



Dialogue

Sustainable Growth by Responding to Change

Toshifumi Suzuki

Chairman and
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What does Seven & i Holdings need to achieve sustainable growth at a time when medium- to long-term value enhancement of companies is attracting attention? Prof. Kunio Ito, a leading researcher in corporate management and value, as well as one of the Company's Outside Directors, was invited to give his thoughts in an exchange of opinions with Chairman and Chief Executive Officer Toshifumi Suzuki.

● Utilizing diverse capitals to increase corporate value

Ito: Japanese companies and capital markets are on the verge of a significant change, against the back drop of the promulgation of the Stewardship Code*¹ and the Corporate Governance Code*², which call for constructive dialogue between companies and institutional investors to increase corporate value in the medium to long term. I was involved in discussions about the desired relationship between companies and investors held as a Ministry of Economy, Trade and Industry project, the result of which was the so-called Ito Report*³, and I came to realize the strong interest overseas institutional investors were taking. Terms like “increasing corporate value,” “sustainable growth” and “dialogue” are the important keywords today. Company management and investors must engage in constructive dialogue with a purpose and increase engagement in order to build win-win partnerships to promote sustainable growth.

Increasing corporate value, in particular, is a standpoint worth looking at. In its narrowest definition, this refers to shareholders' value, mainly the increase in return on equity (ROE). But a broader definition incorporates the meaning of stakeholder value, which refers to the total value that can be provided to various stakeholders, naturally including shareholders and investors, and also extending to customers, employees, and business partners, and so forth. Integrated reporting that clarifies important material issues and relays scenarios for increasing corporate value to stakeholders is also required in this context.

Suzuki: Seven & i Holdings engages in business while maintaining close relationships with its stakeholders. Last year, as a unified Groupwide response to the expectations and requirements of stakeholders, we engaged in dialogue with many people and determined material issues, which we framed as the Five Promises. Furthermore, in regard to shareholder value, the Company is also focused on the importance of ROE. Recently, while Seven-Eleven Japan (SEJ) has been able to achieve good numerical results, results from Ito-Yokado (IY) suggest there are still issues remaining. When it was a seller's market, IY increased sales through the traditional model of chain-store management*⁴, but even though we are now in a buyer's market, IY remains fixated on that successful experience. We want to completely move away

from methods that are not attuned to the times and grow in a balanced manner across the entire Group.

Ito: Driven by convenience store operations, Seven & i Holdings has developed remarkably in recent years. I work as an ambassador for the International Integrated Reporting Council. In the integrated reporting framework, we believe there are six types of capital, including financial, manufactured, intellectual, human, social and relationship, and natural. How well these various capitals are utilized within a business model is evidenced in areas like corporate value. Mr. Suzuki, having supported Seven-Eleven's progress, is a prime example of someone who has cultivated this kind of integrated thinking through experience. For example, the rule and principle of repeating hypothesis and verification is one of these thoughts.

- *1 A framework for institutional investors that ascertains the status of aspects such as risk response to social and environmental issues and governance.
- *2 A framework for listed companies that promotes strengthening of governance to achieve sustainable growth and increase corporate value over the medium to long term.
- *3 The Competitiveness and Incentives for Sustainable Growth: Building Favorable Relationships between Companies and Investors project.
- *4 An approach that pursues rationalization based on scale benefits and Head Office-led operations and supply.

Five Promises

-  **We will realize a society where all people can enjoy reliability and convenience in shopping as a form of social infrastructure.**
-  **We will provide safety and reliability through products and stores.**
-  **We will eliminate waste in terms of products, materials, and energy and contribute to the preservation of the environment.**
-  **We will support the creation of a society where all people can actively participate, regardless of gender or age.**
-  **We will work to build an ethical society together with customers and business partners.**

Pursuit of the customer's standpoint enhances corporate governance



Ito: Mr. Suzuki, I believe your management method involves taking on the challenge of two sets of opposing concepts. The first of these is “diversity and efficiency.” It is crucial to respond to the diversification of needs arising from changing times, but responding to individual cases also increases costs. You have approached this problem by making progress in IT and systemization, establishing efficient operations that also respond to diversity. The second pair of opposing concepts is “individual optimization and overall optimization.” While formulating general guidelines and strengthening rules and principles, you have also responded to individual needs, for example with product development emphasizing regional characteristics.

Suzuki: I have consistently tried to view situations from the customer's standpoint. The focus should not be on competing companies or industry trends, but on the

customer alone. I truly believe that and have continued to say it within the Company. That is why I have never moved away from Seven-Eleven in convenience stores. Even if I have glanced sideways at trends in the industry, they essentially have nothing to do with the path that our Company is taking.

Ito: Currently, *Seven Premium* private brand products have grown to overtake national-brand products, which is the result of pursuing quality in the way you have described. This is an excellent example of having realized an increase in corporate value by listening to customers and continuing to respond to their expectations and trust. This is corporate value in the wider sense, that is, stakeholder value, and it could also be referred to as the corporate brand.

