

Business Strategy

Medium-term Business Plan

Targets for 2024

Based on our core value of “contributing to society and people,” we have set a vision for 2030 that looks ahead to a better world 100 years from now. We have positioned the three years that began with the fiscal year ended August 31, 2022 as a period of strengthening our foundation for this purpose, and set the following four priority areas (as stated in our medium-term business plan).

1. Create the finest and unrivaled products that are essential to daily life, and establish the processes of procurement and production.
2. Establish a community-based business model centered on independently managed stores and open new stores throughout Japan.
3. Develop organizational culture in which all associates work proactively, leading to the independent growth of each store, region and country.
4. Build the business infrastructure and headquarters functions to support independent store management and localization.

Operating revenue	Operating profit	Number of stores
JPY 700.0 billion	JPY 75.0 billion	1,300

For details of the medium-term business plan ▶ https://www.ryohin-keikaku.jp/eng/ir/ir_archive/mt_business_plan/

Fiscal Year Ended August 31, 2022

In the fiscal year ended August 31, 2022, which was the first year of the medium-term business plan, we worked to build our business foundation by ramping up store openings in Japan and overseas, strengthening our organization and developing human resources on the frontlines at stores. However, issues still remained in the areas of enhancing product competitiveness and profitability.

As we accelerate the pace of store openings going forward, it will be important to stably manufacture and supply products at appropriate prices while maintaining product quality and keeping environmental issues in mind.

Furthermore, employee independence is the key to carrying out the medium-term business plan. We will achieve sustainable growth by focusing on shifting from a centralized, administratively controlled organization to an autonomous decentralized organization, and by incorporating diverse values to revitalize our corporate culture.

Operating revenue	JPY 496,171 million (9.4% increase year on year)
Operating profit	JPY 32,773 million (22.8% decrease year on year)
Ordinary profit	JPY 37,214 million (18.0% decrease year on year)
Net income attributable to owners of parent	JPY 24,558 million (27.6% decrease year on year)

Issues

- Products

•Production system and cost structure
- There has been a delay in revamping, updating and switching to concepts attuned to the times.
The operating gross profit margin has declined due to the rapid depreciation of the yen and rising transportation costs, in addition to tough conditions for apparel sales.
- Weakening recognition

•Store earnings structure

•Persistent high expenses

•ESG promotion
- The percentage of customers who buy single items is high, and MUJI is not recognized as a total lifestyle support brand. Our appeal to young people is weak.
Due to insufficient product competitiveness, sales per square meter are weak at all stores and profits are in a slump.
High expenses for warehousing, distribution, system operation and other areas require structural reforms.
In our core operations, we have not been able to thoroughly incorporate ESG in every stage of our product development to establish a business with an impact. We have yet to achieve a structure in which localization activities are reflected in store earnings.

Six Core Themes for the Fiscal Year Ending August 31, 2023

1.

Strengthen product competitiveness → Page 29

We will enhance the production and product development teams for both apparel and household goods to strengthen product competitiveness.

Product development will be oriented toward high-quality standard products that have been perfected by refining them to their essential elements, and products that embody the concept of “lower priced for a reason” by assimilating insights from lifestyles around the world

We will think outside the box to develop and provide products that help resolve social issues and improve the global environment the more customers use them in their daily lives.

2.

Increase involvement in production → Page 37

We will minimize costs by building an efficient production system centered on the Development & Production Division, which was established in September 2021. The system is tailored to the convenience of producers, which will include direct transactions with factories, a shift to local development and production, and leveling of production volumes.

We will enhance human resource training with the aim of raising the ratio of direct transactions with factories from 20%-30% in the fiscal year ended August 31, 2022 to about 80% by August 31, 2024.

3.

Enhance marketing activities for products → Pages 31, 33 and 35

We will ramp up advertising for individual products. For existing products that are competitive but whose value has not yet been conveyed to consumers, we will work to help consumers discover that value through various initiatives including communication via social media.

4.

Establish a store network and new channels → Page 41

We will open 600 *tsubo* (approx. 2,000 m²) stores, mainly next to supermarkets, at a rate of 100 stores a year in Japan. We aim to make these stores useful in daily life by devoting more floor space to daily necessities. We will also expand our store network and sales channels independent of our own stores through measures including establishing MUJI corners at convenience stores, via consumers’ cooperative store home delivery services, and inside supermarkets.

5.

Enhance operations → Page 53

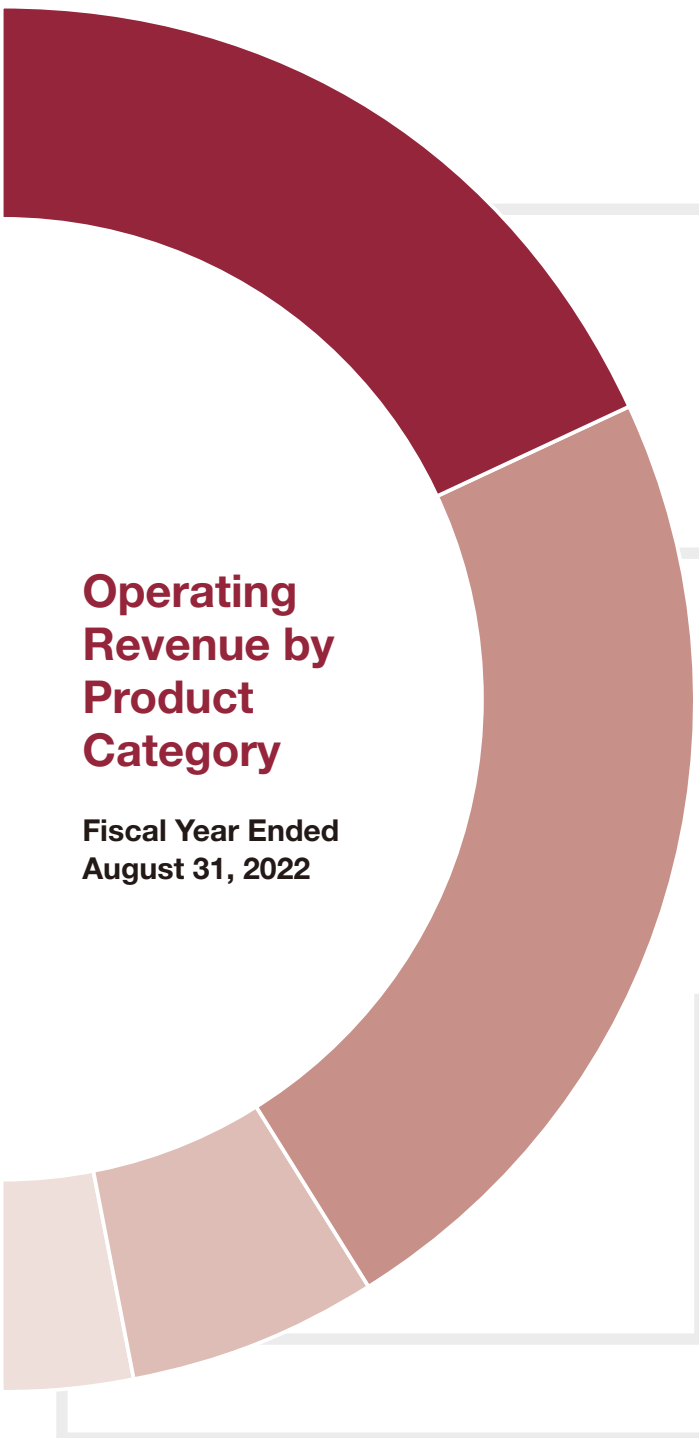
Ryohin Keikaku will enhance development of human resources and the operational capabilities of its stores and headquarters to underpin employee management of individual stores. Efficient standardized operations, a solid business infrastructure and robust store support capabilities will enable employee management of individual stores. As we work to raise employee awareness through human resource development, we will concurrently strengthen our IT infrastructure and consider new ways of operating stores.

