



From Defense to Offense

Step Up a Gear to Change
with an Eye to the Future

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Conviction obtained from the COVID-19 pandemic

In fiscal 2021, the Group started a new Medium-term Business Plan that aims at full recovery from the COVID-19 crisis and regrowth. In fiscal 2021, which is its first year, we pursued initiatives with a greater focus on “defense” than “offense,” including a restraint on investment and acceleration of management restructuring, because the impact of COVID-19 was more prolonged than expected. In the first half of the year, we were requested to suspend business. We faced such a severe situation again. After that, infections spread and settled down alternately and we were forced to press the accelerator a little and brake alternately. We had to

conduct economic activities in such an environment.

In the current fiscal year, infections are finally starting to show signs of settling down but remain high. I think we should assume that there is a high possibility of a resurgence of infections. What is expected of us is readiness for change with a view to the era of living with COVID-19, instead of simply waiting for the post-COVID-19 era. On the other hand, new uncertainties about the future such as increasing geopolitical risks and concern about rapid global inflation were added and we cannot be optimistic about our business environment.

Seeing our retail sites, I feel that consumption is further polarized and that customers’ values and behavior are greatly changing. I may say that we can clearly see “what will return” and “what will not return.” On the other

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that relies on successful experience.

Change our mindset and go forward boldly.

hand, individual financial assets in Japan as a whole exceed ¥2,000 trillion and so-called “COVID-19 savings,” the money saved instead of being spent due to the COVID-19 pandemic, total as much as ¥50 trillion. We need to consider how consumption will recover in the future based on the assumption that it will not return by following the same path as in the past. Rapid environmental changes have also greatly changed consumer mind. I think COVID-19 has changed the quality of consumption rather than quantity.

The first year of the medium-term plan is summed up that the year convinced us that we will not return by doing the same as before. I cannot deny that the Group’s core Department Store and Shopping Center (SC) businesses lag behind other retail formats. Departure from the business structure overly dependent on the business of physical stores is the major theme of the current Medium-term Business Plan. Our future will not be on the same path as in the past that relies on successful experience. I could be prepared to change my mindset and go forward boldly. In that respect, I think the year has great meaning.

Accelerate for “full recovery”

I think it is extremely important to decide to shift to offense and make sure its timing is right in order to achieve “full recovery,” and furthermore, turn it into regrowth premised on living with COVID-19. Where are the seeds for growth? Where will we seek medium- to long-term return? Proper preparation based on clear strategies is essential to build a solid foundation for discontinuous and dramatic growth. We have to make such decisions timely and properly.

In light of the above, I think the current fiscal year, which is the second year of the Medium-term Business Plan, is positioned as a year for “shifting gears.” We will change our mindset to offense from a focus on defense to respond to the COVID-19 crisis and turn it into concrete actions and achievements to build a solid business foundation that enables sustainable growth.

First, for full recovery, we will strive to accelerate business model conversion in the core Department Store and SC businesses, which have been particularly hard hit by the COVID-19 pandemic. We will strive to overwhelmingly increase added value that is unique to

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physical stores and cannot be realized online while merging the real and digital worlds to depart from the vulnerability exposed by COVID-19, that is, the business structure overly dependent on physical stores. To this end, we will aggressively invest in increasing the attractiveness of physical stores and strengthening digitization.

For example, use of app as customer touch points is progressing rapidly. The Department Store positions it as a centerpiece for changing its business model. In fiscal 2021, sales from app users were ¥187.7 billion, increasing to as much as 38.8% of total department store sales. In order to pursue that, it will accelerate its efforts to have its private label card holders sign up for app and acquire new app users. I believe that it is moving forward steadily to change from the business model constrained by time and place. By doing this, I think it will also be able to sophisticate CRM through regression analysis, etc. Also in Parco, use of its smartphone app POCKET

PARCO is progressing so that it can provide the most relevant information for each occasion such as before visiting a store, in a store, and after leaving a store. It also provides an incentive to entice customers to shop around in a store. If a customer makes a purchase, data obtained at the time of purchase such as app's QR code payment may be used to recommend him/her to shop around in the store.

Add more value to physical stores

It is only by making physical stores attractive that we can benefit from such advanced digital touch points. The expansion of the luxury floor of the Daimaru Kobe store led to great results and its sales already exceeded the fiscal 2019 level before COVID-19. GINZA SIX, a luxury mall, is undergoing a large-scale renovation in phases from spring last year. And it achieved record sales in December last year though inbound sales, which had

Seriously aim for medium- to long-term growth.