Suzuki: As long as we consider things from the customer's standpoint, I think those kinds of results are inevitable. Continuing on from the earlier mention of regional characteristics, unlike in the past, “Tokyo products” are no longer rare or highly valued items in regional areas. That's why we don't simply develop a product in Tokyo and use the same recipe in a uniform fashion across the entire country. Instead, we consider it important give careful thought to the unique tastes in each region. We research thoroughly about the types of tastes preferred in different regions win support from customers for providing items that meet their needs. Recently, sales have rapidly escalated at SEVEN-ELEVEN HAWAII, INC., a result which we attribute passing on this policy from Japan and developing products that sufficiently incorporate the regional character of Hawaii.

Seven Premium private-brand products



● Discern changes early and transform them into major opportunities

Ito: Normally, the leading company in an industry avoids the risk of taking on new challenges. That is usually left to new companies that are just striking out, and once they have demonstrated a certain history of success, the leading company will take the safer, more efficient step of pouring in large-scale investments. But Seven & i Holdings has been at the forefront in creating innovative new products and services in a variety of fields and set the standards for the rest of the industry. I think this is wonderful.

Suzuki: Opportunities are generated from grasping changes in customer needs and the wider world at an early stage. For example, Japan's retail market is said to have a difficult future ahead due to the declining population, but the super aging society means the number of seniors is growing. Going forward, there is certain to be an increase in the number of one- and two-person households, which means a likely increase in the use of convenience stores as people want to avoid the bother of cooking. If that turns out to be the case, customers will be asking us to provide high-quality products paying rigorous attention to taste and nutrition.

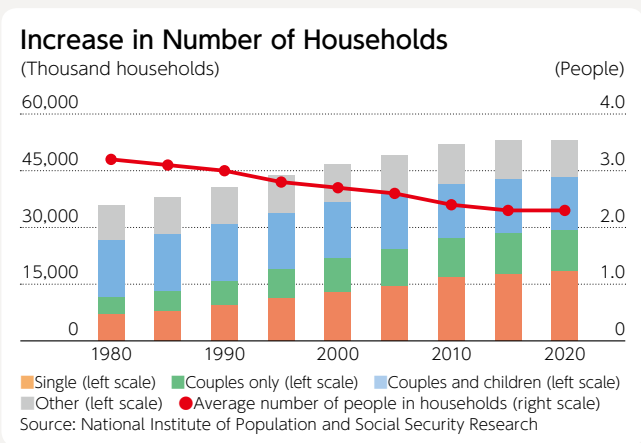
Ito: Depending on how you view it, change can be turned into opportunity. An ability to respond to change is an extremely important intangible asset. This is only my personal view, but generally there is a tendency for successful companies to be complacent. They think their products and services are wonderful and they stagnate by adhering to their existing business models. To put it another way, responding to change is a way to eliminate complacency. Seven & i Holdings has created new items that have astonished the market, while also sniffing out changes and breaking things up to in a sort of dynamic

metabolic process. Now, under Mr. Suzuki's powerful leadership, I think there is a considerable degree of execution from above, and I believe the challenge now lies in how to incorporate this into the organization and pass it on to future generations.

Suzuki: That's correct, and it is also extremely difficult to do. Even if the Group's individual employees each have remarkable skills, operating companies may adhere to entrenched past successful models that act as obstacles to change. For me, the biggest issue is how to break away from this situation. I think it will require us to implement bold measures and give the Group a variety of different incentives.

Ito: Changing perspective a little, from the point of global change, climate change and loss of biodiversity are significant issues. There are limits to how much individual companies can respond to such environmental changes. However, the impact that global corporations such as Seven & i Holdings can have on society is not insignificant, so it's crucial to seek cooperation from business partners and tackle the matter throughout the entire value chain. From that standpoint, because SEJ purchases its private-brand products and original products, such as rice balls and boxed lunches, from dedicated business partner companies, it can rigorously demand that business partner companies take the environment into account. Having a system enabling this sort of control during regular operations is an enormous strength.

Suzuki: I think that as a company it is important for us to remain focused on these kinds of social issues. The pace of change is accelerating and we must be able to respond from a variety of perspectives.



Ito: Another remarkable example of how Seven & i Holdings has anticipated change and responded is in promoting active roles for women. Recently, society has given greater focus to having female directors, but IY and SEJ have had female directors from as far back as 1993, so the Company has been proactive in this area from an extremely early stage.

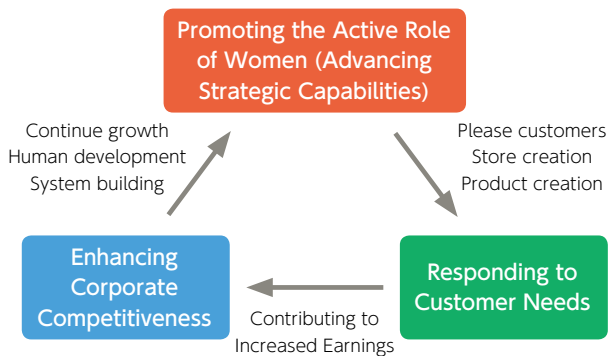
Suzuki: In the retail industry that we work in, around 70% of the customers are women. To enable us to think of things from the customer's viewpoint, it is perfectly natural to leverage women's perspectives and senses. Nevertheless, when I issued an instruction to the presidents of each company within the Group to each have at least two female directors, some showed an unwillingness, saying that their situation made it difficult to do that. However, when they eventually complied, an atmosphere in which it was perfectly natural to have female directors arose without prompting and those prejudices disappeared. Now, we have a ratio of female managers that exceeds 20% and some stores that are centered around female employees.

