisions, home theatre, computers and tablets (particularly anything with the Apple brand on it), digital cameras and games. It's a clever strategy - many of these products are high margin items and diversification helps insulate the business against fashion trends or cyclical downturns in any one product area.


Geographical diversity (increased geographical representation)

Another form of diversification that has been utilised by JB Hi-Fi is that of geographic diversity. This approach to diversity has a couple of intentions:

- To broaden the income stream through accessing new markets
- To minimise risk by sourcing revenues from other locations

As noted before, JB Hi-Fi already has 134 retail outlets in Australia and New Zealand and the company seeks to continue to open stores until there are 210 retail outlets. Geographical representation has become global in form on account of the website which allows retail and business customers to purchase on-line.

Increased customer satisfaction

Customer satisfaction, or the maximisation of consumer utility, occurs when a business meets the broadest range of consumer needs possible. This is done through the provision of products that consumers want and the delivery of associated customer service which helps customers perceptions of being looked after.

At JB Hi-Fi, customer satisfaction is achieved through adopting the following practices and procedures:

1. Creating a broad and highly sought after product range
2. Through training staff to be proactive in their dealings with customers
3. Through overly pricing at levels that engender a perception of cheap prices relative to customers
4. Through offering product deals that group or package products together in such a way as to reduce the total package costs
5. Through following up customer inquiries and orders promptly
6. Through engaging in fair returns and exchange policies

Market research

A large business such as JB Hi-Fi cannot successfully and sustainably grow without engaging in constant market research. Both primary and secondary forms of market research are used to track consumer trends. An example of how market research affects JB Hi-Fi's business practices is shown in the text box titled 'No more singles - B.I.Y'. This example demonstrates how business strategies and tactics are adjusted to evolving and changing consumer preferences over time.

No more singles – B.I.Y.

JB Hi-Fi no longer retails singles through its stores. Realising a trend for people to download individual songs the business instead emphasised the purchase of iTunes so that consumers could help themselves – a 'Buy It Yourself' or 'Burn It Yourself' policy. Competitor Sanity offers consumers the option of burning their own CDs through selecting music from a database of over 500,000 tracks.

Target market and market segmentation

The target markets for JB Hi-Fi are vast. Each of the following segments can be easily seen through an assessment of the product mix and the marketing strategies applied by the company in the retail outlets and on-line interface:

- Parents and children: there is a vast selection of CDs and DVDs from educationally oriented works (such as the Wiggles) through to popular children's TV shows such as those shown on the ABC
- Older persons: through the provision of cheap CDs and DVDs targeting music, TV programs and movies popular in the 1960s, 1970s and 1980s.
• The youth market: through gaming products and consoles as well as cameras, iPods, phones, in-car entertainment and the like.
• Families and households: through the provision of electronic goods such as flat screen televisions, computers, in-car entertainment, printers and ink, digital cameras, DVD recorders and home theatres.
• The student market: through the provision of laptops, printers and ink, MP3 players and mobile phones.

It is clear from the range of products that several market segments are being simultaneously targeted. This approach diversifies the income stream and enables JB Hi-Fi to cater to a broader cross-section of the market, thereby gaining access to multiple niches.

Marketing strategies
When setting about planning how to achieve the marketing objectives businesses need to apply various marketing strategies. Often called the 4Ps, the strategies are: Product, Price, Promotion, Place.

Product
JB Hi-Fi Ltd. sells vast a range of electronic and entertainment products. The products tend to be 'tangible' in nature, although the sale of gift cards, vouchers, memory cards and iTunes cards are all arguably intangible in nature yet carry intrinsic value.

The range of products can be clearly ascertainment through visiting one of the JB Hi-Fi outlets or by scanning their website: www.jbhi-fi.com.au. On their site they categorise products as follows:

- Plasma, LED and LCD TVs
- Home theatre
- Computers and Laptops
- Mobile phones and internet
- iPod, MP3 and portables
- GPS and car sound
- Digital cameras
- Hi-Fi and home audio
- Games and game consoles
- CD and DVD music
- DVD movies and TV shows

Branding
A crucial aspect of marketing for JB Hi-Fi is that of branding. Branding through the business name, the strong yellow colour with black, the logo and the slogans all combine to give consumers a perception about the company.

Alliances
JB Hi-Fi Ltd. has created a number of business alliances that create synergies for the company. For example, the website has a link to the Music Australia Guide (MAG) which music enthusiasts can link to. MAG is a monthly bulletin that appears in JB Hi-Fi stores and also on-line, with articles of interest about music, artists and the latest musical releases. JB Hi-Fi stores are a distribution outlet for the MAG.

JB Hi-Fi also acts as a sponsor to the Kool Skools Awards and thus has its branding visible during the annual awards ceremonies (see the box on the back page). This sponsorship therefore increases brand awareness and brand penetration.

Price
Pricing is a major marketing focus of JB Hi-Fi. The company strongly associates itself with the 'Cheapest prices', even stating: "we check our competitors prices daily thus prices in store can be even cheaper if we have been undersold".

Pricing methods used by JB Hi-Fi are essentially a mix of market-based and competition-based pricing. This means that demand will affect the prices. Moreover, JB Hi-Fi is very competition focused (this is overtly stated by the company) thus pricing is also affected by the activities and tactics adopted by competitors. Whilst there are different pricing strategies and tactics those favoured by JB Hi-Fi include:

- Skimming pricing: this pricing is often imposed by manufacturers so the JB Hi-Fi response is to bundle products with supplementary products thus reducing overall prices. So, for example, when a new game console comes onto the market, that console will often be sold with games and other things like controllers and headphones are given in addition to the main purchase.

