



Artist's impression of main building of Daimaru Shinsaibashi store

From Store Space to Business Management. Department Stores Can Change Even Further.

Radical overhaul of sales floor composition

The core competence of department stores is to operate large scale facilities in good downtown locations and have abundant good customer assets. However, the biggest problem is that we fail to make the most use of such core competence in the present circumstances. Reaffirming that, we will “overwhelmingly reinforce the ability to attract customers” and “create a strong customer base” to maximize the value of physical stores.

According to the Family Income and Expenditure Survey by the Ministry of Internal Affairs and Communication, the percentage of expenditure on clothing of the “annual average of monthly consumption expenditures per household” decreased from 7.2% in 1990 to 4.2% in 2016. Behind this trend, we assume that there are great changes in ways of self-expression and values particularly among young people as well as increasing globalization and casualization of fashion. In spite of these changes in customers’ buying behavior, in flagship department stores, the sales floor space of women’s clothing remains bloated since the latter half of 1980’s. We will reduce the area by 30% or approximately 16,000 square meters during the period of the current Medium-term Plan in an effort to correct this gap.

Challenge of new retail space of our own curation

In the newly created spaces, based on the strategies developed by scrutinizing the markets of individual stores, we will expand distinctive new spaces of our own curation and new categories demanded in individual areas, which include an option of concluding fixed-term lease contracts. Through this initiative, we will create new markets to enhance the ability to attract customers and broaden our customer base.

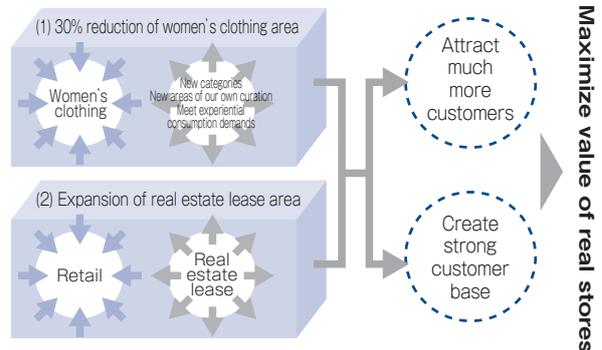
One specific example of our new challenges is “Sixième Ginza,” which opened on the 2nd floor of “Ginza Six.” The shop name “Sixième” means “sixth” in French. We put into this name our hope of creating a retail space which stimulates customers’ sixth sense as a next level of the senses of vision, hearing, smell, taste and touch. As values are changing rapidly in recent years, in the Ginza area that

◆ Change of percentage of expenditure on clothing of consumption expenditures (workers’ households of two-or-more-person households)



* “Family Income and Expenditure Survey” by the Ministry of Internal Affairs and Communication

◆ Innovation of new department store model



particularly sophisticated mature people visit, we provide new lifestyles supported by discerning mature people as a “selection of accessories” including next luxury items on the floor that brings together luxury brands.



Sixième Ginza

“Lib Tokyo,” which opened on the 6th floor of Daimaru Tokyo store, a concept-based zone combining sales of products including books and a café in a 130-tsubo open environment, which was produced using external knowledge. By better meeting the demands for consumption based on time, experiences and services, we will encourage existing customers to make multiple purchases and increase our opportunities to approach new customers.



Lib Tokyo

Innovation of new department store model

In particular, the model most representing these initiatives is the “new main building of the Daimaru Shinsaibashi store,” which is under reconstruction and scheduled to open in fall 2019. In the new main building, we would like to realize the innovative “new department store model” showing the future direction of department stores, which has not been seen before in traditional department stores, in all aspects including a range of products, services and environments.

The main building of the Daimaru Shinsaibashi store will be reborn as a full-scale department store which maximizes the possibility and potential of the Shinsaibashi area and better caters to global customers. The new main building is expected to be approximately 60 meters high with three basement floors and 11 floors above ground and about 30% larger sales floors of 40,000 square meters will be created.

