

Great Transformation of Department Store Business Model

Environment surrounding department stores

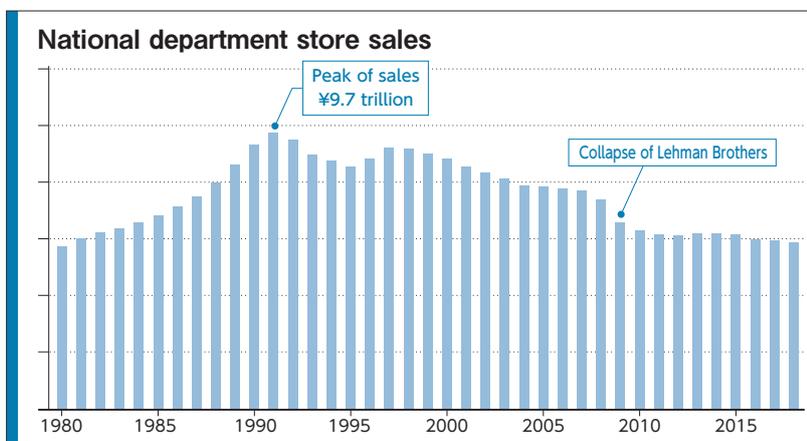
About 100 years have passed since kimono fabric dealers created a new business format known as a department store in response to changing times. Its business model is at a major turning point. According to data compiled by the Japan Department Stores Association, after peaking at ¥9.7 trillion in 1991, national department store sales decreased to ¥5,887 billion in 2018, below ¥6 trillion for two consecutive years, which represent 60% of peak sales. We faced economic crises such as the collapse of the bubble economy and the collapse of Lehman Brothers and competition beyond industry boundaries became fiercer at an accelerated pace during that period. We think an even bigger problem than these external factors is the failure to well keep up with the speed of changes of current times, which is sort of the “obsolescence of department store business model.”

Department stores are characterized by operation with large assets held in prime urban locations. However, we cannot say all department stores can generate enough revenue commensurate with the value of these assets currently. During the high-growth period, we could earn decent revenue only by focusing on sales. In current mature period or low-growth period, however, we need to carry out structural reforms with a stronger focus on B/S from the perspective of improving asset efficiency.

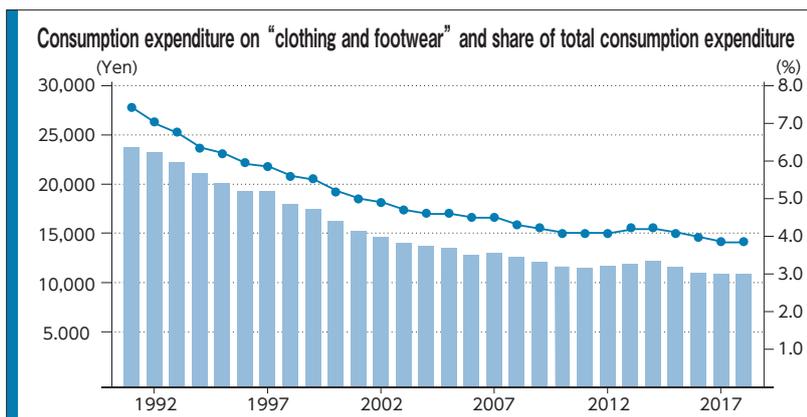
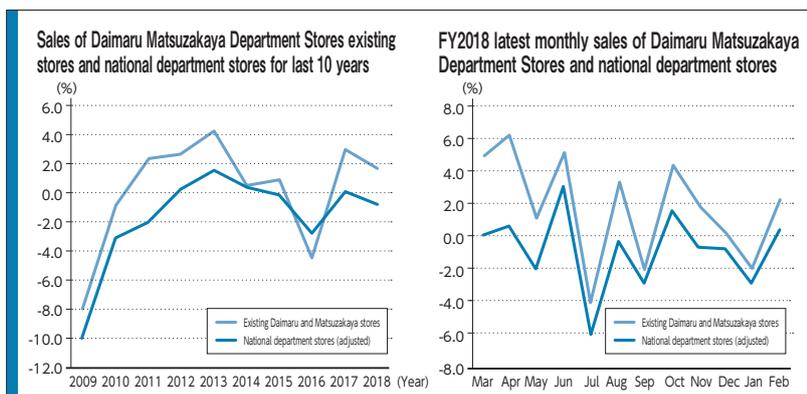
With regard to sales floor allocation, women’s clothing floors that have rapidly become bloated since the 1980s do not meet changes in customer consumption behavior. According to the Family Income and Expenditure Survey by the Ministry of Internal Affairs and Communication, the share of expenditure on clothing and footwear plummeted to 3.8% in 2018 from

