DSG International – Managing Multiple Brands in a Multi-Channel World

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DSG International Group (www.dsgiplc.com) is a European powerhouse when it comes to electrical retailing. It is the largest electrical goods retailer in the Europe operating over 1,425 stores under various well known brand names including Dixons, Currys, PC World, Pixmania.com and international stores such as Elkjob, PC City, Uni Euro and Ei System. The group operates in over 27 countries, and employs 40,000 people. Since their inception in 1937, DSG have been involved in various acquisitions in order to facilitate their growth. This has enabled them to become a dominant force in the electrical retailing market both in the UK and international markets where they have established a growing profitable presence that makes them Europe's largest specialist consumer electronics retailer. The group is a committed multi-channel retailer where customers have a wide variety of choices when it comes to purchasing goods. Despite being the market leader in the electrical retailing industry, DSG International is coming under increasing pressure in an intensely competitive retail environment in both the UK and Europe. 'Dixons', 'Currys' and their main rivals 'Comet' dominate the UK electrical retailing landscape. The firm has evolved into a multi-brand multi-channel retailer, operating under 16 different brands in Europe. It recently removed the famous Dixons brand from the high street, renaming the chain Currys.digital. In this bold move, the firm wants to establish the Dixons brand as a pure-play online retailer. Will the move pay off?

In 1937, the DSG group set up as a photographic studio (called Dixons) through its co-founder Charles Kalms. From its inception, Dixons grew steadily in the 1950s and 1960s, becoming a public company having over 100 stores. Dixons moved into electronics retailing in the 1970s as well as becoming increasingly involved in acquisitions. They purchased a Dutch photographic and optical business 'GH Rinck' with 60 stores and this was soon followed by the acquisition of Westons drugstores, a 200 strong chain. Both acquisitions failed and both were sold in 1978 and 1980 respectively. By the early 1980s DSG had some 260 UK stores and were about to make a key decision that would have major implications regarding their future success. Dixons proceeded to buy out the Currys chain that was also operating with a significantly larger number of stores than Dixons. Through this acquisition Dixons had now acquired a business that was trading in products similar to themselves but also had added white goods to its product range. Subsequent acquisitions in the 1980s included the purchase of the photo-processing chain Supasnaps and entering the US market through acquiring the Tipton and Silo chains (Silo being the 3rd largest US electrical retailer at this time). In 1989, Kingfisher, who owned the Comet chain at the time made a bid for Dixons. The monopolies and mergers commission ruled against this buyout, arguing that Kingfishers Comet chain working almost alongside Dixons and Currys would be anti-competitive. As Dixons entered the 1990s it retrenched its position and both Silo and Supasnaps were sold. Dixons recovered from the early 1990s struggles and has benefited by focusing their efforts on its core markets. Major acquisitions during this time include those of 'PC World' and 'The Link', both of whom proved to have significantly aided the development of Dixons. The firm was then renamed to DSG International, its present name.

Figure 1 – The DSG International Group Brands

Brands such as Currys, Dixons, and PC World and have become major UK electrical retailing brands. Traditionally the Dixons branded stores had a presence in high street shopping centres and within shopping malls. It is regarded as mainly a high street brand. The Currys brand has evolved as a superstore brand that concentrates on sites in retail parks and out of town sites that stock a wide range of white goods (i.e. fridges, cookers etc.), brown goods (i.e. televisions, home audio etc.). The Currys store brand is reducing its reliance on traditional high street store locations and is focusing on the development of larger than average electrical superstores. Developing these superstores is enabling the group to expand its established Currys brand. The group has also been relocating their smaller '1st' generation Currys superstores to the larger sites in order to satisfy their new image of Currys. There are 547 Currys superstores and high street stores in the UK, with five stores in the Republic of Ireland.

The group's other major brand, PC World is called a category killer in the personal computer market and there are now 128 PC World stores in the UK (3 in Ireland). The PC World superstores are designed to serve large catchment areas, targeted mainly at the consumer market and to a lesser extent on small businesses. Recently DSG International has tried to make PC World more accessible to businesses through the installation of business centres in all their UK stores. Through their www.pcwb.com website, PC World Business offers 22,000 products offering customers 24-hour buying, real time pricing, stock availability, order-tracking and account query facilities. The company is now on the acquisitions trail, but has also disposed of some businesses like the retail chain The Link. The company sold their majority shareholding in The Link retail chain to mobile phone operator O2 for £30million. The company bought the Pixmania brand for £185 million (€266 million) in the summer of 2006. Pixmania.com has a presence in over 25 European countries, and is the leading online retailer in the sector. This acquisition aims to strengthen the group's online presence.

