First Crisis and Evolution Facing Supermarkets in 70 years

- Highest Prices in 40 Years -

The distribution industry, including supermarkets, is a sector with social significance and is indispensable for people's day-to-day lives and local economies.

It contributed to preventing the disruption of supply flows of day-to-day commodities even during the turmoil of the COVID-19 pandemic.

14% of Japan's GDP 16% of Japan's working population

The distribution industry has been strongly bolstered by on-site labor and responsiveness in the industry.

Now, it is facing **resource** (*) **constraints**.

Facing three aspects of pressure amid a lack of goods inflation **Growing procurement** Corporate goods price 125 costs and physical distribution costs caused by high prices index Price index (Jan. 2011 - Jan. 2023) Jan. 2011 = 100 Pressure from consumers' persistent demand to keep prices low 40 **Entire society's** demand for higher wages Consumer sentiment index (2018 - 2023)

Can the industry secure necessary labor and attract human resources amid a lack of labor? Working-age population Declining number of (all industries) work force 2040 2020 74.06 million 59.78 million Declining by 5 workers per store by 2030; Decline by about 20% declining by 10 workers per store by 2040 About Prolonged productivity one-third sluggishness Labor productivity level in US Japan wholesale and retail sale in 2017

The distribution industry needs to <u>redefine its conventional approaches to using and holding their resources,</u> taking advantage of the current resource constraints.

DX (digital transformation) for further streamlining business and improving value added

Reform

resources

Providing more efficient supply chains (vertical and horizontal collaboration and integration)

Break away from management based on PL (sales and revenues) and shift to management focusing on a balance sheet and resources Example of business management index: ROIC>
Return on invested capital ("earning power" as a company)
Enhancing value added and providing it
After-tax operating income Sales
Capital invested

Share resources

Utilize

resources for **value**

value creation Presenting diverse services based on demand from consumers and communities

1. Reform resources

DX for further streamlining and improving value added - Change resources through DX and reform business practices-

- A day in the life of a retail store (example) -

Troubles and problems they face in business

Expected effects brought by DX



✓ Distributing fliers does not work (no ideas if it really works)

Distribution of digital fliers and coupons tailored to individual consumers

9:00 Arranging products on shelves

Replacing price tags are tough work.

 Saving time for replacing price tags using e-shelf tags

13:00 Customer services and operating cash registers

✓ Cash registers are crowded due to

Saving time for customer services using an online customer service function

16:00 Order taking

- customer service and payment.
- Making payment smoother using smart shopping carts and smartphone POS
- ✓ Excess and deficient order placement not only increases costs but also takes time.
- ✓ Efficiently placing orders for necessa volumes using a system for demand forecasting and automatic ordering

2. Share resources

situations

Goals to be

achieved

Providing more efficient supply chains vertical and horizontal collaboration and integration of resources -

Company A Company B Company C Competition Competition Converting extra resource Competition Competition newly Competition generated Area Collaboration Collaboration Area

Many players in Japan's complex distribution structures ⇒ This situation makes it difficult to achieve tota business optimization, incurs a heavy workload increases costs (overburdening, waste and irregularity in the supply chain).

Examples of leading efforts for addressing distribution crises

- ✓ Relaxing delivery deadlines (one-half rule)
- ✓ Securing sufficient lead time for order placement and product delivery
- Standardizing store operations, such as warehouse work, product arrangement and display
- Digitizing vouchers and streamlining logistics information
- ✓ Making inventory management highly accurate
- ✓ Reducing stand-by time and delivery frequency
- ✓ Joint transportation and distribution and relay transportation

3. Utilize resources for value creation

Customer

Presenting diverse services based on the demand of consumers and communities

Resources for value creation and problem solution -

Review the conventional use of limited resources and recreate the value of appropriately monetized physical stores

satisfaction Private brand (PB) Customer experience Experience value Product value Omnichannel **EDLP** Customer convenience

Examples of measures for value creation

- ✓ Developing and manufacturing environmentally friendly products
- ✓ Developing products through co-creation with users
- Presenting unexpected proposals for new products / proposals for personalized products tailored to individuals
- Providing functions and roles, e.g., an exchange base for local residents
- Achieving low prices by reducing sales and management costs taking advantage of AI-based automatic ordering, use of robots, etc.
- Diversifying sales channels, including e-commerce and unmanned stores
- Analyzing customers by integrally controlling online and offline information on customers