

Digitally Expand the Power of "People"

"What will not recover" and "what will recover"

During the period of the previous Medium-term Business Plan, in spite of awareness of the issues inherent in the Department Store, we developed growth strategies beyond them such as increased inbound sales, opening of Ueno Frontier Tower and GINZA SIX, and rebuilding and opening of the main building of the Daimaru Shinsaibashi store and strengthened efforts to carry them out.

However, our previous assumptions crumbled at their foundations due to the COVID-19 pandemic. What was worst was that our customer touch points depended on stores and temporary store closures made us completely helpless for some time.

Sluggish sales of women's clothing as an inherent issue and other various issues including the

rapidly increased share of inbound sales in cosmetics market came to the surface all at once

Women's clothing sales were most adversely affected and decreased by almost half. Then, will damaged sales 100% recover when COVID-19 comes to an end? We often say that the future 10 years from now has come, and in addition to a consumer shift to casual clothing, the conventional business model, in which a trend is set, and then, it is spread among followers, and leftover products are sold at bargain prices, no longer suits the current markets. It is undeniable that women's clothing occupies too much space. So it is important to further strengthen our initiatives continuing from the previous medium-term plan including narrowing down of brands and the selection of distinctive brands while right-sizing women's clothing area.

SAWADA Taro

Director and Senior Managing Executive Officer President and Representative Director Daimaru Matsuzakaya Department Stores Co. Ltd.

I do not expect that sales of cosmetics, which drove inbound sales, will 100% recover even if COVID-19 comes to an end and foreign tourists come back. Some Japanese manufacturers started to strengthen sales in China. Meanwhile, I also expect that our market will become bigger if we expand the category to include beauty and wellness instead of limiting to cosmetics.

On the contrary, seeing the second half of last year, we could keep sales of luxury items almost at its preceding year's level though inbound sales disappeared. The luxury watch market was above its preceding year's level and sales of art, mainly modern art, significantly increased.

Looking into the future market based on these facts, I think there is still considerable room for growth in the luxury market in a broad sense even if the inbound market is excluded. As it is the field in which the Department Store can very much capitalize on its strength, we will develop a strategy so that we can capture the top share among department store chains. Food sales and stay-at-home consumption are robust even amid the COVID-19 pandemic. I would like to further pursue proposals that satisfy customers both mentally and physically.

What will recover and what will not recover. And what will grow further in the future. I think we are expected to steadily identify them.

Started to see the signs of "evolution"

Recently, more and more people,

particularly a new generation in

their 30s to 50s, visit our website for the categories such as modern art and luxury watches. The touch points to serve these new customers will be online or digital, not in the way to approach existing affluent customers. In this situation, we have a website dedicated to gaisho customers "connaissligne," which is linked with app. Gaisho customers who registered the app can visit connaissligne. Originally, connaissligne was positioned as a tool for communication with customers but now it is also used as commerce. I feel this commerce works very well now. For example, we made a substantial purchase of premium sake and offered all of them on connaissligne instead of allotting them to each store as we did in the past. Many customers showed their desire to buy them in one night and we sold them by lot. As for modern art, after an exhibition in Shibuya PARCO, we posted around 20 works, which had been shown there, on the website and they were sold out immediately. We will further strengthen such collaboration with Parco.

In the past, we mainly approached

the customers who have a purchase record. However, by posting products on connaissligne, they will be open to potential customers we did not approach. It is rapidly growing into media that increase customer touch points and lead to our "winning strategy."

We made many trials such as various live streaming and online customer service using Zoom in 2020. We will equip connaissligne with a reservation system that connects customers directly to shops this fall. Soon it will become possible to connect physical stores with customers at home and serve them digitally, which is more than mere e-commerce. We will hold talk events by the creators and producers of the art works and products posted on connaissligne and tasting in gaisho salons. By doing so, we will connect the online world with real places. Merger of online and offline using our strength – I would like to build such a world as a new business model.

Expand the power of "people"

Digital technologies enable us to further expand the power of "people." We plan to launch a cosmetics OMO website DEPACO by the end of this fiscal year. I think it will greatly change customer experience. For example, a female office worker visits DEPACO at around 8:00 p.m. when she relaxes herself after returning home. She is connected to many beauty advisers and she can learn how to take care of her skin and make up using preordered samples. If she likes, she can buy it immediately by clicking. This will be realized soon. In the past, when a customer wanted to see a popular beauty adviser in Kobe, she had to go to Kobe. But she will be able to see her wherever she is. There are some beauty advisors employed by Daimaru Matsuzakaya Department Stores who can provide

advice on cosmetics across brands. Based on services in physical stores, we would like to provide the same services online.

We will make open the power of as many specialized "people" as possible online so that customers can select persons from whom they want to receive advice directly or with whom they want to consult. By doing so, I think we will be able to provide unique experience value, which catalog-type e-commerce cannot provide.

Department stores with having large stores in prime downtown locations and have provided value that improves customers' lives through retailing. Both in the past and present, "people" were and are present at all touch points. With the power of "people," we have gained trust and credibility from customers. I think the accumulation of these efforts has become our strength. This is a very important thing. How shall we operate the Department Store in the future based on these assumptions? I think we have to aim to attract more customers and build deeper relations with customers both in physical stores and online by further improving our production capability, curation capability and hospitality.

Speaking in a little more detail, I think the retail format is not enough to propose colorful lifestyles to customers. "Purchasing products and selling them" is not enough. We need to add on the function of "media" that provide more information to customers, the function of "gallery" that shows high value tangible and intangible goods, and the function of entertainment to make customers' lives colorful and make proposals to this end. I would like to remove the "time and place constraints" by expanding the power of "people" present at all touch points digitally or online. I think this is the Department Store of the future.

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