

# How Will We Use “Awareness” from COVID-19?

01

## Vulnerability of business model

A state of emergency was declared for the first time on April 7, 2020 due to the spread of the COVID-19 infection and Daimaru, Matsuzakaya and Parco in the Group were forced to close their stores for a long time to reduce the flow of people. Approximately 300 million customers visited the physical stores of the Department Store and Parco every year and they offered value through products and services every day. However, no matter how good a lineup of goods and services we have, we cannot do anything unless we can open physical stores. If the flow of people declines rapidly or stops, uncertainty about performance due to opportunity loss will increase at once. We were made aware how vulnerable the core businesses of the Group overly dependent on physical stores, which are “constrained by time and place,” are. If we can eliminate these constraints, we will have a lot of opportunities.

02

## Concern about the advantage of urban location

One of the Group’s strengths is to have stores in urban prime locations. For example, the Daimaru Tokyo store and the Daimaru Osaka Umeda store are located in the massive terminal buildings of the Tokyo Station and the Osaka Station, respectively, and they are strongly supported by the rail traffic of business people and office workers who commute to the surrounding offices or travel on business and tourists. However, the situation has drastically changed due to the COVID-19 pandemic and traffic to urban stores decreased rapidly. Tourists may return some day but we cannot deny the possibility that expanded remote working and decreased business trips will become new normal in the medium- to long-term. On the other hand, it is also true that the areas surrounding both the Tokyo Station and the Osaka Station are being actively developed even now. We need to correctly understand the facts and behavior changes and calmly rethink what our stores should be from a medium- to long-term perspective.

03

## Delay in digital response

The Department Store is rebuilding their e-commerce by narrowing down the categories to their strong gifts, *depachika* (department store basement floor) food products and beauty products. Basically, except for gift items, inventory control and shipment were incorporated into store operation. Therefore, though there was a demand, we could not move products after the first temporary store closure. And then, by strengthening our measures, for example, by keeping products exclusively for e-commerce in stock outside the stores, the Department Store’s e-commerce sales finally exceeded ¥10 billion. In the meantime, the Group owes its strength to physical stores’ communication and service capabilities. It also became clear that the medium- to long-term direction we aim for is OMO, that is, using the strengths of physical stores and merging digital with them, rather than expanding e-commerce with a full line-up.

04

## Lack of resilience of business portfolio

The Department Store Business and the Parco Business accounted for about 80% of the Group’s operating profit in fiscal 2019. These two segments were most severely damaged by the current COVID-19 pandemic and we cannot deny that it showed the current unbalanced portfolio carries a great risk in our ability to respond to rapid environmental changes. It is the issue we continue to address since the previous medium-term plan and its urgency has become clearer. Though retail is expected to grow to a certain extent, we will expand the domains such as the Developer and the Payment and Finance using synergy without overly depending on retail. While providing a medium- to long-term outlook for the Group in our business portfolio, in order to realize it, we think we need to work on the portfolio reform and the balance sheet reform with a focus on capital profitability through optimal resource allocation.

05

## Importance of person-to-person communication

When we were forced to close stores due to the COVID-19 pandemic last year, real communication with customers was suspended for about two months. Communication between customers and sales people based on the relations of trust underlies the core retail business of the Group. Through such communication, we provide highly satisfactory buying experience and we pick up not yet visible needs and wants through conversation with customers. In the past, basically, communication was conducted in real places. But the COVID-19 pandemic rapidly drove use of digital devices in the Group and we feel we can communicate online as satisfactorily as in real places. What is more important than digital literacy are so-called “human warmth” of sales people who can offer enough support to customers and human resources.

06

## Renewed awareness of consideration for safety and security

Needless to say, it is our great responsibility to create the environment that enables safe and secure shopping. The current COVID-19 pandemic made it clear that our effort to carry out this responsibility is not enough. Customers could not shop when physical stores were closed and customers could not go out for fear of infection even if they wanted to go shopping. How much of such frustration and concern could we relieve? At the same time, can workers on the sales front line including those from suppliers work safely and securely in the situation in which they cannot avoid a certain contact with people? These are the Group’s priority material issues. It is certain that the recheck of operation process from the standpoints of safety and security was not only the effort to reduce risk but also gave an opportunity to review existing business model to make it stronger.

07

## Attention to all stakeholders

The stakeholders of the Group include customers, shareholders, business partners, employees and communities. The outcome resulting from business activities leads to value for all the stakeholders. If it is inevitable that the core businesses become lackluster and perform poorly because they cannot attract customers actively, uncertainty about the future of the company will grow. In order to avoid such a chain of events, we need to provide clear messages, including specific safety and security measures in stores, enough financial arrangements for corporate survival and the clear vision for the future, timely with what is important for individual stakeholders in mind. In this situation, we think it is also important for employees to foster a healthy sense of crisis.