6.

Make ESG the core of our business → Page 57

We will promote ESG in our core business of product development and retailing. Specifically, we aim to develop products for a better environment (E) and society (S), and to establish a governance (G) structure that goes beyond our existing corporate framework. In addition, in cooperation with the government and various stakeholders, we will conduct businesses in areas including healthcare, agriculture and food using our stores, and the utilization of unused local resources.

A Lineup of Products That Are a Part of People's Daily Necessities



Apparel

⇒See page 31 for details.

Operating Revenue **JPY 182.7 billion**

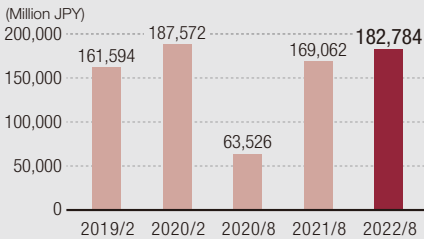
Composition **36.8%**

Main Products

- Womenswear
- Menswear
- Shoes, bags and accessories
- Children's clothing
- Innerwear and loungewear
- Socks, stockings and leggings
- MUJI Labo
- MUJI WALKER
- Clothes based on tradition and insight



Operating Revenue



Household Goods

⇒See page 33 for details.

Operating Revenue **JPY 232.7 billion**

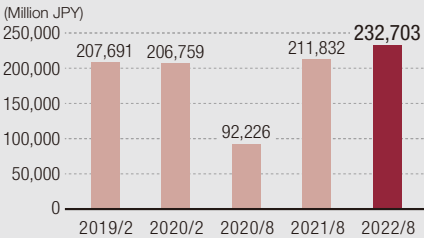
Composition **46.9%**

Main Products

- Cosmetics and beauty care products
- Aromas and room fragrance
- Stationery items
- Albums, office storage and cases
- Kitchen utensils
- Furniture
- Tableware and cutlery
- Home appliances and lighting
- Bicycles and tricycles
- Pet supplies
- Storage items and storage cases
- Bed linen
- Towels, bath and toilet supplies
- Cleaning and laundry supplies
- Potted plants and gardening items
- Found MUJI



Operating Revenue



Food

⇒See page 35 for details.

Operating Revenue **JPY 59.9 billion**

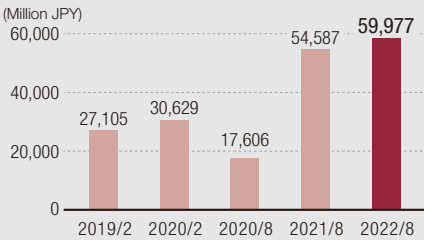
Composition **12.1%**

Main Products

- Retort pouches, canned foods and seasonings
- Frozen food
- Confectionery and confectionery ingredients
- Tea leaves and beverages



Operating Revenue



Note: Due to the change in fiscal year, 2020/8 covers the six-month period from March 1 to August 31, 2020.

Other

Operating Revenue **JPY 20.7 billion**

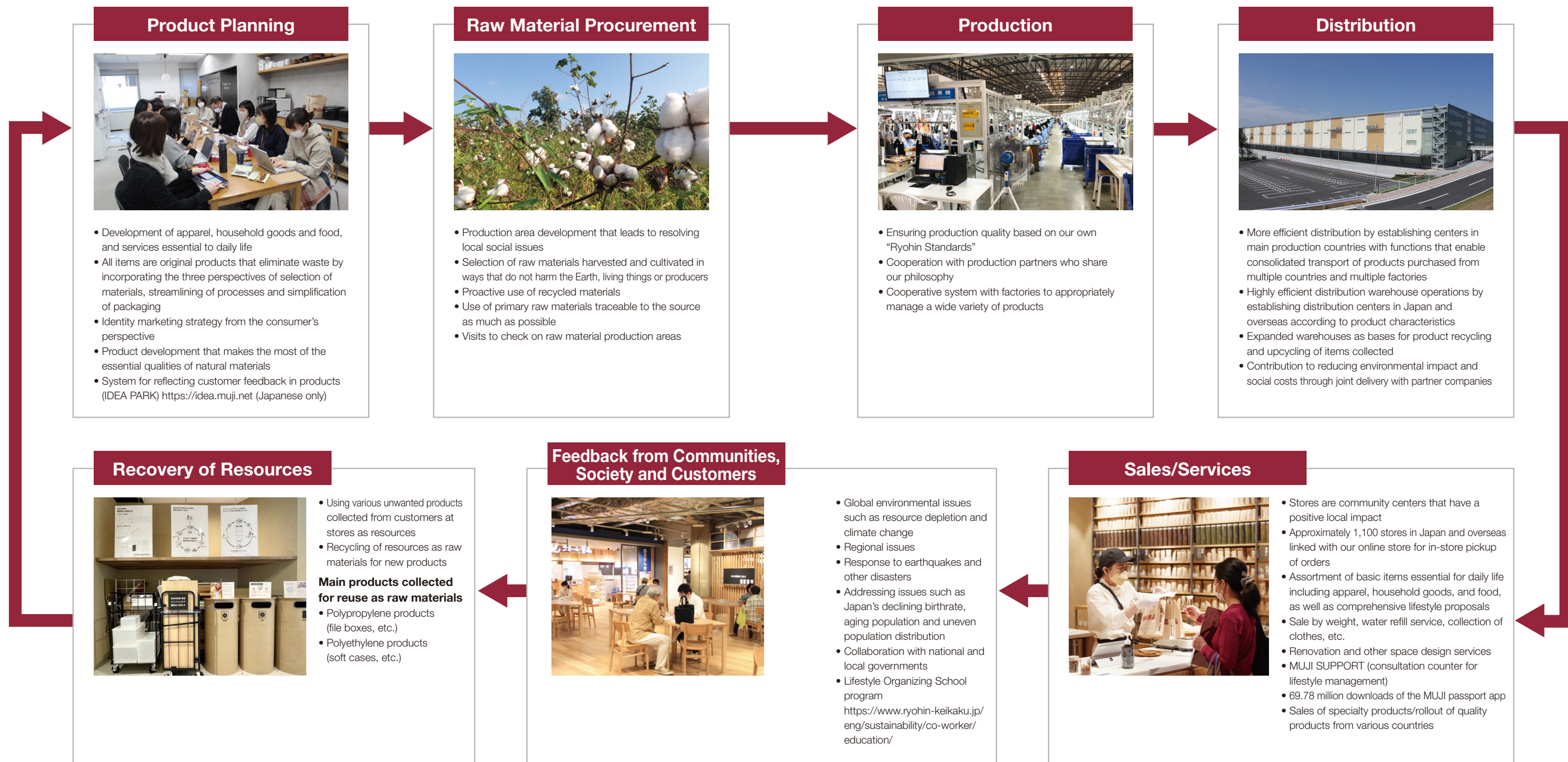
Composition **4.2%**

Main Businesses

- MUJI HOTEL
- Café&Meal MUJI
- Campsites
- Space design business
- IDÉE



Ryohin Keikaku's Unique Product Development



Products That Make the World Better the More Customers Use Them: The Concept behind Ryohin Keikaku's Product Development Going Forward

We want to develop and offer MUJI products and services that are useful in daily life and available worldwide, and that reduce environmental impact and help to resolve social issues as more people use them. However, this kind of product development cannot be done by Ryohin Keikaku alone. All of our stakeholders, including suppliers, customers, local communities, governments and employees, who empathize with MUJI's approach and product development philosophy, are free to participate in this process and share their opinions and ideas. This co-creation leads to products with new value. MUJI intends to be a forum for this kind of open innovation. In addition, when our customers

return used MUJI products to the store rather than throwing them away, they are recycled as raw materials for new products. Items that were previously incinerated as garbage become resources when brought back to MUJI. We want to work with our stakeholders to build communities that enable society as a whole to lower its burden on the global environment, reduce consumption of natural resources, recycle resources, and generate innovation. We will conduct planning and development that thoroughly incorporate this approach in MUJI's wide-ranging product lineup of items essential to daily life in the areas of apparel, household goods and food.

