

Isetan Mitsukoshi Holdings Ltd.
FY2024 Sustainability Briefing Q&A Summary
Date: Wednesday, December 4, 2024, 10:30-12:00

Speaker: Toshiyuki Hosoya, Director, President and CEO

Tomoko Ando, External Director

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Ken Igarashi, Isetan Mitsukoshi Human Solutions Ltd.,
President and Representative Director

Q. It is important for department stores to cooperate with their business partners. With 600 business partners, how do you think communication and actions with a wide range of employees, including dispatched store stylists, will change in the future?

(A. Hosoya) For the past several years, we have been holding briefings for our business partners where we discuss medium- to long-term strategies directly with the management of each company, and we hope that this will eventually spread to the stylists at the stores. In addition, a culture of communication has been fostered throughout our group, with in-store managers and assistant sales managers getting together with partner stylists to discuss the company's direction so that they can understand it. I do not speak separately about our employees and our business partner employees, but refer to all of them as “employees,” and we will do our best as one team.

(A. Kimbara) Regarding the reform of work styles in department stores, in fact, the number of business partner staff is more than twice as large as the number of our employees. We are trying to utilize DX to maintain deeper communication with these people and to increase the value we provide to our customers. The most important thing is for us to accurately understand the situation of our business partners and work together as one. To this end, we are trying to create an application for partner staff. For example, FAQs will answer various inquiries about attendance, policies that must be communicated, compliance, etc. We are also considering the use of the application when working together to respond to customers. Although security and other issues are emerging in the process of implementation, we would like to maintain a cooperative relationship with our business partners to solve these issues while improving customer satisfaction and efficiency in the new way of store operation.

Q. From Ms.Ando's perspective, what are the advantages and challenges of Isetan Mitsukoshi's current human resource strategy? What are some of the issues that you feel need to be addressed?

(A.Ando) It is difficult to make a simple comparison because the companies I have worked with in the HR field are primarily foreign-owned companies with headquarters overseas, and they are also manufacturers. Many HR professionals in Japanese companies are now facing the great challenge of evolving to strategic HR. Strategic personnel management began about 30 years ago in Europe and the United States, but was only recently conceived in Japan, although this was not because Japan was lazy by any means, but because the way of thinking was based on special circumstances such as "hiring new graduates during the high-growth period" and "lifetime employment and

seniority order." In our case, this change to strategic HR and the change in our business model to achieve this vision require a major change in our HR strategy, and we are working on these two transformations simultaneously. The horsepower and commitment are wonderful, and I think the actual flow of what kind of big blueprint from the vision is reflected to the individual tactics deserves recognition very much.

Until now, human resource management has been considered a cost center, but from the perspective of human capital, it is a department that will be invested in in the future, so I would like to see it promoted in terms of investment. We are working on it well enough now, but I think more could be considered.

Q. In the future, customers worldwide will be covered. What are the challenges in securing and training global human resources? What are your strengths?

(A. Hosoya) I often talk with top executives of overseas luxury brands, and among them, I receive compliments on the overwhelming power of Japanese hospitality, especially in out-of-store-sales, even around the world. Even top executives of luxury brands overseas use the word "GAISYOU" in Japanese, which is a great advantage for our company. In addition, our company is taking the Matsushima model (as I explained earlier) one step further, and there are considerable positive aspects to this model. A year and a half has passed since we started the overseas out-of-store-sales initiative for overseas customers, and it too is evolving. The members of the overseas out-of-store-sales team say that it is not only a matter of language, but also how much you can touch the hearts of overseas customers and put yourself in their shoes that is so important, and this is one of our strengths. We believe that guts and hospitality are most important, and that the language barrier can be easily overcome.

Q. About the human capital investment. The new medium-term management plan calls for approximately ¥30 billion in human capital investment, of which compensation improvements account for a large proportion. Is compensation improvement the first priority? What else do you consider important?

(A. Kimbara) Regarding the breakdown of the 30 billion yen, we presented the following plans: 23 billion yen for compensation improvement, 2.5 billion yen for human resource development, 2 billion yen for working environment, 1 billion yen for health management, and 1.5 billion yen for digital transformation (DX) of HR. Improvements in compensation appear to be significant, but this will naturally be pursued while advocating for a small number of elite employees throughout the company. We are aware that the recent wage increase is an issue that should be addressed by the industry and Japan as a whole, and we have incorporated a certain amount of compensation improvement, assuming changes in future system revisions, in the sense that we will properly return benefits to our employees.