Table 1 – DSG International's Market Presence

Country	Sales	No. of Stores	Brands
Norway	477	96	Elkjøp Lefdal
Sweden	273	49	El Giganten
Denmark	132	28	El Giganten
Finland	110	19	Gigantti
Iceland	11	2	Elko
Italy	584	104	UniEuro
Greece	160	76	Kotsovolos

Czech	54	7	Electroworld
Hungary	52	6	Electroworld
Poland	N/A	1	Electroworld
France	N/A	11	PC City
Spain	N/A	25	PC City
Ireland	80	20	Curry's Dixons PC World
UK	4416	727	Currys.digital Currys Dixons (Duty Free) PC World

The failure of the Silo acquisition in the US could have signaled the end of DSG International's attempt to break into the overseas markets and focus exclusively on the UK market. Instead DSG International has undergone an intensive campaign of international market development in continental Europe. The basis of the group's European expansion is similar to that of the UK - focus on large scale, out of town, mixed electrical and PC retailing. DSG International own or have significant shares in some of Europe's leading consumer electronics retailing stores including Elkjop, PC City, Electroworld and Uni Euro. The acquisition of the Norway based Elkjop ASA occurred in 1999. They are the leading Nordic consumer electronics retailer operating 5 brands in Norway, Sweden, Denmark, Finland and Iceland. Elkjop is the market leader in Norway. 'Electroworld' (Owned by Elkjop) has recently opened new huge superstores in Eastern Europe. DSG International uses the Elkjøp in the Nordic countries, UniEuro in Italy, Kotsovolos in Greece, Electro-World in central Europe, PC City in France, Spain, Italy and Sweden, and Pixmania.com is used across Europe.

DSG International opened its first PC City store in Scandinavia in 2003. The PC City format is similar to the PC World superstores in the UK, i.e. out-of-town retail parks. Further expansions are planned for Spain and Italy. PC City could provide DSG International with a significant avenue for European growth in the future due to the absence of a PC superstore format in the mould of PC World (in terms of their size, range, competitive pricing), with a presence in France, Spain and Italy. DSG International have also acquired a 96% stake in Uni Euro, Italy's largest electrical retailer and have an option to buy the remaining 4% in July 2004. Their continuing growth in the European arena also increases their purchasing power and almost guarantees their future success. However this acquisitions strategy was always going to need financing and this has resulted in a very high Debt/Equity ratio for the DSG International Group. This high ratio means DSG International are financing through mainly debt sources and this could prove to be a stumbling block for any future expansion plans.

The DSG International Group is the dominant player in the UK electrical retailing market with a share of over 20%. However the tough retailing environment in the UK has impacted upon DSG International margins in recent years. Comet, the group's major rival has an estimated market share of 8%. Comet has been making something of a comeback and is fighting back in the superstore sector where it is believed to be taking market share from Currys. In order to combat increased competition DSG International has reverted back to what it knows best……..acquisitions.

There are also emerging threats to the DSG International Group market share. They are facing stiff competition from generalists such as Argos, (*owned by GUS*) who are keeping the brown and white goods element of the market in a very competitive state and who have also established substantial online retailing operations. Department stores are also becoming more involved in the electrical goods market with John Lewis regarded as a major electrical goods retailer in this sector in the UK. Mail order companies including GUS, Littlewoods, Freemans and Gratten have increased their market share for audiovisual goods and this is likely to continue as mail order operators are well positioned to utilize e-commerce to their benefit. Non-specialists (*grocery multiples*) such as Tesco, Asda, Sainsburys, Aldi can be important sellers of larger electrical goods and have significant sales through specialist purchases of DVD players or PCs. These are likely to provide DSG International with serious competition in the future, due to their sheer size and buying power.

Many of DSG International major retail brands have developed a strategic presence on the Internet and to a lesser extent on digital television in addition to their presence in the physical retail environment. In fact DSG International was the first ‘bricks and mortar’ electronic retailer to launch a fully transactional e-commerce site called Dixons online. This sort of innovative approach has given Dixons a head start over competitors who are then playing catch up in developing their sites. E-commerce has transformed Dixons into a 24-hour retailer (e-tailer) and customers can now shop when and where they want. The development of Dixons e-commerce site has enabled them to reduce the online cost of products due to a reduction in sales and distribution chains. E-commerce has also enabled Dixons to offer a greater product range than what is available in the physical stores; in some cases customers have the option to visit the brands corporate website to assess product quality. As part of the e-commerce system, all transactions are conducted using secure encryption programmes and the website also remembers all the customers details so that they do not have to re-enter data when they return. The success of the Dixons online site has prompted the establishment of other sites for the companies businesses including PC World, Currys, PC World, Business Direct, etc. In an effort to integrate channels, PC World has launched an initiative called Collect@store where consumers can buy online, and pick up the product at a local PC Store. Additional online services such as real-time pricing, stock availability, order tracking, account query tools, buyers guides and price comparisons have been introduced to the online experience to meet customers demands.

Not everything has gone according to plan for DSG International. The group has had to endure some negative press of late. In 1998, the group launched Freeserve, a pioneering initiative in supplying free Internet access for users. It became the UK's largest Internet service provider the following year and had 1.7 million active registered accounts in January 2000. Despite this there have been serious problems with Freeserve which recorded a £28m loss for the company in 2000. This financial burden has caused DSG International to reconsider its use of Freeserve. Eventually Freeserve was sold off to French Internet giants Wanadoo.