Basic Policy and Strategy

Ryohin Keikaku will fundamentally reform its apparel business by going back to the basics.

We will return to the fundamentals of product development—selection of materials, streamlining of processes and simplification of packaging—to renew our commitment to developing no-frills, quality products. This will include selecting materials that take the environment and producers into consideration, eliminating waste in all processes, and providing customers with what they need, in the form they want.

Recognition of Issues

- Slump in planning and development capabilities resulting from adherence to a stereotyped concept of MUJI
- Weak appeal and low level of recognition of apparel
- Unrealistic goal setting
- Expansion of sales price reductions due to lower stock liquidation rate

Key Initiatives

• Redefine MUJI apparel

Apparel sales in recent years have been weak due to a continued inward-looking approach to product development that has resulted from adherence to a stereotyped concept of MUJI. We will therefore go back to the basics to develop products that people of all ages can wear routinely and that are “essential to daily life.” Specifically, we will review sizes and patterns (fit and shape), streamline our range of similar items, and improve the performance of individual items to expand our lineup of authentic standard products that many people will use regularly for years to come.

• Innovate the product development system

We have revamped our product planning team for apparel by bringing in experienced talent with a track record from outside the Company as designers and directors, as well as by appointing numerous former salespeople in their 20s and 30s from inside the Company. We are utilizing the opinions of young employees with firsthand experience of customer requests and complaints at stores to build a system for commercializing apparel without stereotyped preconceptions about what MUJI should be.

• Strengthen and enhance appeal

Our range of apparel, household goods and food is extensive and the number of single-item displays is large, and this may have hampered our ability to convey the value of our apparel products. We will therefore significantly change our product displays and switch to a method that offers coordinated styling proposals using full-body mannequins to provide an image of the products when worn. We will also work to increase recognition by stressing the value of MUJI apparel in our pamphlets and digital communication.

• Strengthen the production system for timely and sufficient product supply

Clearance of unsuccessful apparel items entails significant price reductions, which has worsened profitability. We will revamp our product development system and work to understand customer opinions and needs to enhance our lineup of authentic standard products with value. To do so, we will establish a system that allows us to control all stages from product development to production and procurement in-house. This will enable us to produce or procure the optimum amount from the best factory at the right time, and supply it to stores.

Improving Products by Going Back to the Basics

Warm Cotton Innerwear Series

The first offering in our upgraded apparel lineup is the *Warm Cotton* series of innerwear, which was launched in October 2022. Generally, thermal underwear is mainly made from synthetic fibers. However, we rejected the preconceived notion that synthetic fibers offer better performance than natural fibers and focused on cotton, which MUJI has been using as a material in its apparel for many years.

Use of a special technology that increases the number of molecules that bind to sweat and moisture beyond that of ordinary cotton further enhances cotton’s inherent ability to absorb moisture and keep in heat. Our products allow a greater number of people—from people whose skin reacts negatively to synthetic fabrics to those who just prefer natural fabrics—to enjoy these benefits without worry.



Message from the Executive in Charge

We will fundamentally rethink product development from an ESG perspective to refine our standard products and create sales floors that appeal to a wider range of customers.

Switching to a Product Mix Aimed at a Wider Range of Customers, Beyond Our Core Fans

The clothing industry in Japan is currently facing very difficult conditions brought on by high raw material prices, rising energy costs, and the impact of the weak yen. Taking a longer view, companies that lack a competitive advantage will continue to be weeded out, and only small and medium-sized niche companies and global companies will survive. In that context, ESG initiatives will play an important role in achieving differentiation from competitors. In developing products that reduce environmental impact, use materials that help the environment and resolve social issues such as poverty, we will continue to delve deeper into the basics of product development by focusing on selection of materials, streamlining of processes and simplification of packaging. In addition, we will control costs so that we can offer products at affordable prices.

Over the last few years, we have leaned on niche product lines aimed at people who are deeply interested in fashion and core fans of the MUJI brand—for example, by selling four types of t-shirts that are hard to tell apart at first glance. Going forward, we will make improvements to our product mix and create sales floors that appeal to a wider range of customers, focusing on products essential to daily life. This will include minimally processed denim, the *Warm Innerwear* series that is made from natural fibers and features superior warmth retention, a lineup of merino wool sweaters available in different thicknesses to suit various situations, and down made from recycled nylon fabric that is thick yet light enough for wearing as an extra layer.

Development of High-Quality, ESG-Friendly Standard Products Helps Improve the Manufacturing Process

As a medium- to long-term initiative, we are making plans to create high-quality standard products designed for the times.



Satoshi Okazaki

Senior Executive Officer
In charge of Apparel Merchandising Division, Resource & Development Division, and Production Division

To dispel the “outdated” and “unfashionable” image of our standard products, we will focus on developing products that can be easily coordinated to suit any occasion, and creating sales floors that convey that message to customers. We are already redesigning sales floors—for example, by switching from merchandise displays with a single item to displays that show coordinated outfits with full-body mannequins. We are also considering opening apparel specialty stores.

Perfecting our line of standard products will also allow us to improve the manufacturing process. Until now, we have placed manufacturing orders on a spot basis at Ryohin Keikaku’s convenience, but standardizing production and sharing ordering schedules with factories will enable lower prices and streamlining of production. Since we will insource some production work that was previously outsourced to trading companies and factories, we are now recruiting designers, pattern makers and production management staff to bolster our organization.

Building a Supply Chain Unique to Ryohin Keikaku

Our focus on regional development includes a commitment to fabric development, which we believe will help to resolve social issues in production areas. One such initiative we are focusing on is the development of kapok,* a natural material with little environmental impact. Kapok had been considered difficult to commercialize, but we will begin industrial production of it, starting in Indonesia. (See pages 39-40 for details on procurement.)

In addition, MUJI has built its brand image around using natural materials, but in some cases, it may make more sense to use synthetic fibers, depending on regional characteristics or the intended use, such as eliminating the need for ironing. Therefore, we are returning to our three principles of product development, and will work to develop new materials and production areas.

* See page 40 for more details.

Basic Policy and Strategy

In the household goods business, we will review all existing products and redefine what MUJI should be in the coming era. Our aim is to enrich the lives of our customers through our products. We will determine whether our products are truly useful and necessary in daily life by looking at our ideology and philosophy.

Recognition of Issues

- Strengthen product competitiveness by refining mainstay products
- Develop products from the perspective of addressing contemporary lifestyles and social issues
- Establish a new business structure to increase profitability

Key Initiatives

• **Do away with fixed ideas and rebuild our lineup of daily products for the current era**

Our way of thinking about what MUJI should be has become fixed, and our product planning and development have gotten out of sync with the consumer's point of view. MUJI has a wide selection of apparel, household goods and food products. However, many items still do not meet our goal of "creating the finest and unrivaled products that are essential to daily life." We will once again review our product mix from the consumer's viewpoint to create a complete lineup of essential items.

• **Create an organization that can rebuild product development capabilities**

MUJI's product development begins with a keen sense of social issues and incongruities. As our own most demanding customer and critic, we will not hold back in coming up with ideas and identifying the kind of products that can help resolve the issues we identify. First, we will strengthen training of mid-level employees, who are passing down MUJI's heritage, and young employees, who have gained a sense of the issues we face through interactions with customers at stores. In addition, we will ramp up hiring for positions without specified duties. We aim to create an organization in which external human resources with knowledge and experience and experienced store managers cooperate and bring out the best in each other in conducting product planning and development.

