

Singapore Management University

Institutional Knowledge at Singapore Management University

Perspectives@SMU

Centre for Management Practice

2-2017

Isetan: Adapting to the new global retail landscape

Singapore Management University

Follow this and additional works at: <https://ink.library.smu.edu.sg/pers>



Part of the [Asian Studies Commons](#), and the [Business Administration, Management, and Operations Commons](#)

Citation

Singapore Management University. Isetan: Adapting to the new global retail landscape. (2017).
Available at: <https://ink.library.smu.edu.sg/pers/125>

This Journal Article is brought to you for free and open access by the Centre for Management Practice at Institutional Knowledge at Singapore Management University. It has been accepted for inclusion in Perspectives@SMU by an authorized administrator of Institutional Knowledge at Singapore Management University. For more information, please email cherylds@smu.edu.sg.

ISETAN: ADAPTING TO THE NEW GLOBAL RETAIL LANDSCAPE

Published:
27 Feb 2017



Department stores need to rethink their traditional business model and deliver value to shoppers, and it must be done with speed and imagination

When Japanese department chain Isetan introduced in its own shoe brand NUMBER TWENTY-ONE in its flagship Shinjuku store in 2012, it managed to sell 3,000 pairs for the year. By 2015, that number rose to 26,000, outselling top international brands such as Christian Louboutin (7,000), Jimmy Choo (4,500), and Prada (3,900) combined.

The retailer has since capitalised on the brand's success, adding parasols and shawls to a growing product range that now accounts for 10 percent of sales by volume at its Shinjuku outlet and its sister Mitsukoshi store in Ginza.

"We took a risk and started NUMBER TWENTY-ONE," explains **Hiroshi Ohnishi**, President and CEO of Isetan Mitsukoshi Holdings, the holding company that was formed when the Isetan and Mitsukoshi department store chains merged in 2008. "What we did was to form a partnership with a leading shoe factory, to which we provided data on footprints which we had acquired from a research institute. In doing so, we created shoes with a lower price and maintain quality.

"Our goal is not just to [be] a departmental store. We want to create new products."

MORE THAN JUST A DEPARTMENT STORE

Speaking at the recent SMU Wee Kim Wee Centre CEO Talk entitled “*Leadership for Innovation*”, Ohnishi explained how retailers can be at the mercy of intermediaries within the supply chain.

“When the number of supply chain failures go up, it increases costs and [depresses] retail price,” he elaborates, detailing the process of goods flowing – or not – from manufacturers to wholesalers and eventually to retailers such as Isetan. “For example, if an item retails for \$100, the departmental store can only earn \$30 instead of \$50 that specialty store retailers can” because the latter controls the supply as the brand owner.

Citing Uniqlo as an example, Ohnishi says Isetan benefited from having complete control of its own brand such as NUMBER TWENTY-ONE as a manufacturer instead of sourcing for ready-made products, which is how a department store is traditionally run. However, Ohnishi is emphatic about the need to adapt or risk becoming irrelevant in the rapidly changing retail landscape.

“Until now, Isetan has been doing business in various Asian countries but we are struggling to achieve success,” he concedes. “That’s because we’ve been focused on selling goods. Our business has failed to keep up with rising rent and labour costs. To survive in these rapidly changing circumstances, we must create absolute value for both tangible goods and intangible services to satisfy customers.”

This focus on creating ‘absolute value’ can be found on the company’s website, which describes [how NUMBER TWENTY-ONE created the 8cm heels](#) through extensive feedback from customers, and also via a longer-than-usual six month development process.

What the customers valued were heels that “accomplish the contradictory functions of showing off a beautiful silhouette and being comfortable” at the same time. Therefore: the shoes constitute the tangible goods, while the effects of beauty a comfortable pair of heels deliver make up the intangibles.

MANAGING CHANGE

In February 2015, South Korea’s Shinsegae Department store began carrying NUMBER TWENTY-ONE, while Isetan stores outside Japan started doing so the following month. While management recognised that such opportunities were created by innovation and thinking out of the box, Ohnishi is mindful of how Japanese companies’ hierarchical nature can slow down and even stifle necessary risk-taking.

“Japanese companies require many levels of approval, but things are starting to change,” he claims. “In the past, if you went to your immediate supervisor with something new, he would hesitate to approve it because it has never been done before.

“I have told my staff: ‘Organisation is important for the company, but solving any given issue is more important. If your immediate supervisor cannot solve it, go straight to the CEO.’ Of course, when that happens middle management is not happy. I’m not sure if this is the right approach but speed is very important.”

He adds: “In the past, our company culture would only allow us to try something if we have a 50, 55 percent chance of success. For me, I think we should try even if that percentage is 20 or 30. If we stay put and don’t change, we will die.”

As he reaches the mandatory retirement age of 62 (which becomes 63 in 2019; 64 in 2022; and finally, 65 in 2025), Ohnishi is planning to install his successor to take Isetan Mitsukoshi into the

future. When asked about how he intends to identify the best candidate – “He must have the right character” – Ohnishi says that is an easy task.

“I ask his subordinates, ‘How is your boss?’” he elaborates. “I also ask those outside of the company what they think of the candidate. In other words, I get views from everybody who come into contact with him.

“Leaders need to lead by example. They should get the right information to make the right decisions. Communication is also very important.”