

# We Will Accelerate the Efforts toward the Establishment of New Department Store Model to Enhance Our Corporate Value.

We would like to express our deepest sympathy to all those affected by the Great East Japan Earthquake and pray for their safety and earliest possible recovery.

J. Front Retailing is working on establishing “a new department store model” toward the renewal of its core department store business. We have two important tasks of our new department store model including “the improvement of market response capabilities” and “a structural switch to highly efficient operation.”

Striking and the most important changes in the recent consumer market are “the trend toward a more casual lifestyle” and “belt-tightening and higher price sensitivity.” These two major changes have developed with the economic globalization and were accelerated rapidly by Lehman’s collapse. However, existing department stores failed to meet these significant market changes because they did not change their traditional selection of brands and merchandise focused on women of mature age and high-income persons as their main target customers, high-grade and high-priced items and authentic and dress-up fashion tastes. As a result, while narrowing their target market and customer base, they became increasingly homogenized.

Our “new department store model” addresses adaptation to these major market changes including “the trend toward a more casual lifestyle” and “belt-tightening and higher price sensitivity” and the expansion of our target market and customer base. Specifically, we thoroughly analyze the regional market of each store, develop a store strategy with the aim of enhancing competitiveness in each area and drastically review the lineup of products and brands and sales services based on this store strategy.

In order to expand our target market, we need to increase the assortment of value for money and department store worthy low- to middle-priced items, which are strongly demanded by the current consumers, while maintaining the middle to super-high price range that department stores have traditionally been good at. We base our merchandise policy on “high sensitivity, high quality and good taste” and introduce reasonably priced products that not only are low-priced but also keep department store worthy levels when increasing the lineup of low- to middle-priced goods.

In order to expand our target customer base, we develop sales space targeting young people that existing department stores have not put much effort into, and we will offer brands and shops targeted at young people, which customers newly expect from department stores, with the addition of department store worthy store environment, high quality image and meticulous services.

Our main urban large-scale stores with more than 50,000 square meters of retail space will be able to select and assort a well-balanced and wide variety of brands and merchandise ranging from great value and reasonably priced items to luxury goods by revising the traditional lineup too heavily weighted toward high-priced luxury products. In addition to that, it is quite possible to widely cater to young to older age groups in a balanced manner while continuing to serve and even better serving existing customers of mature age.

The results of our past efforts are obvious in the form of the recent increased number of people visiting our stores. We understand that is because the customers who had moved to other retail channels including shopping centers and station buildings



## OKUDA Tsutomu

Chairman and CEO

visit Daimaru and Matsuzakaya stores. Amid declining purchase amount per person due to customers' continuing "belt-tightening and higher price sensitivity," we believe we will be able to boost sales by increasing the number of people visiting our stores as well as increasing the quantity purchased per shopper by using the department stores' strengths of a wide selection of products and high quality services, which no other retail channels have.

In order to respond continuously and quickly to market changes, we are trying to find new suppliers that have not done business with department stores and develop new brands and merchandise in collaboration with existing suppliers. In addition, we will create a division specializing in marketing, which will develop new merchandise including intangible items and services and collect and analyze information on new suppliers, and develop retail space new to department stores to meet the customer demands that could not be satisfied within the framework or organization formed by the traditional product classification such as women's wear and men's wear.

With regard to "the independent operation type sales sections" in which department stores are responsible for their activities from buying to selling, we will further strengthen them as department stores' unique advantage over other retail channels and as a differentiating strategy from other department store chains in terms of competitive strategy as well as from the perspective of profit.

With respect to a structural switch to highly efficient operation, we will continue to promote mainly radical reforms of personnel structure. We will consolidate back-office sections, which are placed individually in each store, by area such as the Kansai area

and the Tokyo metropolitan area in a bid to further streamline operations as well as establishing an operation system for each sales operation type and promoting efficient personnel distribution and training based on these systems. We will radically overhaul all other costs with no sacred cows to further control costs.

In addition to the efforts mentioned above, we will change business structure from the traditional management with an excessive focus on department store business to raise profits and grow in a balanced manner throughout the Group by reinforcing existing affiliated businesses and increasing expansion into new growth areas including internet retailing. To this end, instead of concentrating management resources on department store business, we will make a well-balanced investment in affiliated businesses as well.

In March 2011, StylingLife Holdings Inc., a company operating variety stores "PLAZA," cosmetics business, direct marketing business and restaurant and confectionery business, became our equity method affiliate and we will continue to work on alliance and M&A.

The recent great earthquake is one of the greatest crises in Japanese history and we believe the most important mission imposed on us in this situation is to contribute to the early recovery of the Japanese economy as one company. Taking this crisis positively as an opportunity to expedite further changes, J. Front Retailing will further accelerate management reforms including the establishment of a new department store model and accumulate tangible results to enhance its corporate value.

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