• **Cross-merchandising and raising recognition**

Many customers come to MUJI to purchase a specific item—whether it be curry, cosmetics, socks or another product—and are often unaware of our selection of other items. We therefore intend to increase awareness of our product rollouts and ramp up cross-merchandising. Our initiatives include opening MUJI 500 stores that specialize in daily necessities and other lifestyle essentials, and stores specializing in personal care centered on skin care, as well as rolling out products tailored to the seasons or specific everyday situations.

• **Create unique spaces that leverage our strengths**

Ryohin Keikaku's strengths are its philosophy of contributing to society through its products and services, and its creation of products from the consumer's point of view to realize that philosophy. Going forward, we aim to establish a unique position where MUJI can leverage these strengths. We will assemble a lineup of highly specialized products that incorporate insights from around the world, local cultures and other features to co-create unique spaces that serve as community centers together with people from local stores, farms and other companies.

Product Development Committed to Essential Qualities and Value

Light Toning Water

Light Toning Water, which was launched in 1997, sought to offer the very essence of skin care. Its simple image and reasonable price made it the antithesis of the cosmetics industry of the time, when sales focused on the high-price range.

Because water is the indispensable core ingredient of skin lotions, we were committed to water quality in creating skin care products. This approach led us to natural spring water from a cave in a former mine in Kamaishi, Iwate Prefecture, which has few impurities and is also used as drinking water. We paid special attention to the intrinsic functions and ingredients of skin lotion so the product could be used by as many people as possible. Recently, the simple and unadorned bottle design has gained support from men as well as women, and the lineup is expanding. We are also working to reduce the amount of plastic used with eco-friendly refills and lighter, thinner containers.

Today, *Light Toning Water* has become a quintessential MUJI product, but it was a minor item when it was first launched. Our development team insisted on breaking through fixed ideas to create a product committed to essential qualities and value. We will recall this spirit for use in developing household goods going forward.



Message from the Executive in Charge

While staying true to Ryohin Keikaku's philosophy, we will go beyond existing frameworks to deliver new value based on the changing perspectives of consumers.

Polarization of the Value of Buying Things Is Accelerating, and People Are Becoming More Cautious about How They Spend Money

In recent years, rising prices and other changes in the economic environment, as well as increasing awareness of environmental and social issues, have led to changes in people's values and decision-making criteria in consumption. Increasingly, we are seeing polarization between people who only care about low prices and those who want to buy good products and use them for a long time. I feel that people are becoming more cautious overall about how they spend money. In that context, Ryohin Keikaku's concept of a consumer-oriented perspective and environmentally friendly design meets the needs of people who want to use items for a long time.

On the other hand, other companies share a similar consumer-oriented perspective, and are strengthening their product development to manage costs. To embody the Ryohin Keikaku philosophy and continue to be chosen by customers, we must conduct product development that goes beyond what our existing products offer. In addition to offering functional and affordable products that are also well-designed, as a company that sells merchandise, we are committed to developing products that are long-lasting, won't be thrown away, and have low environmental impact. We will work to communicate that commitment more effectively.

Evolving into a Collection of Specialty Shops with a Product Lineup Narrowed Down to Items That Are Necessary and Sufficient

From a medium- to long-term perspective, we need to build a position that is unique to Ryohin Keikaku. That role will be filled by stores that offer just the right quantity of products essential to daily life, and also provide a highly specialized assortment of merchandise. These stores will ultimately narrow their selection



Asako Shimazaki

Senior Executive Officer
In charge of Household Merchandising Division

down to items that are needed in everyday life, while offering a highly specialized assortment for each product. In the stores, sales floors will be designed so that fast-moving products used every day are easy to find, enabling quick and stress-free shopping. As for the scenes of dining, sleeping and housework, we will create sales spaces that bring together unique products based on the wisdom and local cultures of the world.

We believe MUJI can provide the best of both models: stores that are useful in everyday life while also offering an exciting combination of specialized products. To achieve that, we intend to reinvent MUJI's identity with a product lineup that meets those expectations—environmentally friendly products sold at reasonable prices that are even more satisfying when customers use them. We will complete our lineup of everyday products by the end of August 2023. We are also reviewing current products as another key initiative.

Besides lowering prices, we listen to customer feedback every week on whether the product is sufficiently easy to use, and what their needs for the product are. This enables us to make improvements to basic products and raise their value. By implementing the above two initiatives, we will broaden our product lineup.

Creating Value Unique to MUJI

One of our advantages is the relationships of trust we have built with customers through our products. For example, the market for skin-care products, towels, bedding and other items that come into contact with the skin have high barriers to entry. But because we have many fans who relate to Ryohin Keikaku's philosophy and approach to product development, we have been able to offer products in all categories of food, apparel and household goods. This includes many products that people put on or in their bodies. Based on that trust, we will refine our product development with a focus on the essentials to make MUJI an integral part of everyday life.

Basic Policy and Strategy

Food accounted for approximately 12% of Ryohin Keikaku’s operating revenue in the fiscal year ended August 31, 2022, and we aim to increase this ratio to 30% by 2030. To do so, becoming the first choice in the field of food is key. Rather than simply increasing product variety, we will increase the number of typical MUJI products in each category for a lineup that will make people automatically associate MUJI with certain products when deciding their meals each day.

In addition, since agriculture is often the core industry in rural areas, food also plays a major role in Ryohin Keikaku’s vision “to take root in local society.” We will also spearhead localization efforts through initiatives including opening stores that handle fresh food direct from the farm and sales of unsorted apples.

Recognition of Issues

- The stories behind our products are not being sufficiently communicated, and repeat purchases of basic items have decreased.
- There have been no changes in store presentation, and new and seasonal products go unnoticed.
- Our production system cannot maintain appropriate supply, and cannot keep up with short-term spikes in demand for some products.
- There have been delays in developing new products that can take a place alongside mainstay products such as curry and baumkuchen.

Key Initiatives

• Create incentives to visit stores

One of MUJI’s strengths is as a forum capable of communicating the message behind its products. This message can include the story of the product itself or the lifestyle the product offers. By enhancing in-store promotions highlighting products that use seasonal ingredients and new menu proposals for individual food products, we hope to encourage customers to visit our stores. Once in the store we can then focus on conveying the messages behind our products. For our regular assortment of products, we will devise strategies such as creating seasonal variations, avoid making random increases in the number of products, and delight customers visiting our stores.

• Added value of Ryohin Keikaku quality

One of the three perspectives underlying MUJI’S product development is selection of materials. This involves consideration for both the global environment and the producers of our products, and the elimination of waste in all processes. To this approach we will add “learning from the food cultures of the world” to provide customers with what they actually need, in the form they actually want. Rather than following trends, we conduct product development that consistently takes our customers’ viewpoint into account in providing them with what they truly need. We also emphasize balancing value and price. Customers do not simply want low prices from MUJI, so we are particular about the materials we use to maintain MUJI quality. In the fiscal year ending August 31, 2023, we are emphasizing the changing seasons in developing new products that follow on from our current mainstay products, with a focus on foods in new categories, such as chilled confectioneries and drinks that use seasonal fruits.

• Work to take root in local society

We believe that food and agriculture will be a major theme for the development of the food business. We will expand sales channels to deliver little-known regional specialties and fresh foods that are not widely available to customers throughout Japan. We will also promote home delivery through consumer cooperative stores and the establishment of MUJI corners in convenience stores and supermarkets, and cooperate with local governments to develop a farm-linked manufacturing and retail business.

Product Development That Opened a New Market

Takikomi Gohan no moto (seasoning for mixed rice)

To make Ryohin Keikaku a part of people’s daily necessities, developing food products that people eat every day is important. One such product, for which Ryohin Keikaku’s market share is increasing, is *Takikomi Gohan no moto*.

Although the market scale for *Takikomi Gohan no moto* is not large, demand is steady because it is easy to prepare and enjoy. Ryohin Keikaku developed this product with the objective of offering easy and delicious everyday meals, and launched three variations in 2002: paella, curry pilaf and chicken pilaf. The development concept was to make the most of the flavor of the ingredients so that anyone could prepare a delicious meal. In 2010, a series of improvements led to the product’s current configuration, in which the soup stock is packaged separately from the other ingredients. As of August 31, 2022, the line has been extended to 14 items, and the market share has grown to 13%.

