

Sales of Big-Ticket Items Rise on Economic Recovery – Management Reform Aimed at Wealthy Consumers –

Interviewer: Kitamoto Ichiro

MITSUKOSHI Ltd. is one of Japan's longest-established department stores. Department store operators have long commanded the highest position among retailers, with their main stores located in prime areas in major cities. Since the collapse of the bubble economy, however, sales have remained in the doldrums because of their failure to respond to the diversified needs of consumers. For the last decade, the department store sector has even been called one of the "structurally depressed industries." In order to remedy the situation, they pushed ahead with restructuring efforts. In 2005, Mitsukoshi closed four stores, including the Osaka store with a 350-year history, as part of such efforts. The recent economic recovery is boosting the sales of department stores. The so-called wealthy middle-age bracket has revived the strong appetite for consumption and begun returning to department stores. In response, they are taking an aggressive stance. Ishizuka Kunio, the President of Mitsukoshi who has been undertaking management reform, speaks of his company's business strategy.



Photo : Mitsukoshi Ltd.

Higher Bonus Payments Buoying Department Stores

Personal consumption is restoring strength after many years of slump. What factors do you think lie behind the recovery?

Ishizuka: Improved corporate earnings led to higher bonus payments to salaried workers last year. Combined with the strong performance of stock prices, this has brought about a feeling of wealth among consumers. Undoubtedly, personal consumption is following a recovery path. All economic data, including consumer prices and unemployment rates, show good signs although it is still uncertain whether they will return to their former levels.

Why are sales of department stores recovering at a faster pace than those of supermarkets?

Ishizuka: I have often pointed out that supermarkets are a day-to-day business. They are outlets where consumers purchase goods within the range of their monthly wages. Despite the economic recovery, monthly wages remain unchanged. Therefore, their sales are



not directly linked to the economic recovery. Meanwhile, bonuses go up when corporate earnings improve, and department stores stand to benefit from higher payments. Consumers tend to seek luxury goods such as jewels and high-end watches with their bonuses.

Expensive items are selling well.

Ishizuka: Sales of luxury watches worth more than ¥1 million are showing a 20%-30% increase over 2004. Paintings worth more than ¥10 million are also faring well in stark contrast with the poor performance of 2004.

Last year, five to six paintings over ¥100 million each were sold. However, we would like to sell 2,000 items worth ¥100,000 rather than one item worth ¥100 million. We stand to benefit more from such business.

Bargain Sales Are No Longer at the Forefront of Marketing Campaign

Mitsukoshi is traditionally strong in sales to wealthy customers.

Ishizuka: We have also had such a perception. A survey of wealthy customers, however, showed that they were not necessarily satisfied with Mitsukoshi. Our mainstay customers in various parts of the country are not coming to our store to buy cheap items. They say they do not want to see underwear bargain sales near a corner for luxury goods. Now we need to ascertain whether we have appropriately responded to those consumers who, we believe, are potentially our main customers. We are now reexamining our sales strategies. As part of such efforts,

we have reviewed whether bargain sale campaigns are appropriate. Bargain campaigns momentarily boost sales, but have tended to lower the customer satisfaction level. With such a tendency in mind, we have stopped placing bargain sales at the forefront of our marketing strategy.

How are you modifying your marketing strategies?

Ishizuka: There was a phrase “good merchandise at cheap prices” 20 years ago. Providing such goods was the role of department stores. Today, there is a broad array of retail stores in the country. For example, UNIQLO is offering high-quality cheap clothes. Under such circumstances, I believe the role of department stores has changed. We have to offer high-quality items, lifestyle-related services and comfortable customer-friendly shopping space and clerks in a comprehensive manner. It is not our role to offer discounts. Specifically, we have changed our “o-seibo” or year-end gifts-related services. We used to emphasize “free delivery service” as one of the main attractions of our sales campaign but we devised new services last year. We offered a “triple delivery” service, in which a year-end gift was delivered three consecutive times. People would feel it hard to find a space to store a gift like bottled vegetable juice if it was delivered all at once. If customers use this service, the recipient can get a new bottle at a time when they have almost finished drinking it. We also offered “combination gifts,” in which customers can choose and combine items by various manufacturers. We are now offering values that only Mitsukoshi can offer and which are rarely provided by other department stores.

Business Earnings From Other Sources Eyed

Sales at Mitsukoshi stores in Tokyo are improving sharply, but many stores in local areas remain sluggish. Are you considering shutting down more stores?

Ishizuka: We closed unprofitable stores in May 2005. We are not considering closing more stores at this moment. We intend to secure firm support from our customers and lift earning capacity at local stores – which, I believe, is the management’s main role. Our Hiroshima store ranks third in that region, but has turned profitable after suffering deficits for years. I believe such local stores can perform well if they successfully boost their presence and distinguish themselves from other stores in their regions. If a store remains in the red for three to four years, however, shareholders would call management in question. Closing down a store would be an option in such cases.

In addition to the operation of department stores, you have come up with plans to set up small stores within suburban shopping malls. How do you position this in your overall management strategy?

Ishizuka: I do not think that our earnings from department store operations will grow strongly in the years ahead. We are expanding our Ginza store and have decided to set up a new store in Osaka, but these require an enormous amount of investment and put a dent on our earnings. Unless we have three or four other new models, our company’s growth would taper off. Plans to set up small stores within shopping complexes have been devised as one of such models. We are still not sure whether we will be able to secure profits from such a business model, but we cannot sit idly by. If we can do well with a third store or so, we will then boost the number of such stores to 10 to 20. We believe the project will become a new business model enabling easier expansion as a chain store operation across the nation.

Mitsukoshi has formed a business and capital alliance with Shochiku Co.

Ishizuka: We willingly bought the shares of Shochiku, the major movie distributor, at its request to become a partner to fend off takeover bids. In return, we asked Shochiku to offer business merit, and already have formed around 20 joint project teams to work out the details. In this New Year, with the cooperation of Shochiku, we put on sale a ¥100 million New Year lucky bag that gives its purchaser the right to have a film director and crews to shoot a movie with the purchaser playing the main role. Shochiku also owns the Kabuki-za Theater and is offering Kabuki performances. There are plans to have Mitsukoshi develop and market gifts at the theater. Customers of Mitsukoshi stores and the audience of the Kabuki are comparatively common in age and other terms, and synergy effects can be expected from the business alliance.

Mitsukoshi showed a profit decline on a consolidated basis in the mid-term financial settlement of FY 2005. As a result, you slashed pay for executives.

Ishizuka: The action was taken because we have found it hard to achieve a five-year business plan through 2006. We have to account for responsibility vis-à-vis our stockholders and employees. The main aim of the measure is to have executives share a sense of crisis. I think it is good if such a feeling filters into rank-and-file employees. Mitsukoshi has had a tendency to keep to itself without paying due attention to its customers. We have to give more consideration to the needs of our customers. I am resolved to steadily push reform without seeking quick returns. This year will mark a year of endurance for the reform. **J.S.**

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