- Penetration pricing: this is applied to the CD and DVD sections of the product mix rather than to 'large ticket' items. New release music and film products are often sold at very cheap prices by JB Hi-Fi. With cameras, computers, TVs and the like, JB Hi-Fi tends not to apply a penetration pricing policy but rather 'bundle' which leads to an overall cost saving to consumers.

- Price points: This applies to the range of large cost items like laptops, mobile phones, sound systems, home theatres and the like. Consumers can buy a base model or pay incrementally for progressively higher quality options which have greater power, more features and extended warranties.

- Loss leaders: Some items are always on sale as loss leaders which means they are sold below cost in order to attract cash flow and also get consumers into the stores. Generally the loss leaders are CDs and music DVDs.

Promotion
There are several aspects to the promotions mix that are relevant to JB Hi-Fi trading operations. The company engages in a range of promotional practices from personal selling and advertising through to below-the-line promotions and public relations (PR). Personal selling mainly takes place in store through the proactive approach of staff to consumers and consumer inquiries.

Gift cards – the ideal product….?
Over time there has been trend towards the purchase and giving of gift cards as presents. 90% of people surveyed in an American study of over 8,000 consumers expressed that the use of gift cards gave them freedom to choose and that they preferred to pick their own gifts. 64% stated that they thought that gift cards were better than traditional presents and 50% said that gift cards were also better than cash.

According to Alan Wood, the best research on the use of gift cards comes from the USA where in 2008 the total value of Christmas gift card purchases was US$25 billion. There they ranked in the top three of most wanted gifts.

In Australia a recent survey by the Australian National Retailers Association (ANRA) which represents a number of leading retailers including David Jones, Coles and Harvey Norman, showed gift cards were the number one Christmas purchase this year. According to Margy Oramond, the Chief Executive of ANRA: "The number one present... is in fact gift cards and vouchers... they used to be considered terribly unromantic but are now considered a great gift because people can go and get exactly what they want from the post-Christmas sales." Vouchers were followed by electronics and toys, which many people put on lay-by during the June/July sales, she said.

*Note: the study was conducted by NAPCA – the National Branded Prepaid Card Association, in USA

JB Hi-Fi advertises extensively through the print media (newspapers, MAG bulletin and other sources of mainstream readership), radio and on television. The use of the mass media is expensive but it does enable branding in a highly competitive market.

Through the use of catalogues, JB Hi-Fi uses below-the-line promotions to engage in direct selling with the broader market. It also sponsors and supports the development of music and musical talent through the ‘Kool Skools’ program which is profiled in the snapshot provided.

**What is Kool Skools?**

Kool Skools is an exciting Recording and Multimedia Project for secondary level students. The project has been incredibly successful over the last 10 years and the 2nd decade is now shaping up to even bigger! Projects are open to all secondary schools and council youth agencies, youth associations or clubs. Kool Skools promotes, develops and supports a diverse range of talent and all genres of contemporary music writing and performance. Each school or project gets to work within a professional studio in either Melbourne or Sydney, recording an album of original music by their own school bands. Each project receives 500 CDs containing their own music, video, graphics and virtual photo album. All the CDs produced are CD enhanced format featuring both audio and CD rom section. State Awards Night is held in October to showcase and celebrate the best songs and performances. About 40 acts will get to perform live. The awards nights are modelled on the ‘ARIA’ Awards and feature well known industry personalities and famous bands reading out the nominations and presenting the awards.

For those who don’t play music or sing, Kool Skools also provides a great opportunity to be involved in video, photography, the CD artwork and the whole multimedia process. Kool Skools is a real gateway to the music world – not just a school project!


**Promotion through opinion leaders**

An unlikely source of ‘opinion leadership’ arises in the CEO. Just as Richard Branson is the ‘face’ of Virgin airlines and John Kelly is the ‘face’ of Westpac, Richard Uechtritz has been the ‘face’ of JB Hi-Fi. He recently announced that he was leaving the company (see the box to the right).

**Place**

Place refers to anywhere a product can be accessed or purchased. JB Hi-Fi sees to increase the number of actual retail outlets. JB Hi-Fi trades both through its retail spaces and online. This means that it has a selective distribution in terms of retail locations, but may be accessed ‘intensively’ wherever there is access to a secure internet connection.

**Opinion leaders and Richard Uechtritz**

News of the retirement of JB Hi-Fi CEO Richard Uechtritz has led to a 5.1% fall in share prices. He will be leaving in the middle of the year and then will return to the Board at the start of 2011, as a non-executive Director of the company.

Mr Terry Smart, the current Chief Operating Officer joined the company in July 2000 alongside Mr Uechtritz. Mr Smart said he was excited by JB Hi-Fi’s growth prospects, with the company only 58 per cent of the way through its targeted roll-out of 210 stores.

Credit Suisse retail analyst Grant Saligari said Mr Smart was an “excellent executive” who had been with the company from the beginning. “He has obviously played a big role in the decisions they’ve made to date and the performance to date, so I’d rate him very highly,” Mr Saligari said.

Foresight Securities analyst Todd Gugay said Mr Uechtritz’s departure was “clearly a loss”. “He’s been the figurehead. He’s been the key man...I think it’s a definite negative, no matter which angle you cut it”, he said. “They’re such big shoes to fill. I think the market is just going to take a step back and sort of have a look for a while.”


**Leading Edge Education**

Leading Edge Education delivers quality educational assistance to teachers and students through a range of textbooks, workbooks, study resources, tuition programs and holiday workshops.

Business Studies Update is published by Leading Edge Education.

© Leading Edge Education