

Hybrid Department Store Model Was Born.



Innovative structure mixed with fixed-term lease

The “main building of the Daimaru Shinsaibashi store,” which opened in September 2019, aims to build a new department store business model that combines the ability to attract customers and profitability.

The store concept is “Delight the World. Shinsaibashi, Adored by the World.” It targets “all customers who actively enjoy their lives” while further strengthening response to wealthy and non-Japanese visitors, which are the strengths of the Shinsaibashi store.

In terms of merchandise composition, we significantly

expanded the floor area and the number of brands of luxury items, cosmetics, and food products on the basement floors (*depachika* in Japanese) and restaurants. For cosmetics, we have built zones not only on the main floor, but also on multiple other floors. In addition, approximately half of *depachika* products and restaurants are composed of new brands, and many shops combine restaurants and product sales in consideration of “experience-based consumption.” As for other categories, we reviewed our traditional product lineup based on gender and item, and aggressively introduced new brands.

On the other hand, the business model is completely



▶ Direction of department store business model transformation

Hybrid model (e.g. Daimaru Shinsaibashi)



Real estate leasing model (e.g. Ginza Six)



different from that of conventional department stores, and is based on an innovative layered structure in which approximately 65% of the total area is comprised of sales floors for fixed-term leases. As a result, the number of personnel positions has been reduced by 250 compared to before, further improving our low-cost operation. A “hybrid business model” that is completely seamless from customer perspective but optimizes the balance between traditional purchases called *kaitori* (purchase on a no return basis) and *shoka shiire* (purchase recorded at the time of sale) and fixed-term lease was born.

Bold review of product mix

We will work to maximize gross profit through sales growth by purchasing luxury items and cosmetics, which are growth categories, by *kaitori* or *shoka shiire*. Compared to the old north wing, the floor area of cosmetics and beauty-related products has almost doubled with 28 new brands and the area of luxury products has increased 15% with 11 new brands. In particular, these two categories have been greatly expanded as strategically strengthened categories.

In the case of women’s apparel, which is the main issue facing department stores, we have narrowed down both the floor area and the number of brands to about 60% under the fixed-term lease agreement. At the same time, we have shifted away from department store’s conventional floor composition based on product categories such as women’s clothing floors and men’s clothing floors and have decided to actively introduce combination-type shops that combine men’s and women’s fashion as “fashion floors.” As Ginza Six adopted this system and has achieved steady results, its experience and know-how are utilized by the Shinsaibashi store.

As for food and restaurants, which are the key to our ability to attract customers, we established a new food hall that offers hands-on shopping experience based on the quality that only a department store offers. The floor area increased 83%, with a total of 104 brands including 64 new brands. In addition, we have dramatically strengthened our entertainment elements, such as Pokemon Cafe, which disseminates Japan’s culture, and Jump Shop.

With regard to the store environment, the Shinsaibashi store

combines the “tradition” of the old building before rebuilt, which is represented by the beauty of Vories architecture, with “innovation” made by introducing the latest digital technology to create special experiences unique to a real store.

The main building of the Shinsaibashi store uses renewable energy for all electricity used in the building, and actively carries out greening on the terrace on the seventh floor and the rooftop. In addition, we are actively working to build a low-carbon and circular society with the cooperation of our customers and suppliers by centrally controlling deliveries in the building to reduce delivery operation time and eliminate the congestion occurring when carrying products in and out, promoting the use of environmentally friendly packaging materials and permanently installing garment collection boxes through the Ecoff activity.

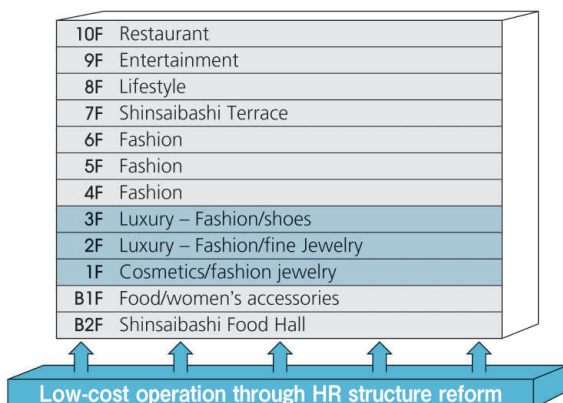
Expansion to other flagship stores

Looking at trends up to January 2020, we see that the total transaction volume grew by 15% on a year-on-year basis and customer traffic grew by 11.1%, driven by the categories that were particularly strengthened, including luxury items, cosmetics and watches, as expected. As for the customer group, sales to young people aged 25 to 34 years, which have been relatively weak, increased by 40%, and thus we succeeded in rejuvenation.

Currently, the impact of COVID-19 has led to temporary difficulties in both inbound tourism consumption and domestic consumption. However, we have received a sufficient response from the new department store business model and we intend to accelerate the expansion of this model to other flagship stores in the future.

In addition, the north wing, where a department store was operated prior to the opening of the main building, will be converted to a real estate leasing model. Specifically, we will introduce PARCO at the north wing and renew the exterior to meet PARCO of the new era. At the same time, the north wing will be connected to the main building of the Shinsaibashi store in an integrated manner, and in expectation of maximizing the Group synergy, commercial facilities with floor space exceeding 80,000 m² in total will be created.

► Layers of the main building of the Daimaru Shinsaibashi store (Basically, fixed-term lease excluding 1st to 3rd floors)



PARCO will open in the north wing in fall 2020.
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