Diversity and future-oriented thinking are essential

for portfolio transformation.

represented 30% of total sales, almost disappeared. What particularly stands out recently is brisk spending by young affluent people. We can say high value-added categories including luxury, contemporary art, and high-end watches are moving better than we can imagine. This fiscal year, the Department Store will focus on the expansion and improvement of prime content and steadily develop a foundation for full recovery. And in the second half of next year, we would like to start to convert the Group's largest Matsuzakaya Nagoya store to a hybrid model, which will become a symbol of Real×Digital.

Parco will focus investment on five flagship stores including Ikebukuro and Nagoya and strengthen their ability to attract customers and earning power based on their area characteristics. Parco is also actively working on the development of content and promotion. The creation of entertainment such as theaters and movies is also what Parco is good at. We would like to provide hot experience value that frees audiences' mind withered by

COVID-19 to the extent possible with due considerations to safety and security.

At the same time, we will steadily promote management restructuring to strengthen our ability to respond to rapid environmental changes. First, we will tackle workforce restructuring and cost restructuring based on business model conversion and reduce fixed costs by ¥10.0 billion or more in the current Medium-term Business Plan to lower the break-even point. Last fiscal year, we reduced fixed costs by approximately ¥4.3 billion, which is a larger reduction than planned. In addition, we will continue to improve our balance sheet by assessing the Group businesses and selling assets.

Strengthen systems for portfolio transformation

The current core Department Store and Parco will be able to grow reasonably by converting their business models



and developing content. However, we need to change the balance of the pre-COVID-19 structure in which the Department Store and Parco account for 80% of total profit in terms of resilience against rapid environmental changes. I think portfolio transformation is required for the Group's dramatic growth for which we aim.

In order to accelerate this initiative, we have newly established three divisions including the Business Portfolio Transformation Promotion Division, the CRE Planning Division, and the Digital Promotion Division in the holding company in March this year to strengthen our promotion system. We would like to actively appoint people from Parco and outside the Group to key positions to bring out unprecedented ideas using diversity and achieve discontinuous growth.

The Developer Business is one of those that have the key to portfolio transformation. The Group operates flagship stores in major cities across Japan and many of them also hold lands. It is no doubt our strength. COVID-19 made some people skeptical about the sustainability of value in urban areas. Actually, however, redevelopment projects in major cities are already recovering momentum. However, physical places are definitely expected to provide more special and premium experience value than ever and I am prepared to act with a sense of crisis that we will lose our existence value unless we can meet such expectation.

If we have our sights set on residence, offices, hotels, etc. in the future while operating commerce such as the Department Store and Parco as our core business, we can create new social value as well as maximizing real estate value to suit the area. We will develop as not a "dot" but an "area." I think it is one of the important directions of contribution that the Group can make in order to coexist with local communities.

In the Payment and Finance Business, operating profit is likely to recover to the level of ¥3.0 billion in the current Medium-term Business Plan due to card renewal in January last year. The purpose of card renewal is to increase the attractiveness of cards by giving new points and expanding perks. The conversion of cards carries a certain degree of defection risk but customer defection could be kept lower than expected. In consideration of these circumstances, the Payment and Finance Business revised up its operating profit goal in the Medium-term Business Plan from the original plan.

However, the Payment and Finance Business aims to grow as a business that contributes to portfolio transformation. Therefore, first of all, its operating profit should exceed the level of ¥5.0 billion early. To this end, it needs to further expand its customer base in collaboration with the Department Store which is recovering customer traffic to physical stores, and at the same time, to expand its finance area through alliance and other means. After such process, we would like to further grow the business as one of the Group's core businesses in the long term.

Take an R&D perspective also in retail

From the holding company's long-term perspective of 10 years and 20 years, I keenly feel that we need to implement initiatives like R&D, which manufacturers do as a matter of course, including the innovation of existing businesses and the development of new businesses in order to strengthen the competitiveness of the Group. We cannot deny that the Group sought investment returns mainly from tangible assets partly because a physical store business is at its core. In the current Medium-term Business Plan, we would like to implement a little

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far-sighted initiative using alliances, M&As, CVCs, and content management funds within the strategic investment limit of ¥10.0 billion.

They will center on customers and sustainability. For example, speaking of the Department Store, *gaisho* provides products and services to affluent people, but from a customer perspective, we cannot deny that it is only a small portion of lifetime value. Obviously, we have an ample chance to increase its share. Given changes in customers' values, the elements of sustainability are very important. Particularly, young people including Millennial Generation and Generation Z have such tendency as revealed by various surveys. I think we need to be aware of this. Considering the desirable shape of the Group, we would like to expand and improve value to be provided to customers.