Next, we believe it is important to invest in the development of human resources and strengthen IT and digital human resources. We will provide basic training in this area and expand the number of ambassadors (people who precede in receiving digital education and spread it to others) to approximately 10% of all employees. In addition, efforts to enhance human resource skills and knowledge tailored to the characteristics of each business have been undertaken by each business individually, but from now on, we will carry out across the entire Group with programs tailored to each business and training personnel brought in from outside. Furthermore, we believe that the power of managers is important for the organization to better realize its strategy, so we have created a management book to develop human resources, and we will work to raise the level of individual human resources. Other factors such as working environment, health management, etc., will naturally be factored as necessary investments, and we will aggressively promote the initiative.

Q. While creating innovative human resources with experience in multiple areas, I think it is necessary to change the way employees think about their experiences so that they can understand the meaning of their experience and see it as an advantage. I would like to know about changes in the way employees think about their careers.

(A. Kimbara) More than half of our general managers have experience in different fields. Originally, the culture was that the higher the position, the more they were encouraged to take on new challenges. What we want to focus on in the future is to actively encourage the younger generation to develop their own career visions and raise their hands on their own. Several systems are available, including challenge declaration and self-declaration, and the atmosphere has been changing for some time. Now, nearly 300 employees a year take advantage of the declaration system, saying, "I want to go to this department". Of course, they will be matched with their desired affiliation, so their wish may not come true, but I sense a gradual change in employee awareness. The boss's approach to this autonomous approach is of utmost importance, and we tell all department heads at meetings to avoid ever enclosing excellent human resources. I feel that a tendency to "let the pretty girl travel" has emerged on the part of boss.

Q. What are some examples of how IMH's efforts can make future department store operations more efficient, and what is that timeline?

(A. Igarashi) In the operation of shops and stores, there are various operational functions that back up the stylists engaged in sales. For example, cash registers are important, and we are currently starting to do so, but we are improving them as tasks through business reform using DX. While reducing the number of operations, we will continue to provide support through our horizontal functions. We would like to expand horizontally while leveraging the know-how of department stores, especially in the beauty field, which has a very large number of touch points with customers. We would like to work together within the group and gradually move forward with this six-year plan.

Q. Regarding personnel in the department store business. In 2019, it was 80% of the total but is now down to 60%. What percentage of personnel in the department store business do you intend to reduce by FY2030 by consolidating operations to DX and IMH and increasing personnel in other businesses?

(A. Hosoya) We are in the process of conducting various simulations and having company-wide discussions. However, we believe that there is no doubt that the overall number of personnel will go down. Because we are constantly working on structural reforms based on the three pillars of "Is this work really good enough, or is there any work we can stop doing?", "What would happen if we combined this with that?", and "Could we operate more efficiently if we used DX?", the overall number of personnel is gradually going down. At the same time, we hope to spread the power of department stores throughout the group. In other words, human resources with the ability to provide hospitality at a department store will be able to spread that ability to each group company by working in different businesses. I have a positive mindset. The personnel themselves will gradually become more efficient because the idea is to support customers throughout the group, not just in the department stores.

Q. I would like to ask a supplementary question, but is it possible that the number will be less than half in the future?

(A. Hosoya) I think that's hard to imagine.

Q. Regarding the revamping of the personnel system with the individual customer business in mind. Regarding the design of a system that balances vertical and horizontal personnel management, when do you plan to implement the system?

(A. Kimbara) Vertical systems are still being worked on within each business. The subsidiary responsible for information systems is developing a personnel and wage system tailored to market values that are quite different from those of department stores in terms of how it treats outside engineers and data scientists. We are considering in each business characteristic what kind of wage structure should be in place for each of these new businesses, such as real estate, food & beverage, etc. in the future. Some parts can be established quickly and some parts will take a little time. The most difficult part will be the appointment of human resources at the management level who will create the horizontal structure, which will basically require the creation of a new system. And taking into account the switch from what are partially existing, careful consultation with the unions is necessary. We cannot say at this time when this will be completed, but we will work on the vertical and horizontal aspects in a consistent manner.

Q. Based on the previous explanation, will overseas out-of-store-sales expand their workforce in the future without focusing on language skills?

(A. Hosoya) We currently have more than 40 out-of-store-sales reps for foreign customers. Each of them has sold approximately 200 million yen, and we hope to gradually expand this figure, but we have not set any specific goals for the number of people or the amount of money. We want to be a special presence for our customers by firmly connecting with customers who feel the value of the Group's overseas out-of-store-sales initiatives and truly need our company.

Q. What kind of human resources will be utilized by the department in charge of overseas out-of-store-sales? Are they originally in charge of out-of-store-sales for the domestic, or are there transfers from other departments?

(A. Hosoya) At this stage, we have recruited mainly members who are skilled in foreign languages from among those who have been in charge of out-of-store-sales for the domestic market, and as a result, we currently have a staff of over 40 people. However, according to the manager in charge of overseas out-of-store-sales, hospitality is very important, and language can now be handled with digital tools, so our possibilities can be expanded even further. We want to move forward with our efforts with confidence.