

Aiming to Stand Out, Try to Adapt to Changes in Consumption.

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Confront the essence of the issue

Last fiscal year, we were able to achieve the profit targets of the current medium-term plan two years ahead of schedule. One of the major factors contributing to this was undoubtedly the higher-than-expected increase in sales to inbound tourists. While it could be said that we successfully capitalized on favorable conditions, what we really need to do is change the volatile structure that makes us overly susceptible to influences like exchange rates and geopolitical risks in inbound tourism. To this end, we have launched a CRM system for overseas high-value customers in February 2025 to enable some degree of control over sales to inbound tourists. However, fundamentally, we believe it is crucial to evolve our approach to domestic markets, particularly to domestic high-net-worth individuals with potential for medium-to-long-term growth.

Specifically, we have launched a gaisho project to strengthen our efforts to achieve highly reliable medium- to long-term growth. Gaisho sales have continued to grow at a rate of around 5% annually, exceeding 210.0 billion yen last fiscal year and accounting for 25.6% of the Department Store Business. However, considering changes in customers and consumption patterns, I believe that we can aim for 400.0 billion yen in the medium to long term.

One of the key themes for this will be deepening and expanding our operations in areas utilizing the store locations in major cities nationwide. We have a particularly strong gaisho customer base in Nagoya and the Kansai region, but we believe there is still room for development and improvement in the Tokyo metropolitan area. The direction will vary depending on the type of store, but fundamentally, the existence of gaisho is special and important, and we must showcase our company's unique qualities to attract customers. In the Tokyo metropolitan area, how to incorporate GINZA SIX will be an important factor. In terms of differentiation, it will be essential to expand attractive content, including experiential elements utilizing CVC, as well as develop exclusive services and infrastructure. In terms of gaisho staff, we believe it is also essential to redevelop the working environment and compensation system.

To enhance store competitiveness

Content is crucial to increasing the competitiveness of our stores. We are moving forward with our direction in strengthening our luxury offerings, and we have seen positive results from the expansion measures we have implemented since the height of the COVID-19 pandemic. On the other hand, the area of our company that is undergoing the biggest changes is

fashion. The most notable change that has emerged since the COVID-19 pandemic is that the business model of making a lot of clothes in advance of the season and selling any leftover on clearance is becoming less common. With the growing focus on sustainability, I feel that customers are no longer buying two or three items of clothing just because they are on sale. Rather, they are shifting toward valuing each item individually, which naturally leads to higher unit prices. To adapt to these changes, the Matsuzakaya Nagoya store fundamentally reevaluated its approach to women's fashion. While reducing mass-produced and widely distributed clothing by 60% compared to previous levels, they simultaneously strengthened their offerings in overseas fashion and accessories.

When it comes to department store design, I want to make it distinctive with its content. I think the renovation of the Daimaru Umeda store, which entails a significant reduction in floor space, will be symbolic of this. We must constantly explore new content and work to develop the next generation of customers. Two years ago, we launched a new content development team, but in reality, most of their efforts have been limited to pop-ups. Therefore, we will restructure our organization starting this fiscal year, and will create a system that will link not only

to pop-ups, but also to merchandising projects during renovations and permanent installations. If this works well, I believe that the customer structure will gradually shift from the current core customer base of people in their 50s and 60s to a broader base that includes the MZ generation.

Furthermore, being able to open an official store at the Osaka Kansai Expo was particularly significant from the perspective of human resource development. Our department stores have expanded purchase-as-sold transaction and fixed-term leases, while significantly reducing the number of sales areas with their own curated products. As a result, opportunities to purchase and develop products on their own are becoming increasingly scarce. For our shop at the Osaka Kansai Expo, we had some people in their 30s and 40s who had experience in independent merchandising, so I encouraged them to take on a bold challenge. I believe that by involving our suppliers and artists, we were able to create a presence that rivaled the attractive pavilions through the power of our human resources.

