

# Implementing Drastic Management Reforms to Develop a New Department Store Business Model.



Now department stores are at a “historic turning point.”

The current department store slump is fundamentally attributable to their own structural issues such as the “weak response capabilities to the market” and the “high-cost and low-profit structure” rather than the impact of rapidly deteriorating macroeconomic environment. It seems to be difficult for department stores even to survive, let alone grow in the future, as long as they continue to rely on the existing department store business model.

In this context, J. Front Retailing (JFR) seriously addresses the “development of a new department store business model” with a focus on the “improvement of marketing capabilities” and the “innovation in business operation structure” to revitalize the core department store business of the Group.

We aim to create an “urban lifestyle store” with a new operation model based on “popular appeal” and “lifestyle suggestions” as the fundamentals of department stores. To this end, we shift our operational focus from the past “merchandising-driven retailer type” ideas to the “creation of the appeal of stores as commercial facilities centered on marketing” and tackle the following three important tasks.

The first task is to “improve marketing capabilities and establish store strategies.”

In the second half of fiscal 2008, JFR expanded its Marketing Planning Promotion Division to strengthen the function of planning basic measures to respond to market and customer changes mainly in department store business.

Particularly, in order to enhance store competitiveness in each area, which is our greatest challenge, we speed up joint efforts with our department stores to develop store strategies based on a detailed area marketing analysis. Beginning with Daimaru Kobe and Shinsaibashi stores and Matsuzakaya Nagoya and Ueno stores, we are developing store strategies based on market strategies and competition strategies through an area marketing analysis and will expand into other stores.

With the diversification of customers’ purchasing channel choices, we will strengthen click-and-mortar business that aims to create a synergy effect between Internet sales and store sales to attract customers who do not shop in our physical stores and boost sales of the products that are not offered in our physical stores.

In the meantime, amid increasingly fierce competition, it is very important in terms of marketing strategy to expand the

base of the identifiable customers who hold our own company-branded cards and build effective CRM. Mainly in our stores, we will increase customers holding our cards through company-wide campaigns and other measures to make our stores more attractive and consequently expand our customer base.

The second task is to “establish a store operation structure that enables both the development of stronger market response capabilities and low-cost management.”

Daimaru is leading JFR’s effort to “establish a new business operation structure” mainly for stores. Under this new structure, sales floor operation is divided into two types including “shop operation” and “independent operation” to be based on their respective different features.

Utilizing the strengths of each type and based on the floor classification meeting new customer needs, mainly in shop operation type sections, we will accelerate the renewal and replacement of brands and shops through the introduction of the best ones that will attract attention and popularity from customers, mix and scrapping and building. Thus we will improve the response to new market to maintain and enhance our appeal as commercial facilities.

As part of our specific efforts, we already began to introduce new shops to shop operation type sections without being constrained by the existing suppliers and will expand such shops into all our department stores based on store strategies to bolster low- to mid-priced offerings, which are in particularly strong demand from customers.

At the same time, in order to help implement these measures, we will develop highly skilled professionals, compile operating procedures in a manual for efficient operation, and improve information systems to support the streamlining of operations.

The third task is to “promote low-cost and high-efficiency management to increase human productivity.”

The shift to a new department store model will significantly change our sales floor operation management.

First, we will shift our focus from sales to profit. It was reasonable to aim to maximize sales during the days when sales were steadily increasing. However, in the present day when sales are shrinking, the shift from sales orientation to profit orientation is needed to improve the motivation of our sales staff.

Second, operations organization and personnel structure will be radically overhauled to seek an increase of human productivity. We are planning a drastic overhaul of

company-wide business operations, organizations and personnel planning including administrative support such as out-of-store sales, general affairs, human affairs and accounting in conjunction with the above-mentioned overhaul of sales floor operations through the building of a new department store model. Aiming to achieve the highly productive department store operation by a few select people, which involves changes in our way of thinking and working, we will pursue further low-cost operation.

In addition to these three business challenges, the integration of Daimaru and Matsuzakaya into one company will constitute one of the main pillars of our business structure reforms.

In March 2010, our department store businesses will be integrated into one company a year ahead of the original schedule. This will unify the management implementation structure and speed up decision-making, as well as significantly reducing duplication of organizational functions, with the aim of achieving high-efficiency and low-cost management.

We are also in the process of integrating the merchandise departments of the two companies’ headquarters. In March 2009, women’s accessories and children’s wear departments were integrated, while women’s wear departments, men’s wear and accessories departments and foodstuff departments will be integrated in September 2009 and the integration of the remaining home furnishings departments and art work, kimono and jewelry departments will be completed in March 2010.

In fiscal 2009, we will manage our company based on the assumption that we will be placed under an extremely severe business environment that we have never experienced before. We will devote all our energies to “building a new department store business model” toward corporate survival and recovery and focus on “minimizing sales shrinkage and dramatically reducing costs,” which is our greatest challenge for the year. And it is in these hard times that we aim to provide high quality management that can meet the expectations of all our stakeholders including customers and shareholders and fulfill our corporate social responsibility.

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