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The department compartment

The Australian department store sector has been playing its own version of “sliding doors” in recent years.

Unfortunately, in an age of digital disruption and with the arrival of the large global retail chains, it is becoming much harder to find the “heroes” in the department compartment.

Since the GFC in 2009, Australian department store revenue has contracted by 1.8 per cent annually and experts predict only marginal increases over the next five years (0.4 per cent compound growth annually).

Consumer attitudes towards department stores tell a similarly ominous story - a recent survey by Canstar Blue revealed more than a quarter of shoppers feel they no longer need to visit brick-and-mortar department stores.

While the cards seem to be stacked against the department store format, their extinction is not set in stone, as some famous department stores are successfully evolving their models.

A report by L2, a US based retail think tank, suggests that the success of department store brands is inextricably linked to digital competence. L2 have developed a ‘Digital IQ Index’ to assess the tech-savviness of global department stores which they believe equates to shareholder value.



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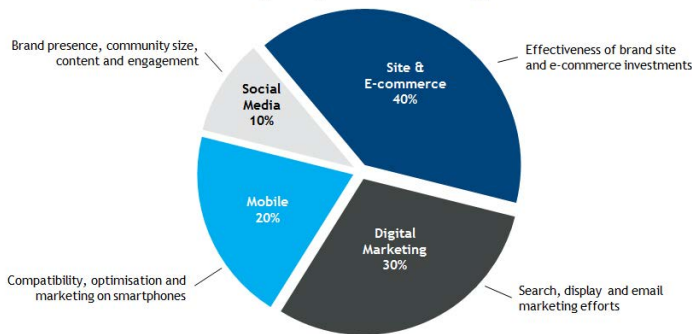
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L2 Digital IQ Index: Methodology



Source: L2

According to the L2 index, Nordstrom's significant investment in its digital platform has paid off. With online sales now representing 25 per cent of total sales, they were crowned 'Geniuses' with an IQ of 148, setting themselves apart from competitors by offering free shipping "No minimums. No kidding" in the United States. Runners-up include Macy's (147) and Sears (140).

In the L2 Index, David Jones (96) is considered 'Average' while Myer (85) is 'Challenged'. These results come as no surprise. For example, Myer's gift registry is not linked to its online store - shoppers need to print gift details and physically purchase in-store.

It's not only the Australian department stores that are falling behind in the digital space, some of Asia's largest department stores are found far down on the rankings. Of the 56 stores ranked, the top Asian department store came in at 33rd place, Korea's Shinsegae classified as 'Challenged' (79). Shinsegae only launched its online shopping mall SSG.com in 2014, illustrating that its digital IQ is still in its infancy. Other 'Challenged' contenders include Korea's Galleria (72) and Japan's Takashimaya (71). While Daimaru Matsuzakaya (68) and Isetan Mitsukoshi (65), both in Japan, and Korea's Hyundai (66) all ranked as 'Feeble'.

Feeble	Challenged	Average	Gifted	Genius
<70	70-89	90-109	110-139	140+
Investment does not match opportunity	Limited or inconsistent adoption of mobile and multi-channel platforms	Digital presence in functional yet predictable	Brands are experimenting and innovating across site, mobile and social platforms	Digital competence is a point of competitive differentiation



Source: L2

Mobile-commerce has the biggest potential to reach consumers. In the epic "app vs website" debate, department stores with higher digital IQ's have invested in both platforms. The majority of iOS apps offer social sharing, e-commerce and push notifications but less than half offer ratings & reviews, coupons and bar code scanners.

This indicates that while department stores are on the right track, they are not quite hitting the mark. L2 reports that tablet optimised sites are the greatest missed opportunity.

Search engine visibility is the real test of a digital IQ. Some department stores are purchasing paid ads to increase their visibility and brand, while other department stores already have strong organic visibility, appearing on the first page of Google results.

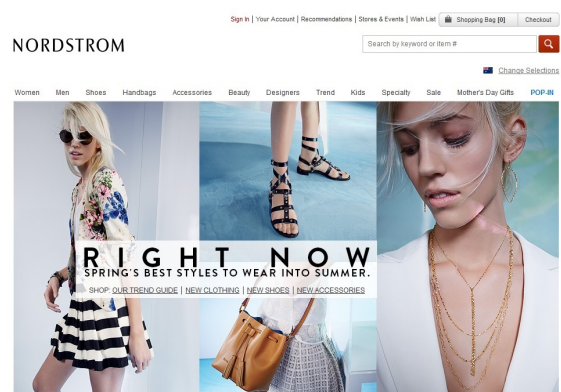
Recent media reports suggest that the implementation of Google's

At various points in time, David Jones, Myer and their discount cousins, Target, Big W and Kmart, have all been heroes or villains in their sector.



Source: www.justjared.com; www.westfield.com.au

NORDSTROM



Source: www.nordstrom.com

"mobilegeddon" is likely to lead to the 'disappearance' of retailers from Google if they do not have mobile enabled websites, reinforcing that this should be an area of considerable focus for challenged contenders.

Despite the sub-par ratings, Australian department stores are making in-roads to better their digital footprint. Myer reported strong online sales growth in its recent results announcement and highlighted its intention to build "digital capability off the back of the Myer One loyalty program to accelerate omni-channel." In addition, DJ's new CEO Iain Nairn has commenced the implementation of a fresh approach with a digital focus, suggesting the current DJ systems are archaic. He plans to introduce the same retail systems that Country Road and Woolworths in South Africa successfully use.

It's interesting to note that while the Asian brick-and-mortar department stores are deemed 'Challenged' and 'Feeble', e-commerce platforms such as Alibaba, Gmarket and Rakuten are booming. Alibaba controls approximately 80 per cent of China's online market and is one of the world's largest e-commerce players, rivalling the likes of Amazon and eBay. E-bay's Korean subsidiary Gmarket, estimates smartphone penetration rate stands at almost 74 percent. In 2014, Rakuten was ranked #17 on the Forbes 'The World's Most Innovative Companies'.

As the digital world keeps expanding both Australian department stores, Myer and David Jones, and their Asian counterparts need to be on their A-game to maintain relevant and viable businesses. The most successful international department stores have invested heavily in mobile online platforms, adopting digital competence to the department compartment.

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