Prosper with the community

One of our strengths is that we are firmly rooted in the communities where our stores are located. Taking Hakata Daimaru as an example, their "Kyushu Exploration Team" initiative has generated significant buzz in the local community. As part of this, the store has been hosting the Kurume Kasuri Grand Exhibition since its inception, which has become a popular event that brings together weavers and wholesalers involved in Kurume Kasuri. It may be possible for other companies to hold events. The key is how to incorporate our ideas into the event, propose them to our suppliers, and have them co-create with us. During the Kurume Kasuri Exhibition, I wear Kurume Kasuri to work. I thought it would be cool if everyone wore it. If everyone wore it, it would be the start of co-creation involving employees. It would be great if we could go one step further and have customers come to the store wearing their own Kurume Kasuri. If we could do this, it would be a co-creation that involves our customers. Furthermore, if a trend emerges in the Tenjin area as an area where people walk around wearing Kurume Kasuri, and people can be seen wearing Kurume Kasuri everywhere, it will be a perfect co-creation. If each piece of content is upgraded to high quality and uplifting consumption, the level of

engagement with it should become overwhelming. I believe that the value of our existence as a company rooted in the local community lies in creating co-creation in areas like this.

Securing talented human resources is essential

Since last fiscal year, we have been promoting human resource exchanges with Parco at the store manager level, and the current store managers of the Daimaru Sapporo and Daimaru Tokyo stores are from Parco. This has made me realize once again how important it is for management to bring in a completely different perspective than before. This is true not only in terms of merchandising, but also in the back office, where there are many realizations such as, "Why are we having this kind of meeting among these people?" We would like to actively incorporate these human resource exchange initiatives into other levels of the organization as well.

When considering the future, it is essential to continue hiring new graduates and young people on a stable basis, but the fact is that such hiring is becoming increasingly difficult. In other words, it will require a great deal of ingenuity. For example, if we want to further strategically increase gaisho sales, which is currently the growth driver of our department stores, it will be essential to increase the number of gaisho staff. To this end, we have adopted a system of hiring exclusively for gaisho and area-limited hiring. In reality, the number of new graduates who want to work for gaisho is increasing, and while I conduct final interviews with full commitment, the number of applicants who withdraw has also decreased. Gaisho is basically a one-to-one business, so people are especially important. We are also looking to actively hire mid-career employees.

For our company primarily operating physical stores, it is clear that the added value created through people is significant. We will not hesitate to invest in our human resources, but we will also pursue a solid return on that investment.

Put service before profit

Practicing Service before Profit, or putting service before profit, is, in fact, not as easy as it seems. What we need to do is focus on how much added value we can offer our customers. Of course, it is important to take into account factors such as long lines at a particular location or high sales elsewhere, but relying solely

on these factors will only promote homogenization. Instead, it is important to first have the will, the desire to offer new added value to customers that has not yet become apparent to the world. I myself have failed many times since joining the company, especially when I was younger. However, even back then, I felt that nothing would change unless I actually took action. Honestly, it was a time when we would get scolded if we failed, but sometimes failure as a result of taking on a challenge can lead to success. I think it was also important that my boss at the time encouraged me to take on the challenge. Unless the 4,000 department store employees demonstrate through their actions that they are making customers happy at the storefront, the company will not change. If we can create a corporate culture where taking on challenges is the norm and make this visible, employees will gain confidence.

When I was in charge of food products at the Daimaru Kyoto store, I heard that corn is a plant that loses its sugar content quickly after being picked. So, I thought it would be better to deliver it to the sales floor as quickly as possible after picking. And I came up with the idea of transporting freshly harvested corn directly from the farmers by train in 100 minutes. If we can imagine specifically how our customers will be delighted, we can add value with just a few simple ideas. These efforts were widely reported in the media at the time and led to increased sales. Rather than just explaining things logically, I think it is important to provide as many concrete examples as possible, so that employees can understand and act on their own volition.

I believe that by bringing out the best in people, we have every chance of standing out in the industry. As customer needs become more diverse, how can we demonstrate our unique identity and originality? Through trial and error, I expect sustainable, high-quality, and uplifting consumption to become even more prominent in the future. I think it would be great if we could adapt to these changes and become a unique, one-of-a-kind entity that is neither a department store nor a shopping center. To achieve this, we will continue to take on challenges, accumulating both failures and successes, by offering one piece of wisdom at a time and doing one extra thing at a time when taking action, as we strive to create the kind of department store we want to be in the future.