During 2023, we launched *Maze Gohan no moto*, which can be prepared by simply mixing it with cooked rice, and *Takikomi Okowa no moto*, which is a combination of glutinous *okowa* rice and other ingredients. We will continue to develop products that offer convenience and deliciousness in daily dining.



Message from the Executive in Charge

We are aiming for the top mindshare in specific categories to provide “truthful and sustainable food.”

Focus on Familiar Foods Rather than Trends

At Ryohin Keikaku, we believe it is important to focus on tastes that are familiar to people in the region where we sell, rather than keeping up with the latest trends in the food market. In fact, a survey of tens of thousands of people showed that the foods that are eaten most often are not trendy foods, but familiar foods. In Japan, for example, our approach to developing products for daily life is to provide foods such as deep-fried chicken, ramen and udon noodles with a high level of quality. Blindly following trends is not what Ryohin Keikaku is about.

We need to imagine what is necessary for customers in terms of supporting their daily life, and keep an eye on what is happening in the market. Rather than just expanding our product lineup, we believe that improving flavor and convenience and telling MUJI’s unique story will lead to a better response from customers.



Hirotaka Takahashi

Senior Executive Officer
In charge of Food Merchandising Division

To increase the number of categories we are strong in, we still need to improve our products. To do that, we will create good products by not only strengthening our in-house capabilities, but also by taking advantage of external resources. Our role is to put together teams of excellent manufacturers to create products based on new ideas.

As a concrete measure, we will first create an annual development plan, and thoroughly execute basic initiatives such as process management. In addition, we will release products for each season, such as a tea that uses cherry blossoms in spring, to achieve the number-one mindshare in the seasonal products category. Once we establish what needs to be done in each “season,” it will naturally become clear what we should do at any given time. This will help us to work more efficiently.

Offering New Dietary Value by Telling the Product’s Story Rather than Just Selling Delicious Items at Low Prices

I have been involved in various food retail businesses, including supermarkets and convenience stores, but I believe that a key point that differentiates Ryohin Keikaku is that MUJI products have a concept and story behind them, and our stores serve as a place to convey that story. In that sense, it is meaningless for Ryohin Keikaku to handle food products if we are only selling delicious items at low prices.

We are also particular about respecting traditional wisdom and the origin of ingredients, and will combine food and agriculture, local production for local consumption, refrigeration technology and other elements to achieve quality that is not mass-produced. By conducting promotional activities that encompass telling the story of our products and proposing new styles of eating, we will offer new dietary value in a way that only MUJI can, and contribute to “truthful and sustainable food.”

Procurement and Production

Basic Approach: Be Useful

In keeping with Ryohin Keikaku's core value of "contributing to society and people," we are seeking to be a part of people's daily necessities. To accomplish this goal, we are also reviewing our procurement and production processes, focusing on natural materials that are good for people and the environment, and that are part of a highly ethical and transparent supply chain.

Procurement Policy

We work to select raw materials that are collected and cultivated in a way that does not impose an excessive burden on the Earth, animals and plants, and producers.

Furthermore, for primary raw materials, we use materials that can be traced back to the production area as much as possible, and above all, we actually visit the production areas to check with our own eyes the conditions of collection/cultivation sites of major raw materials and the lives of producers.

Recognition of Issues

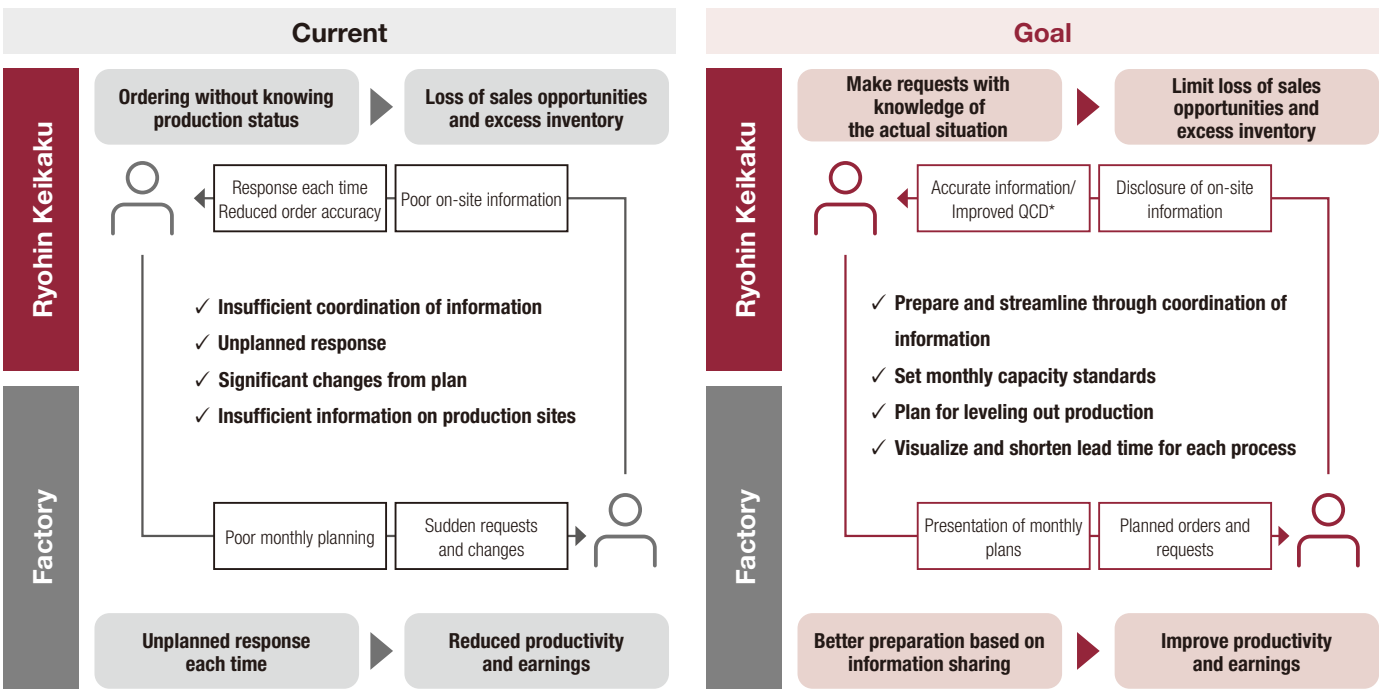
Because we currently request production whenever we need a specific item, production scale in the busy season and off-season differs sharply, resulting in lower cost efficiency. We therefore strive to improve cost efficiency by creating medium- to long-term sales plans and communicating with producers.

Production Process

Leveling and Reinforcing Production throughout the Year

Ryohin Keikaku is increasing direct transactions with the factories of its production partners and exerting greater control over production and procurement functions and personnel. We create production plans based on a medium- to long-term sales plan, then work to level production and make it more efficient through direct communication and collaboration with production partners.

This will reduce the unnecessary costs we previously incurred.



* QCD: Quality, cost and delivery

Establishing Global Procurement and Production Processes

Until now, Ryohin Keikaku has planned and developed almost all of its products at its headquarters in Japan, and sold the same products at MUJI stores worldwide. In addition to this shared global product lineup, we will establish a system in which operating and sourcing companies outside Japan conduct product planning, development and procurement that reflect local consumer needs and specifications. This will enable us to be a part of people's daily necessities and address needs that differ by country and region around the world.

