

Quick Response to Market Changes and Challenge to New Categories

J. Front Retailing moves forward with operation reform by dividing sales floor operations into two types including "self curation" and "shop operation" and creating organizations, operation process and human resource system that best suit each business model.

Since we can expand or shrink sales space and change product mix at will in the self-curated retail areas, we can quickly adapt to ever-changing markets and customers. Their gross margin is higher compared to the areas of shop operation because department stores take inventory risk. Therefore, their effective and efficient operation will help enhance profitability.

"Business operation organization" plans and manages the whole process of "buying and selling"

The Original Merchandising Business is operated as a "business operation organization" that plans and manages the whole process of "buying and selling" ranging from marketing to buying and procuring, selling and profit/loss management. It covers the self-curated retail areas mainly for the categories of women's accessories (women's furnishings and women's shoes) and men's accessories (ties/furnishings, dress shirts, men's underwear/hosiery, bags/traveling gear and men's shoes). The merchandise divisions of the head office and store staff who manage the self-curated retail areas, sell products there and make store-specific purchases are all under the control of the Original Merchandising Division and the Division is responsible for profits and losses as a virtual entity.

Rebuild merchandising

In the Original Merchandising Business, we are working on rebuilding merchandising to radically strengthen profitability. In particular, with regard to goods purchased on a no-return basis, which are central to improving profit margin, we promote the development of self-planned products, which we plan and develop based on customers' demands.

One such example is the development of Reasonable Price Series of our original women's shoes brand Dixsept Dixsept in collaboration with shoe makers in Kobe in fiscal year 2014. We offered 30 models and 80 styles of "highly functional pumps, which are easy to wear and allow the wearer to keep comfortable for a long time," at reasonable prices ranging from ¥7,900 to ¥8,900 and they were popular with customers. Sales of these products purchased on a no-return basis in fiscal year 2014

increased by about 60% year on year. Thus the system in which we take the risk to buy and sell high-margin products is steadily becoming established. We will work on the development of self-planned products with a focus on higher quality and higher



fashionability as well as reasonable prices and functionality.

Olxsept Dixseor 1717 Reasonable Price Series of self-planned products Dixsept Dixsept

Create systems to sell out

As a system to sell out the products purchased on a no-return basis, we introduced a new "SKU management system" in the Original Merchandising Business in March 2014. Since the new system allows the head office and individual stores to obtain the sales and inventory status at SKU level instantly, we can quickly and accurately transfer products among stores, do mid-season markdowns, change product mix and place additional orders.

Sales operations, which are the most important to sell out, are undertaken by Daimaru Matsuzakaya Sales Associates Co. Ltd. Based on sales plans, they sell high-margin priority products and develop sales people working for multiple departments in an effort to increase productivity per capita.

Growth strategy of Original Merchandising Business

In the Original Merchandising Business whose gross margin is more than 10 points above the average of department stores, sales expansion leads directly to the improvement of the profitability of department stores. For this reason, we are working on expanding product range and sales opportunities.

As part of the efforts to expand product range, we created a self-curated retail area with a collection of around 40 national and global brands of select accessories in the luxury brand zone on the 2nd floor of Kyoto store in March 2015. Amid increasingly polarized consumption, we curate burgeoning brands and the next generation designer brands of shoes, bags, neckwear and other items across categories, targeting the new rich who have high purchasing power and a great interest in fashion. We will gradually expand such self-curated select accessories retail area into major stores. In March 2015, we started to sell our original women's and men's accessories on the website of Daimaru Matsuzakaya Department Stores, thereby expanding sales opportunities.

Private brands and collaboration

Products offered in the self-curated retail areas other than women's and men's accessories include our private brand of women's clothing "Sofuol," a collaborative business with World Co., Ltd. "Esche" and our private brand of men's clothing "Trojan." Based on trust in department stores, they all offer original goods with a good balance between quality and price and they attract popularity from customers.

Trojan, which has a history of over 50 years as our department store's private brand of men's clothing, was greatly remodeled in spring 2015. In addition to the existing basic model, two new models were added, totaling three models in 66 sizes. By offering not just ready-made clothes but also semi-custom-made ones in one shop, we aim to create a retail area where customers of all ages and



body shapes can select products with perfect fit and style for them.

TROIAN Smart Fit Model

Future initiatives

The Original Merchandising Business will contribute to improving company-wide profitability by adding new items and categories and increasing sales share. By improving the accuracy of the "system for taking the risk to buy and sell," we will establish a business model that generates profits as an independent business in the future and aim to expand our presence outside the company.