7.3% in 1991 when department store sales peaked. Behind this trend, there are increasing changes in consumption quality such as casualization and globalization of fashion and a shift to balanced consumption and service/experience-based consumption.

Given these circumstances, we recognize that what is expected of department stores is not at the level of improvement but initiatives for discontinuous growth that depart from past successful experiences, that is, the great transformation of obsolete business model.



Source: “National department store sales” released by Japan Department Stores Association



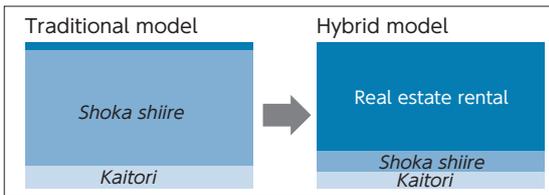
*Source: Monthly Disbursements per Household (two-or-more-person households) from “Family Income and Expenditure Survey” by the Ministry of Internal Affairs and Communication

Establishment of new business model

In these circumstances, we determined two major directions for the ongoing transformation of our business model. One is transformation to a “hybrid” model with a well balanced mix of retail and real estate rental as an evolved department store and the other is transformation to a “real estate rental model” that “does not operate a department store,” including the transformation of business format. Since the market characteristics of department stores vary greatly by area, it is important to optimize each store based on its store strategy in order to improve customer satisfaction and profitability of store assets.

(1) Hybrid model

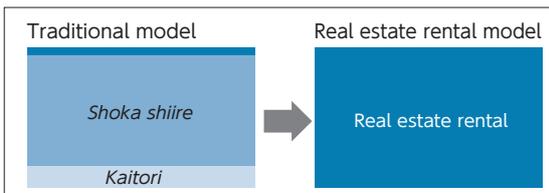
A typical example is the “new main building of the Daimaru Shinsaibashi store,” which will open on September 20, 2019. In the case of the new main building of the Shinsaibashi store, real estate rental occupies approximately 65% of total sales floor area and *kaitori* and *shoka shiire* occupy remaining approximately 35%, which is an optimal balance.



New main building of Daimaru Shinsaibashi store

(2) Real estate rental model

Typical examples include “Ginza Six,” which was created by developing the two blocks including the former site of the Matsuzakaya Ginza store as one, and “Ueno Frontier Tower,” which was created by rebuilding the south wing of the Matsuzakaya Ueno store and converting it to a commercial complex.



Ginza Six

Review of sales floor allocation

We will reduce bloated women’s clothing floor area by 30% compared to FY2016 during the period of the current Medium-term Business Plan, and in thus created spaces, we will offer categories that can be expected to grow revenue and attract many customers. In the Sapporo and Nagoya stores, we created original sales space “Kiki Yococho,” which is curated by ourselves with an assortment of cosmetics, accessories and food and beverage, in April 2018 and March 2019, respectively. It led to tangible results such as attracting more customers and improving sales floor efficiency. We will continue to review allocation based on the store strategy of each store.



“Kiki Yococho,” Matsuzakaya Nagoya store

Progress of reduction of women’s clothing floor area				
	FY2017	FY2018	FY2019 (planned)	FY2021 (planned)
Reduction rate of women’s clothing floor area (total)	△2%	△6%	△16%	△30%

Promotion of DX (digital transformation)

With the common mobile app of Daimaru and Matsuzakaya released in May 2019, we will make customers’ shopping experiences at department stores more attractive and revitalize CRM activities by shifting our axis of customer retention to smartphones. Furthermore, we will promote the conversion of department store business to be operated digitally by introducing new customer management tools to advance *gaisho* activities, using digital platform to exploit the affluent market, and using RPA for operations to enhance productivity.