Contributing to Economic Development of Production Areas through Procurement and Production Processes

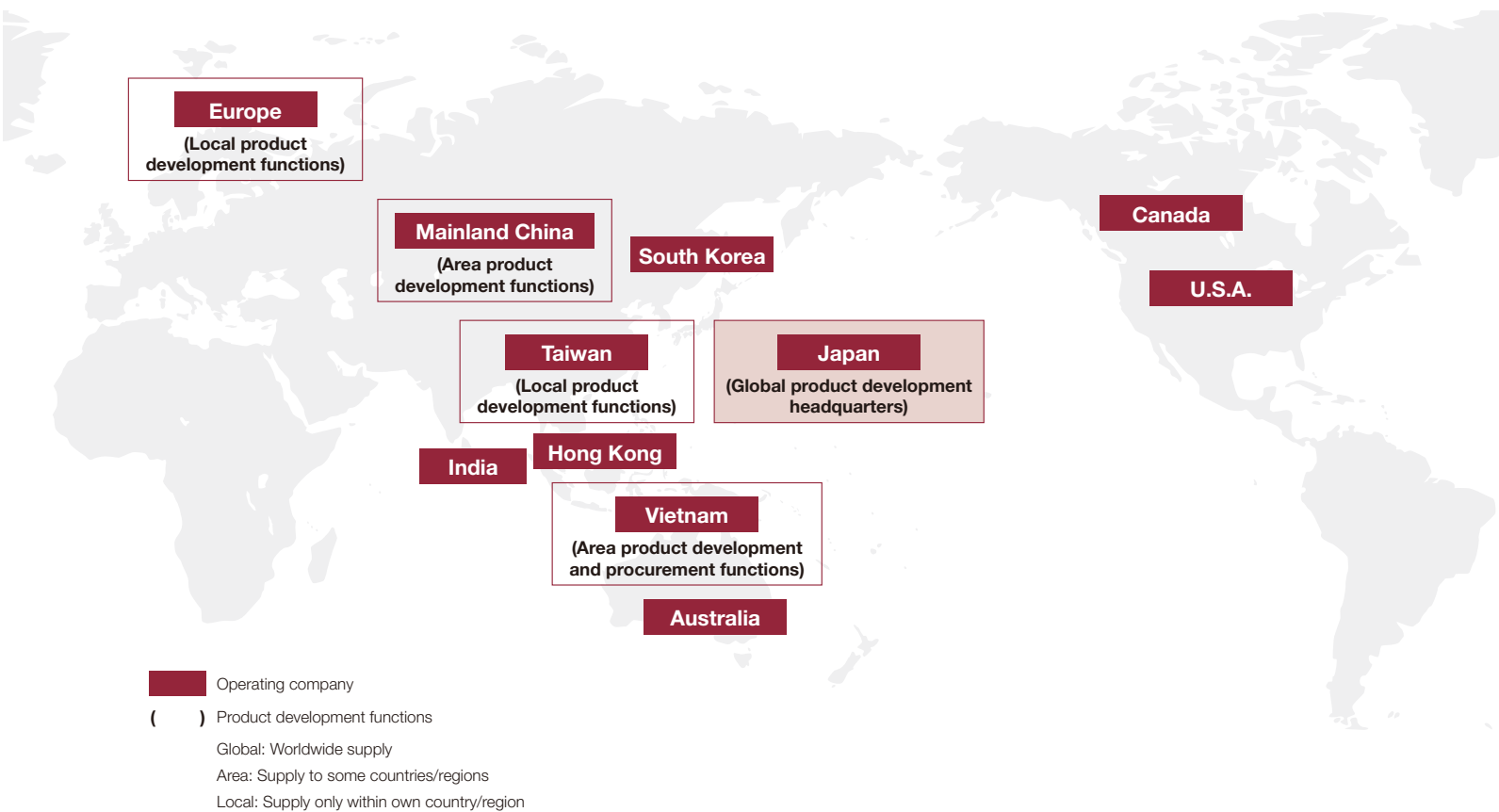
Ryohin Keikaku aims to contribute to the economic and industrial development of areas where our products are produced through the establishment of global procurement and production processes. We regard our expenditures for manufacturing products as not just a business expense but also an investment in local economic development. Factories that properly generate profits, create employment, and reinvest funds can expand in scale and improve efficiency, thus contributing to the development of the local economy. We therefore intend to increase direct transactions with factories operated by local managers.

Rethinking Product Development from the Manufacturing (Factory) Perspective

In developing products, we consider the production process in depth. By rethinking product planning and other processes from the perspective of the factory that will manufacture the product, we are able to increase efficiency and reduce costs. By devising different sizes and designs and utilizing the raw materials and equipment on hand, we can create the best products without wasting resources or energy. Coming up with ways to accomplish this is a great source of creativity. Going forward, we will take the manufacturer's perspective into consideration and creatively rethink what we do.

Developing Products in Each Country

Until now, we have mainly supplied products developed in Japan to overseas operating companies, but we are also accelerating product development in mainland China and Vietnam, and ramping up and expanding supply in each country.



Selection of Materials

MUJI selects eco-friendly materials that have ethical significance in consideration of the global environment, animal welfare and society. By increasing the procurement of such materials, we will contribute to the creation of a resource-recycling, ecological and sustainable society.

Since its establishment in 1980, MUJI has continued to create products with a focus on three perspectives that take the global environment and society into consideration: selection of materials, streamlining of processes and simplification of packaging.

Because we use various materials from all over the world, we consider reducing our impact on the natural environment and its living beings to be a critical issue, and we aim for sustainable material procurement. Moreover, we are aware of the impact our business activities have on ecosystems* and collaborate with producers, local authorities, and communities to minimize such effects and protect the environment. We will continue to procure materials responsibly by considering the people who use them, the people who make them and how they interact with nature.

* See page 63 for details.
Basic Approach to Biodiversity ▶ <https://www.ryohin-keikaku.jp/eng/sustainability/environment/biodiversity/>

Natural Materials

Plant Fibers

• Cotton

At MUJI, organic cotton, certified cotton, and recycled cotton are considered eco-friendly materials.

Cotton can only be called organic if it has been grown from seeds without genetic modifications that could affect the ecosystem. The seeds must also have been planted in healthy soil where chemical pesticides and chemical fertilizers have not been used for at least three years. In 2021, we began making donations of organic cotton seeds to increase production on a trial basis.

Recycled cotton is made by sorting scraps left over from cutting cotton fabric for clothing rather than disposing of them, then breaking them down into cotton fibers and mixing them with virgin cotton.



• Linen

Linen is made from flax, a plant with a low environmental impact that can be cultivated with small amounts of pesticides, fertilizers and water. In addition to its fibers, the entire flax plant can be used effectively without waste, from its seeds in linseed oil to its stems and roots in building and agricultural materials. Other benefits of flax include its rapid growth and efficient absorption of CO₂.

MUJI uses organically grown linen for some of its products. MUJI's organic linen is made from flax grown on farms watered by melting snow and that have few pests.



• Hemp

Hemp is said to be the world's oldest cultivated crop, and its fibers have been used in Japan since ancient times. Hemp seeds are used in foods, oils for cosmetics and other applications. Hemp hurds have a variety of uses including in construction materials and automobile interior parts.

In addition, hemp is a plant that can be cultivated using very little fertilizer or water and has a low environmental impact because it grows very quickly, absorbs CO₂ efficiently, and requires almost no pesticides due to its resistance to pests and diseases. As a fabric, it has excellent breathability, absorbs and releases moisture well, and is durable and dries quickly. It is also highly regarded for its natural antibacterial properties and UV blocking effect.



• Jute

Jute has long been used for grain sacks, rugs and other items that make use of its characteristic high durability.

Cultivated mainly in hot, humid wetlands in the tropics and subtropics that are unsuited to agriculture, jute grows very quickly and, like hemp, absorbs CO₂ efficiently. It can be cultivated using very little fertilizer or water and has a low environmental impact because it requires almost no pesticides due to its resistance to pests and diseases.



• Kapok

Kapok is a plant fiber made from the seed pods of the kapok tree. Main production areas are Indonesia, Thailand and India. Kapok trees require almost no pesticides, fertilizers or watering, and absorb a large volume of CO₂ as they grow to great heights. Because it is not necessary to cut down the tree to harvest the seed pods, kapok is attracting attention as a material with very low environmental impact.