Ito: Speaking of another in-house initiative, at SEJ you personally hold meetings every second week with about 2,500 Operations Field Consultants (OFCs) from across Japan. Is this an attempt to disseminate awareness of responding to change?

Suzuki: OFCs are an indispensable link between franchised stores nationwide and the Head Office. Once the meeting had reached a certain size, there were suggestions within the Company to shift to teleconferencing as a way to reduce costs, but it is important to meet repeatedly in person to drive home the message. To thoroughly spread a policy Companywide, it is absolutely crucial to have direct communication, so we have kept the meeting the way it has always been.

Ito: This dialogue forms an important aspect of the engagement incorporated in your management. You gather the OFCs for continuous dialogue. From time to time the chair makes declarations. The OFCs take those declarations to the owners of franchised stores and engage in deep discussion ensuring that the Head Office policies and philosophy are thoroughly disseminated into every corner of the Company. In addition, when it comes to product development, you are also continuing detailed dialogue with business partner companies premised on your buying all of their production. I really sense that you are trying to build win-win partnerships with each stakeholder.

Cycle of Active Participation by Women



● Taking the lead in responding to change to achieve sustainable growth

Suzuki: Whenever I am asked what I am aiming for in the future and what I am going to do, I always respond that I have no idea what the future holds. If I knew that, I would have no struggles, but the reality is that it is impossible to predict the future. However, if you diligently continue to watch your customers it will enable you to anticipate changes that will happen in the near future, and responding to them earnestly is vital.

Ito: The expression “responding to change” covers quite a range, and in your case, Mr. Suzuki, I see that it means that you do not respond to change after it has happened, but instead are at the forefront, catching the scent of change as it arises and quickly moving into action. That sharpness of intuition is a significant strength for Seven & i Holdings.

Suzuki: You don't simply maintain the status quo. It is vital to always aim to change things so they are better in the future. Right now, we are moving ahead with the Omni-Channel Strategy. The Omni-Channel Strategy entails comprehensively handling all of the various products and services possessed by each Group company and providing customers opportunities to buy anytime, anywhere. About 10 years ago, we had the concept of integrating brick-and-mortar stores and the Internet, and from the first time I heard the words Omni-Channel Strategy, I thought, “This is for us!” The Omni-Channel Strategy is the pinnacle in retailing and the ultimate in customer service. If Group products can be obtained at even small convenience stores, it will enable those stores to function as alternative department stores. We will start with online orders that can be collected or returned at nearby Group stores, and I am convinced that we can provide new value that will please customers.

Ito: I think it is important to view the Omni-Channel Strategy as not merely a system but as the “ultimate in customer service.” In the past, Seven & i Holdings led the world in introducing POS (point-of-sale information management), which not only accelerated checkout speeds for customers and prevented irregularities, but also enabled extremely advanced individual product management, tracking the movement of each and product placing upcoming orders while verifying data, I think the basis

of this came from a desire to respond more accurately to customers' needs. In a similar way with the Omni-Channel Strategy, your order of priority has first been to consider the benefits for customers, and then to treat the strategy as a tool for achieving this. I think this is a distinctive characteristic of Seven & i Holdings.

Suzuki: Even with developing the Omni-Channel Strategy, the most important factor is, of course, product development. When SEJ started full-scale production of rice balls made from red rice, we spent one year making the pots to ensure that we would be able to create the ideal taste. The same applied to fried rice, but we completely withdrew the product because of complaints that it tasted different to what customers expected, we started all over again from development of the pots to make truly tasty fried rice. We can never betray customer expectations by giving them a product that does not taste good. This attention to quality, no matter what it takes, is a corporate culture that should continue forever.

Ito: Ultimately, I suppose this comes back to refining the brand. One imperfect product lined up in a store is sufficient to destroy a carefully cultivated brand. Temporarily halting production or sales can create a short-term loss, but protecting a brand is even more important than that. Summing up as best I can, Mr. Suzuki, I think you are practicing “ultimate reaction.” By catching the first scent of change in the air faster than anybody else and rapidly responding in an assured manner, you are increasing the likelihood of success. And you are supplementing with the pursuit of perfect quality. I believe sharing that sense and expertise with employees and business partners from all around the world will enable Seven & i Holdings to achieve long-term sustainable growth.

Suzuki: I believe that small changes in our daily lives can present us with new challenges. For those who will become the next generation of the Group, I would like to leave the idea of always seeing change as a chance to grasp an opportunity and taking bold action as our company spirit and corporate culture. Thank you very much, Mr. Ito, for taking time from your busy schedule to be here today.