In terms of innovation, I think we as a holding company should be serious about aggressive digitization. This is why we strengthened our systems by creating the Group Digital Unit. As this area evolves particularly rapidly, on-time efforts are required. An investor said to me, "I feel metaverse has the possibility to innovate retail, which can be called retail 3.0." The Department Store and Parco have already conducted trials and we as a holding company would like to pursue our studies from the Group's perspective.

Look ahead to future value creation

Furthermore, in order to enhance true competitiveness for medium- to long-term value creation, I think we have to seriously invest in human capital.

Particularly important is to build a pool of human resources who assume the next generation management. We will create career development

programs (CDPs) for individual employees and give them tough assignments, assign them to projects, and send them for external training to facilitate their growth.

One of its concrete examples is the Group's Desirable Shape for 2030 Project launched in November last year. Concerning the Group's corporate vision for 2030, young employees mainly in their 20s and 30s are currently working to clarify the Group's desirable shape and the value to be provided using their unique ideas.

For example, in order to revitalize young people, I think the holding company should aggressively provide them with opportunities to more actively indicate their intentions instead of taking a passive stance. That is to say, it is important to give them more and more opportunities to study and various experiences. We in the management team would like to continue to provide as many opportunities as possible to exchange frank opinions through interactive dialogue and match our vector with theirs instead of just saying that we cannot understand what young people are thinking these days.

In addition, we will create training systems for reskilling and upskilling. We will develop training programs and examine the effect of training investment while working on "visualizing skills" to respond to expected changes in our business model and portfolio. For example, we cannot imagine even the sales styles of *gaisho*, which is a great strength of the Department Store currently, will remain unchanged 10 years later. New skills are definitely required to change a business model. It is necessary to further improve skills to a level appropriate for strategies in order to dramatically grow the Developer Business and the Payment and Finance Business.

Furthermore, we will strengthen the recruitment of people who have professional careers from the perspective of professional talents. We will increase the

share of human resources with diverse experiences and values such as professionals who have experience in other industries. Particularly, I expect that the holding company will increase the share of mid-career employees to 50%. I think what is important in the process of this initiative is inclusion. Even if we have diverse human resources, their abilities will only disperse unless they have the same vectors. It is important to accept each other's individuality, values, and thoughts and unite efforts to create new value.

Innovation is essential to carve out a path to such a complicated era. And it is only "people" that can do it.

To be sustainable

It is also true that the COVID-19 pandemic has reinforced our determination to implement sustainability

management. In the first year of the COVID-19 pandemic, the Group's sales of ¥370.0 billion disappeared. What is our existence value? What does it mean to be required by society? I feel such essential questions were presented. We were given an opportunity to rethink about the importance of connecting with customers, employees, business partners, and society. In order to be sustainable, we should remain an entity required by customers and markets over the long term. I think it is the very practice of our Corporate Credo such as Service before Profit and Abjure All Evil and Practice All Good.

The impact of what the Group can do directly on global issues such as climate change and human rights issues may be small. However, I think the Group will be able to make a reasonably great contribution by committing to initiatives involving stakeholders including customers and supply chain. It is not easy, though.

Would like to stick with value creation.

Achieving both social value and economic value is

the mission imposed on us.

The Group's Scope 1 and 2 CO₂ emissions represent 5% of total emissions and 95% are so-called Scope 3 upstream and downstream emissions in our supply chain. Therefore, we have to collaborate with suppliers. To this end, we held a briefing session for suppliers in April this year and approximately 250 companies attended it. And we shared the importance of collaboration to reduce CO₂ emissions with them.

We received various opinions from suppliers including: "We have to review sales promotion, etc. because CO₂ reduction causes cost increase" and "It is difficult for some smaller businesses to measure CO₂ emissions." Valuing these opinions, we will move forward together with suppliers.

And last year, we assessed 7,415 companies concerning the dissemination of the Principles of Action for Suppliers formulated by the Company and received responses from 3,012 companies. More than 80% of them are aware of or support international human rights frameworks and we could reaffirm their high level of interest. On the other hand, it was only a little more than

a half of them that formulated their own human rights policies and guidelines and we would like to continue to encourage suppliers to improve.

In order for the Group to be sustainable, I think we need to realize CSV management by achieving both social value and economic value, that is to say, to further stick with value creation. AnotherAddress, a fashion subscription business newly launched with a young employee's idea in spring last year, attracts more customers than expected because the sustainable idea behind the business as well as its attractive products draw sympathy. We expect we will be able to monetize it in a few years. I think we need to incorporate more of such perspective in our business activities.

Needless to say, what we should stick with is value creation. We would like to make an investment in not only tangible assets but also intangible assets, particularly an investment in human resources and a strategic investment for the future more aggressively than ever before and turn them into the Group's unique value creation.