The hollow center of the kapok fiber is a characteristic that makes kapok the world's lightest natural fiber. Kapok fabric keeps the wearer comfortable by absorbing moisture for warmth when the weather is cold, and releasing moisture when the weather is hot.



Animal Fibers

• Down

For our down, we only use feathers that have been rigorously screened and certified by a third-party organization to ensure that the Five Freedoms of Animal Welfare* are respected in the breeding environment, and that the birds have not been force-fed or live-plucked. In selecting materials, we consider not just their performance, but also the people who use them, the people who make them and how they interact with nature.

* See page 91 for details.



• Wool

We use only wool from non-mulesed* sheep that have been raised humanely and naturally. Recycled wool, which is important in terms of eliminating resource waste (a stance we have adopted since our founding), is made by shredding wool products that have been disposed of or collected for this purpose and then spinning the fabric back into yarn. Benefits of recycled wool include a deep hue from its mixture of multiple colors and a rustic texture. With the intention of building a better relationship with nature, we are doing what we can to recycle the Earth's resources and reduce waste.

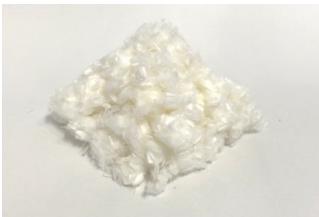
* See page 63 for details.



Regenerated Cellulose Fibers

At MUJI, lyocell and other types of rayon made with manufacturing methods that have been designated as sustainable are considered eco-friendly materials.

Lyocell is a fiber made primarily from the wood of the fast-growing eucalyptus, and more than 99% of the water and solvents used in its manufacturing process are recovered and reused. Rayon made from specified manufacturing methods mainly uses beech trees, and the process utilizes bioenergy to reduce CO₂ emissions and environmental impact.



Petroleum-derived Materials

Synthetic Fibers

At MUJI, recycled polyester, recycled nylon and recycled polycarbonate that have been certified to contain at least 20% plant-derived materials are considered eco-friendly materials.

Using recycled raw materials helps to reduce CO₂ emissions. Recycled polyester is mainly made from materials derived from PET bottles, recycled nylon from pre-consumer recycled materials (discarded fibers from the yarn production process), and recycled polycarbonate from materials derived from water dispensers. We are also expanding use of plant-derived raw materials and developing biodegradable materials.



Others

Leftover Yarn and Cloth

MUJI's longstanding approach of eliminating wastefulness informs its selection of materials. In 2000, we started sales of socks made from excess yarn that had been leftover at the factory and discarded. By using leftover yarn and cloth, we constantly work to reduce waste, which is a major issue in the apparel supply chain.



Community-Based Business Model

Basic Policy and Strategy

We will build a system for realizing a net increase of 100 stores annually in Japan and 50 stores per year in mainland China by 2024. To do that, we will focus on expanding the average store floor space for products essential to daily life as well as the e-commerce sales ratio of such products, and on creating a community-based business model centered on independent store management. We will also make system reforms and review store operations to empower the employees who manage individual stores to make full use of their abilities.

Recognition of Issues

New store openings in Japan and overseas are progressing basically as planned. We are accelerating the pace of store openings, particularly stores next to supermarkets, and will continue to do so in the next fiscal year and beyond. In addition, to expand sales channels, we will promote system linkage in supplying products to Lawson convenience stores, Okinawa-based supermarket SAN-A, and other supermarkets.

Key Initiatives

- Develop new stores suited to each area and resolve local issues, led by regional business managers
- Establish the human resources and organizational systems necessary for opening stores in residential areas other than major cities and carry out regional development and town revitalization activities
- Strengthen personnel and education systems to realize independent store management as well as increase productivity and improve efficiency of store operations
- Create and offer original digital services to enable community-based independent store management

Store Openings

Store Opening Policy

Our policy for opening stores is to consider profitability and carefully select areas where we can create a long-term growth story with the community in cooperation with local residents.

Store Opening Plan

In our plan leading up to 2024, we will carry out store openings with stores of 600 *tsubo* (approx. 2,000 m²) next to supermarkets as the standard, aiming for one store per 100,000 people. In addition, we will open stores in front of train stations, inside of convenience stores, and offer new home delivery services. Our goal is total sales of JPY 9.0 billion. In the fiscal year ended August 31, 2022, we expanded store openings in residential areas, particularly stores next to supermarkets. In the fiscal year ending August 31, 2023, we are continuing to expand store openings in residential areas, as well as opening large stores that will serve as local community centers.

Store Expansion Concept

	2022	2024	2030
Number of stores	1,136	1,300	2,500



MUJI Itoku Oga Shopping Center (opened April 2022)

Special Feature

Start of Collaboration with Coop Sapporo

As a result of our collaboration with Coop Sapporo, users of the Todock home delivery system that Coop Sapporo offers to co-op members in Hokkaido can now purchase MUJI products through Todock and have them delivered practically anywhere in Hokkaido. The purpose of this collaboration is to further contribute to the lives of people in Hokkaido by strengthening the infrastructure of everyday life in the prefecture. Both organizations will work together to achieve this goal. Through the distribution network of Todock, we will be able to offer products to people in areas of Hokkaido where we have not yet opened stores. Collaborating with Coop Sapporo, which is supported by the people of Hokkaido, will enable our products to be delivered throughout Hokkaido. We have also opened MUJI Coop Sapporo Yamahana, our first store next to a supermarket in the prefecture, inside Coop Sapporo Yamahana. We opened our second store, MUJI Coop Sapporo Soen, in 2022. We will continue to accelerate store openings with the aim of being a store that is useful in customers' lives. We are expanding our cooperation with consumers' cooperative stores to other regions as well. In February 2023, we also started collaboration with Coop CS Net, which operates in the Chugoku and Shikoku regions of western Japan.



Special Feature

Commencement of Sales of MUJI Products at Lawson Convenience Stores

One initiative we recently began with the objective of making products and services essential to daily life available at affordable prices throughout Japan is the sale of MUJI products at Lawson convenience stores. As of March 31, 2023, about 200 items, ranging from socks and skin lotion to retort pouch curry, stationery items and confectioneries, are being sold at approximately 10,000 Lawson stores. We are aiming to extend sales to all Lawson stores nationwide during 2023. In addition, we are discussing expansion of the product lineup to fit store locations and the wishes of customers, and will jointly develop products and services and expand initiatives to contribute to community revitalization.

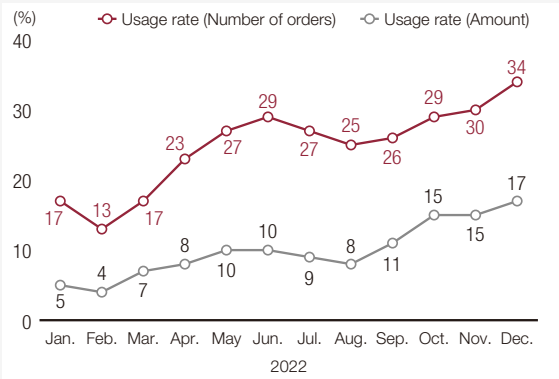


Special Feature

In-store Pickup Service

Our in-store pickup service allows customers to pick up items they order online at their nearest MUJI store. They can also use this service to back-order products that are not in the store, or reserve popular products. In addition, there is no delivery charge on items picked up at the store, and customers have the option of paying in-store or online. The in-store pickup service has been available for certain products since it was launched in 2011, but it was expanded to more products in 2022, and now covers all items except for food and super-heavy products. We also improved the ease of purchasing through the online store, and enhanced information activities and notices in stores. As a result, the usage rate (based on number of orders) has greatly expanded. The 17% usage rate (number of orders) in January 2022 doubled to 34% in December; on a sales (amount) basis, the usage rate expanded from 5% in January 2022 to 17% in December 2022. We aim to expand use of the in-store pickup service as it increases overall delivery efficiency and reduces delivery costs.

