

# Question the “Evolution” of 100-Year-Old Department Store

## Meaning of ¥1.2 trillion lost by the department store industry due to COVID-19

National department store sales continue on a downward trend after peaking at ¥9.7 trillion in 1991. And it is also said that 10-year changes have come all at once with the COVID-19 pandemic and sales of ¥1.2 trillion disappeared in a year in 2020. The shrinkage of department store market is macroscopically attributable to external factors such as the collapse of the middle class due to increasingly declining and polarized population, and furthermore, fiercer competition beyond industry boundaries mainly caused by rapidly growing e-commerce. However, the essential problem is the obsolescence of the business model, which fails to respond to changes in customers and rapid environmental changes. The stagnation of the business model that overly depends on foot traffic or physical stores was revealed due to behavior changes caused by COVID-19, not only a decrease in foot traffic due to stay-at-home advisories but also the advancing shift to online operation in every situation such as spending and business. It can also be said that the very existence value of department store is questioned. Taking this crisis as an “opportunity to change,” we think we have to accelerate the conversion of business model.

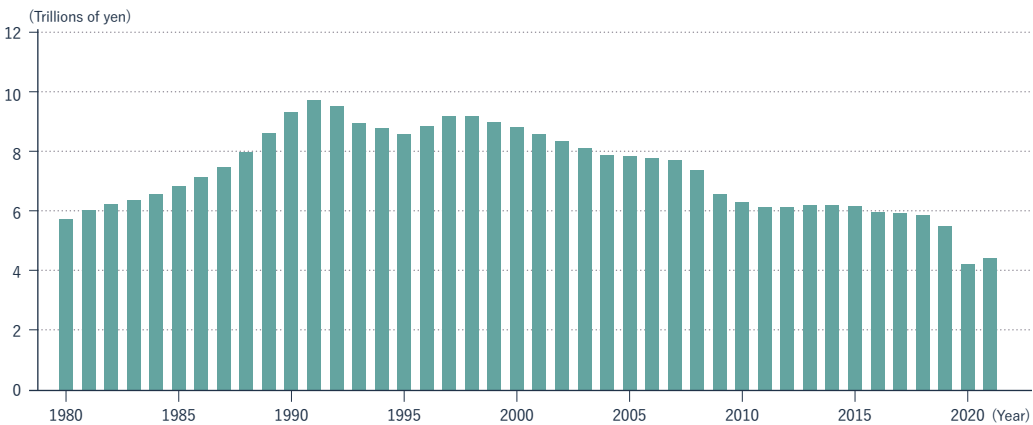
COVID-19 greatly changed the quality of consumption rather than its quantity. In the retail industry, particularly the responses of department stores that fall behind in recovery from COVID-19 are questioned.

The business model of Japanese department stores was created approximately 100 years ago by making the Department Store Declaration and changing the way of selling from *zauri*, in which products are not displayed and a clerk brings them from a

stockroom at customer’s request, to showcasing. Various products ranging from men’s and women’s clothing to kimono, children’s clothing and toys, furniture and home appliances, and food were sold in large-scale stores, and with their development and prosperity, they expanded their product range. In terms of business structure, department stores mainly purchased products on a no return basis and took inventory risk, which is called *kaitori* in Japanese. But in the 1980s, a new form of transaction without inventory called *shoka shiire* expanded to around 80%. In *shoka shiire*, purchase is recorded when the product is sold to a customer and the product is not recorded as department store inventory. And the focus of the business shifted from merchandising to marketing or brand assortment. At the same time, department stores overly depended on clothing, particularly women’s clothing, against the backdrop of the DC brand boom, instead of carrying a full line of products, which is the origin of the Japanese word *hyakkaten* for a department store (literally, a store selling hundreds of products). It was then that department store sales peaked.

On the other hand, according to the Family Income and Expenditure Survey by the Ministry of Internal Affairs and Communication, the percentage of expenditure on clothing and footwear decreased to 3.1% in 2021, less than half of 7.3% in 1991. However, department stores could hardly get out of past successes that they grew with apparel and continued to allot too much space to women’s clothing. It widened the gap with customers’ tastes and buying behavior. This was further accelerated due to COVID-19 and the content of department stores and the way of providing it, that is to say, the business model became outdated and they are in urgent need of drastic structural changes.

National department store sales



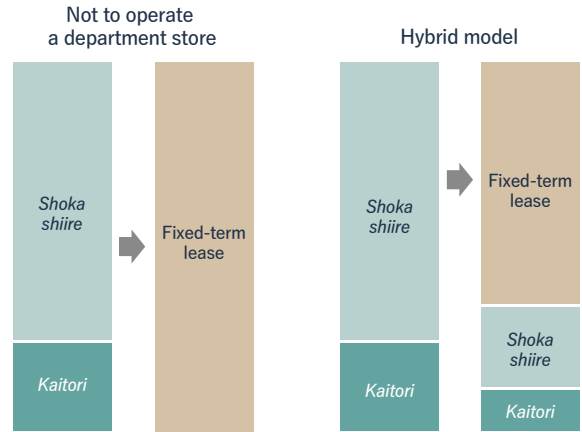
\*Source: “National Department Store Sales” by the Japan Department Store Association

## Content will evolve with business model conversion

First, we took two directions to build a new department store business model.

One is an option “not to operate a department store.” That is to say, we converted some stores to a 100% real estate business without adopting department store’s traditional transaction formats of *kaitori* and *shoka shiire*. Its typical example is GINZA SIX, a luxury mall which was created in 2017 by developing the two blocks including the former site of the Matsuzakaya Ginza store as one.

The other is to build a “hybrid model” that combines real estate rental with *kaitori* and *shoka shiire* under the “department store brand.” Its typical example of a large-scale flagship store is the new main building of the Daimaru Shinsaibashi store, which opened in 2019. Some undersized stores also attract new crowd through business model conversion. For example, the Daimaru Suma store introduced a library in 2020 and the Matsuzakaya Shizuoka store installed an aquarium in 2022.



The advantage of *shoka shiire* is that we can seek greater return through sales growth. On the other hand, the advantages of fixed-term lease are not only to realize stable revenue and the reduction of operation costs but also to increase the variety of tenants to strengthen the response to service consumption and experience-based consumption, which makes the store look fresher. Furthermore, last year we developed new content named “asumise” based on commission income with the concept of “a store that does not sell.”



It is important to find the optimal balance for each store considering its customer target, the characteristics of the area and the building form.

## Innovation of customer experience through the digitization of touch points

The current COVID-19 pandemic has made it most apparent how much the business centered on physical stores is constrained by “time and place.” It is needless to say that digital response is vital to overcome that.

Its “centerpiece” is “app,” which is a digital touch point with customers. App provides 24/7 connectivity to customers. It will facilitate deeper communication with customers and dramatically improve the accuracy of buying forecast. As a result, CRM will be sophisticated. In 2022, we also launched OMO websites for cosmetics and art, in which the Department Store can make a strong showing.



Our main task is to increase the value we deliver through person-to-person communication, which is our strength. Expanding e-commerce with an omnidirectional full line of items using digital technologies is not the direction we will take. We will expand human power using digital technologies. Its starting point is in physical stores. By creating a world view based on content and our own curation, we will further improve physical stores and merge them with digital technologies. We will try to build our own media centered on people and overcome time and place constraints. And we will provide the content that creates new experience value through the media and develop into media commerce that diversifies revenue streams.

