

Interview on Strategic Management

Accelerating efforts to build a business model for the new normal based on Visionary 2025/2030

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33 consecutive years of increasing sales and operating profit, achieved with PPIH's unique strength in human resources

Despite dramatic changes to the business environment due to the COVID-19 pandemic, the PPIH Group has achieved 33 consecutive years of increasing sales and operating profit by boldly implementing a variety of new measures. This could not have been achieved without the ability of our frontline employees to take on numerous challenges with a sense of speed, and I am reminded once again that the greatest strength of our Group lies in our human resources.

Our Group's human resource strategy is centered on the question of which stage and role would allow each person to achieve their optimal performance. We have promoted employee satisfaction and motivation through unique measures such as establishing a fair and competitive environment that is open to all regardless of their past job history or position, as well as affording everyone substantial discretion through the delegation of authority. Such practices to develop human resources and shape our organization have been passed down through our history and have taken root as part of our corporate culture, and we believe they are one of the factors behind our continued growth and our edge over other companies.

Adapting to changes in the environment and starting to review our value chain

At the same time as we are adapting to changes in the environment, from a post-COVID-19 perspective, consumer behavior is undergoing a major transformation due to factors such as restrictions on people's movement imposed

during the pandemic. Customers are now coming to stores after having first learned about certain products at home, for example via the internet or on social media. This has led to people going shopping less often and for less time. In addition, competition around products and prices has intensified among retailers as a result of these changes, and we must now create stores and product mixes with greater differentiation than ever before.

Even after the pandemic ends, the changed consumer behavior is not expected to return to what it once was. It is essential for companies to quickly adapt to these changes in order to continue to meet the rapidly transforming market needs of the so-called "new normal." These are the kinds of challenges we face, and we are engaged in self-reform to overcome them. The overall direction of such efforts has been to advance numerous measures to shift from a strategy centered on the idea of sales supremacy to one that is profit-oriented.

We have completed preparations, with these measures having already produced a certain level of results. We have also revised our medium-term management plan, Passion 2030, to reflect the changes to the business environment since its announcement in February 2020, and announced our new medium-to-long term management plan, Visionary 2025/2030.

Becoming a corporate group that continues to grow profitably while adapting to the new normal

In our medium-to-long term management plan, Visionary 2025/2030, we have removed sales for FY2030 from the numerical targets.

The first reason for this was to reflect changes in the Group's business structure and to ensure a degree of freedom of management. In the previous business model



premised on a single DS business, sales were an important management indicator. However, in recent years, we have started developing multiple businesses, including our GMS, financial, and overseas businesses, and we no longer have a structure in which simply increasing sales will increase profits.

The second reason was to promote a shift from sales to profit on the frontlines. Until now, frontline work has been oriented towards three indicators: sales, gross profit (profit margin), and turnover ratio. Going forward, however, in order to increase operating profit, we will place particular emphasis on "gross profit margin/amount" and "turnover ratio," and promote operations based on these two indicators. We have set numerical targets of 120 billion yen in operating profit for FY2025, and 200 billion yen for FY2030.

For our domestic business, we aim to achieve operating profit of 93 billion yen in FY2025 by promoting PPIH-style SPA, providing "new CV+D+A" through digital transformation, promoting organizational integration and productivity improvement, and strengthening our Finance Business.

For the promotion of PPIH-style SPA, we have set a quantitative target of 25.0% of PB/OEM sales ratio after three years. Besides strengthening our development and sales systems, we will also directly reflect customer feedback in product development, utilizing reviews on the majica app and other means, and steadily build a cycle entailing "development → sales → customer evaluation."

For DX, we will concentrate on enhancing the functions of the majica app in order to provide "CV+D+A" not only in stores, which had been the case until now, but also outside stores. We will integrate multiple services, such as payment, reviews and other customer engagement functions, promotions, and the addition of search functions, into one app to further enhance users' shopping experience and provide "new CV+D+A" with less (or no) stress.

As for organizational integration, because our DS and GMS businesses only differ in terms of customer base, we will maintain their respective business formats but integrate the MD headquarters that support them, in order to improve operational efficiency and further strengthen individual store management.

In terms of productivity improvement, we will focus on areas where manpower is needed to improve the quality of store operations and profit margins in the face of labor shortages and rising labor costs. For example, in our DS business, labor costs are expected to increase by more than 3% annually, and we will maintain the labor cost ratio by improving productivity in response to this increase.

In addition, we aim to grow our Finance Business as

a new pillar by expanding earnings through means such as enabling the use of our app-based payment service externally.

For our overseas business, we will expand store openings in Asia and North America with the aim of achieving operating profit of 27 billion yen by 2025. We feel that we have made tangible progress in expanding our overseas customer base, as shown by the success of DON DON DONKI as a Japan-brand specialty store in Asia. In the future, we plan to expand the supply of such products to North America, where we have had almost no new store openings, as well as places such as Guam and Hawaii, by, for example, considering opening experimental stores similar to the DON DON DONKI model, with the aim of establishing and spreading the "Japan brand" locally. Besides expanding our network of stores, we will seek to grow our new "restaurant and retail" business format in Asia and North America, focusing on SEN SEN SUSHI stores, and work to generate new business opportunities.

In addition, as the number of stores increases, so too does the volume of products supplied by PPIC, as well as the number of cooperating partners, including members, producers, governments, and logistics companies. We believe that a major factor in our success to date has been our ability to create a unique flow whereby store expansion generates further supply. We intend to promote our business by playing a major role in helping Japan achieve its goal of exporting five-trillion-yen worth of agricultural and marine products, with PPIC central to those efforts.

To our stakeholders

As a Group, we have been further enhancing our ability to adapt to change by leveraging our greatest strength, which is our human resources, and have built a robust sales structure that will ensure profitability even as the COVID-19 pandemic persists. We are already prepared for the post-COVID-19 era. Going forward, based on Visionary 2025/2030, we will achieve sustainable growth and our numerical targets in the rapidly changing market, while continuing to evolve the new business structure we have built to date. We humbly ask for your continued kind support and patronage.