The exterior wall on the side of the Midosuji street will be preserved and the newly built upper part will be set back to aesthetically harmonize with the preserved exterior wall. With respect to the interior,

we investigate existing interior and pick out reusable components and use them in the interior environment of the new building mainly on the 1st floor based on our concept of store planning. Furthermore, in order to improve access to the Shinsaibashisuji shopping arcade, we will renovate the underground walkway from the ticket gate of the subway station and make it barrier free by widening the walkway and installing elevators and up and down escalators. We will also create an underground bicycle parking area, which holds approximately 390 units, and green the roof to help resolve regional issues. At the same time, we will install facilities that contribute to increasing international competitiveness such as Inbound Center (tentative name) to revitalize the area. The new main building is planned to open in fall 2019.

After opening this new main building, we will drastically transform the business model of the adjacent north wing to the “shopping center with real estate lease as its main business.” After that, by connecting these two buildings, we would like to create a novel and profitable hybrid commercial complex with a total floor space of more than 80,000 square meters. At the same time, the Real Estate Division takes the initiative in developing mainly our own properties around the store to make ourselves more dominant in the area.

Creation of “Future Standard Laboratory” a new organization that promotes innovation

It is essential to rebrand the stores and develop attractive content in order to have the overwhelming ability to draw customers and build a strong customer base. The “Future Standard Laboratory” is positioned as their driving engine. Combining the functions of information transmission through the media, curation and business development, it not just analyzes the current conditions but also conducts marketing and branding activities to create markets for five years ahead. To this end, we will not stick to using in-house staff but mobilize planning personnel including through the recruitment of outside talent and assign the right persons to each project to promote open innovation.

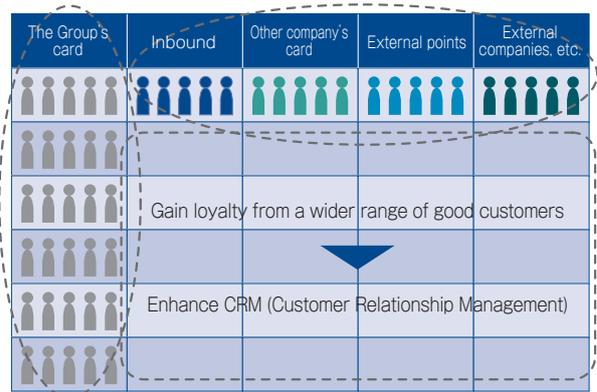
Expansion of customer base

In order to boost sales to affluent *gaisho* (out-of-store sales) customers, we will set a key target in each area and a dedicated team will continue to acquire new customers and enhance sales activities to provide more personalized services according to buying behavior. At the same time, by providing a smartphone application with payment function, of which introduction we are currently considering, we will acquire a wider range of good customers. Furthermore, in order to attract steadily growing consumption by inbound tourists to Japan from neighboring Asian countries, particularly, China, Hong Kong and Korea, which we position as the so-called “expansion of trade area,” by issuing the “Exclusive Card” to foreign tourists who made a large amount of purchases, we will acquire buying information and encourage repeat buying by providing promotional information to retain them as our loyal customers.

Introduction of store-by-store B/S to innovate business management

We conduct the activities of the Department Store Business having very large store assets. However, it is undeniable that the stores lacked thought of seeking return based on recognition of these assets though our consciousness of and attention to sales and profit were strong. We have made a company-wide declaration of enhancing ROE. It is essential for the Department Store Business to make specific

- ◆ Gain loyalty from customers including the affluent



efforts to improve ROA, which is a component of ROE, that is, asset efficiency. To this end, we started to use store-by-store balance sheets for business management in March this year. By adding a viewpoint of enhancing asset efficiency instead of focusing only on profit and loss statements as we did in the past, we will improve ROA at a store level. An example of the breakdown of ROA is illustrated below. ROA is broken down to appropriate indicators at a store level according to the store characteristics to enhance asset efficiency, and thereby, increase ROE, which is an important company-wide management indicator.

- ◆ Enhance business management by introducing store-by-store B/S