In 2000 the DSG International signed an exclusive deal with vendors Compaq Computer Corporation (now owned by Hewlett Packard) and Packard Bell. The deal meant the exclusive supply of the personal computers to DSG International by Packard Bell and Compaq who would cease to supply their PCs to other resellers. Complaints were filed to the Office of Fair Trading (OFT) whereby competitors believed DSG International were unfairly restricting competition in the market place by signing these types of exclusive deals. An investigation by the OFT concluded that the DSG International were not dominant in the supply of home PCs and had not infringed competition law by signing the deals.

The DSG International is generally regarded as one of the most frequent complainers in the retail sector according to the ASA (Advertising Standards Authority). They have previously targeted Comet with complaints on their pricing and availability. Some complaints have included a protest that a Comet deal for a Daewoo PC was unavailable when it was checked at 6 Comet stores. The ASA disagreed with DSG International claim. Similarly Comet have not been shy about voicing their concerns about DSG International. Currys had been using the slogan 'unbeatable low prices' in the past before the Advertising Standards Authority banned this slogan in 2001 after it was deemed to be misleading. It was Comet who objected about the advert on the grounds that Currys did not always offer the lowest prices. In response Currys claimed the advert was 'common advertising hyperbole that could not be interpreted literally'. However the ASA upheld their decision.

The group were to be investigated by the regulators with regard to an 'interest free' offer to customers that involved a 29.5% interest to defaulting customers. The DSG International advertises the scheme as a 'No Deposit' up to 12 months interest free credit option on all products over £249. Should a customer fail to pay the loan off in full by the end of the interest free period the interest of 29.5% is charged for the entire period of the loan. The Office of Fair Trading (OFT) said 'a company advertising 'interest free' or 'no interest' credit deals must offer just that – credit without interest. Consumers should not be misled by inaccurate advertising'. DSG International responded saying the wording of the offer was clear and that the majority of customers find the offer useful citing the fact that 85% of customers pay off the full amount. However the other 15% are hit with the 29% charge on the full purchase price. An additional problem occurred with the offer in Britain when customers who paid the amount in full before the 1-year deadline were actually charged the full interest rate on the loan. This occurred due to delays in the banking system whereby the loan appeared to fall over the deadline. Confused customers were then informed months later and DSG International was forced to eventually repay the interest and remove the administrative error. DSG International has decided to continue with the offer in Ireland though despite agreeing to amend it in the UK.

The group sees its online operations as vital in ensuring its future success. It has seen revenues from online sales increasing 50% year on year. In a bold move DSG announced that the famous Dixon's brand name was leaving the high street, and being replaced by Currys. All 190 Dixons UK stores were rebranded Currys.digital. These Currys.digital offer a broad range of large and small appliances. The rebranding has cost over £7 million, yet it is hoped that the rebranding and refurbishment exercise will yield costs saving of £3million a year. The Dixon's brand now operates exclusively as an online brand, operating as DSG's core e-retailing operation. Dixon's stores in Ireland and in airports are unaffected by the decision.

Some question the rebranding strategy as flawed, as the Dixons brand is retained as only an online brand, and remains in some foreign markets and tax-free areas. More importantly it closed over 100 underperforming Dixons stores, due to intense competition from Internet sales. These newly rebranded stores will have an expanded product offering, rather than pure technology items and possess kiosks where shoppers can purchase items from an expanded product catalogue. A major criticism of the plan is that currys.digital, pixmania.com and dixons.co.uk will cannibalise each others sales. Furthermore why not have one generic brand in the UK for its bricks and mortar operations and e-tailing division?

The company sees itself as maintaining its multi brand offering, yet adopting commonalities in their operations infrastructure. DSG is aiming to deliver their brands through company owned stores, franchises, and e-commerce operations. Its ambitious growth targets are to be delivered through upgrading of its existing store portfolio, opening up new channels, selling new categories of product, launching in new countries, and launching new stores. In achieving its international strategy, DSG believes in having a centralized infrastructure, but allowing local adaptation in relation to pricing, stock levels, and product range to suit local market needs. The group's main synergies are achieved through common IT systems, common buying strategies, integrated supply chain, and common store design & development experience.

Through an ambitious acquisitions programme, DSG International has grown from a tiny photographic studio to become the dominant electrical retailer in the UK and other European markets. Its major brands and economies of scales have ensured the continued success of DSG International for now at least, but will they be able to cope with the ever changing competitive landscape and changing customer needs.

Questions

1. **Discuss the strategies used by DSG International to become the dominant player in the electrical retailing market?**

2. **Develop a critical assessment of DSG International through the use of Porters five forces model.**

3. **Despite putting a lot of resources on the website, e-commerce is still not as profitable as it could be. What do you think the DSG International can do to entice more customers to shop online? Also, what are the advantages for DSG International if more customers shop online?**

4. **Critique DSG International's decision to operate a multi-brand, multi-channel business strategy in the European electronic retailing market.**

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