Usage Rate of In-store Pickup Service of Products Ordered Online



Initiatives to Take Root in Local Society



Ryohin Keikaku will leverage the strengths of its MUJI stores to be a close and commonplace presence that is trusted by local residents. We will work seriously on localization in Hiroshima.

Seeking to Establish Roots in the Place Where My Heart Is

My first encounter with Ryohin Keikaku was in 2000 when I started working part-time at MUJI Hiroshima Alpark (before the reopening) while I was a student. I enjoyed the sales work, so after I graduated I joined the company as an SE employee.* In 2005, I became the store manager of MUJI youme Town Kure. Based on that experience, I became a full-time employee, and have since worked at stores all over Japan in positions including store opening manager, block manager and area manager.

I gained confidence in my career choice after working in several positions in various regions, and around that time Ryohin Keikaku was preparing to undertake its “Second Founding.” Ryohin Keikaku was about to change, and I also felt ready to try something new, rather than just building on my previous accomplishments. I thought deeply about how the Company was likely to change, where it was headed, what it was trying to accomplish, and what I myself wanted to do. It was at that point that “localization” (making the store a platform for local residents to interact and connect) became a key consideration in my mind. At the time, I was working as the Tokyo area manager, but I thought that to effectively implement localization, rather than staying in Tokyo, I needed to work in the region where my heart was. So I returned to my birthplace of Hiroshima Prefecture as the general manager of the Hiroshima Business Division.

* Sales expert employee (position now discontinued)

Connecting with the Community at MUJI Hiroshima Alpark

MUJI Hiroshima Alpark, one of the world’s largest MUJI stores with a total sales floor area of 1,870 *tsubo* (approximately 6,180 m²), had its grand reopening in April 2022. The store also boasts one of the largest product ranges of any MUJI store in Japan. During the seven-month reopening preparation period (after I became general manager of the Hiroshima Business Division), I engaged with many people inside and outside the Company. Through that interaction, I learned more about the characteristics of Hiroshima, what the people in the region think and what kind of activities they are engaged in, what their hopes are, and how they are trying to change.

From that process, we came up with the store concept of “Creating healthy places and lifestyles with the community.” This expresses our wish to use the store as a platform to build a better community together with the people of Hiroshima.

Hiroshima Prefecture is home to approximately 2.75 million people, and Hiroshima is the largest city in the Chugoku region. The prefecture has major companies as well as local industry, and is blessed with abundant nature, including the sea, mountains and rivers. However, the potential of the region has not been fully realized. For example, many kinds of crops are grown in the prefecture, but their production volume is small, and rows of items from outside the prefecture are seen in the aisles of supermarkets of Hiroshima. If enough good products were made in Hiroshima Prefecture, they would also be consumed more in the prefecture, and I thought Ryohin Keikaku could help make that happen.

Our Strength Is That We Can Make Our Stores Places for Communication, Not Just Retail Outlets

Ryohin Keikaku’s strength is its stores—in other words, its ability to create “places.” Local industry cannot grow without an outlet for its products or a place to convey information, and I believe MUJI stores can help improve this situation by serving as outlets where people can sell local products and as opportunities for communication. I want our stores to be more than just places to sell products; I want them to bring together people who want to do various things, and to create outlets for programs and businesses that are beneficial to the local community. We do not necessarily have to be at the center of all that activity.

For example, community-based events are held at Open MUJI, a community space in the MUJI Hiroshima Alpark store, and an area for selling fresh produce grown in Hiroshima has been set up in the food section. And in keeping with our concept of “healthy lifestyles,” we have established a Healthcare Center that gives local residents the opportunity to address their own health concerns, and even receive health consultations from physical therapists and public health nurses. What we hope to achieve is for residents to see the MUJI store as a natural part of their community, and for it to be a place where they can purchase daily necessities while also finding out about what is happening in the area.

Aiming to Be a Close and Commonplace Presence That Is Trusted by Local Residents

When MUJI Hiroshima Alpark opened, I was surprised at the extent of the reactions, with people remarking, “Wow, MUJI does *that*, too?” But at the same time, I can feel the trust that people have in MUJI from my interactions with the community. Cooperation is, of course, essential in resolving local issues, and when I told people who are active in the community what we wanted MUJI to do, many of them were supportive of our ideas. I plan to use those connections and work together with people in each community to make each MUJI store an indispensable part of that community. In addition, by opening MUJI stores in various places, not just in urban areas, we will take root in Hiroshima more broadly so that instead of going to other prefectures for shopping, people will realize the appeal of Hiroshima during their day-to-day lives.



Staff and local farmers discuss the use of local vegetables

We only have nine stores in Hiroshima Prefecture, a small number in comparison to Tokyo. The current challenge is to overcome the problem of people sometimes having to drive up to one hour to get to a MUJI store, depending on where they live. So our stores are still not seen as close and commonplace. To become a place that people regard as close and commonplace, we will consider opening stores in the mountainous parts of the prefecture in the future. But to ensure that we can stay permanently in areas with small populations, win the trust of local residents, and become indispensable, we will have to think about our vision for each store, and then realize that vision while clearing various hurdles. To do that, we will cultivate human resources who are prepared to work together with communities and have an image of the direction we are going, and to create a system for being useful to the community in a sustainable way.

To contribute further to local economies, Ryohin Keikaku will gather ideas from the employees and staff who work in our stores, and from local residents, and continue to take on the challenge of making MUJI stores indispensable to the people in their communities.



Ayako Takahiro

General Manager of the Hiroshima Business Division
Store Management Group

Information



MUJI Hiroshima Alpark

Address: Alpark Western Annex 1-2 F, 1-16-1 Iguchi Myojin, Nishi-ku, Hiroshima City, Hiroshima Prefecture, Japan

Concept: Creating healthy places and lifestyles with the community

Size: 1,870 *tsubo* (one of the largest MUJI stores in the world)

Features: A large-scale store that provides a range of basic products and services, sale of vegetables grown in Hiroshima Prefecture, Open MUJI, Community Market, Healthcare Center, etc.

Overseas Business Expansion

Basic Policy and Strategy

We will be selective and concentrate resources in global businesses aligned with the operating environment of the countries and regions we serve.

We will focus resources in mainland China until 2024. In addition, we are targeting growth in Taiwan, Thailand, Hong Kong, and South Korea by replacing older stores and ensuring market-appropriate prices. In Europe, we will redefine MUJI for a super-mature society, while in North America we will streamline management and prepare for future growth.



Recognition of Issues

We recognize the need to create strategies for each area: mainland China, key regions, growth regions and reorganizing regions. A challenge globally is the lack of products that take advantage of regional characteristics.

In addition, it is imperative that we review our operating and store structures to match each situation and quickly shift to a highly profitable business model.

To respond to external factors (high raw material costs, exchange rates, ocean freight costs, etc.), we need to manage logistical and other costs, strengthen our product competitiveness and store management capabilities throughout the supply chain, and make a new start from a stable foundation.

Challenges and Plans in Each Area

Mainland China

- Although the number of stores has increased by 26, their sales are not growing, so average monthly store sales are declining.
- Expansion of the customer base is necessary, and the integration of online and offline is critically important.
- We have secured a certain level of sales and gross profit margin by introducing products developed for mainland China, where the cost of sales ratio is good, so we will carry out further product development. This will lead to sales expansion.

Key Regions (Taiwan, Hong Kong, South Korea)

- Taiwan: Sales and profit increased, and with a foundation for growth in place, we will open new stores in the fiscal years ending August 31, 2023 and 2024.
- Hong Kong: Sales and profit increased, and we will open new stores in the fiscal year ending August 31, 2023.
- South Korea: Although sales are recovering, the operating gross profit margin has deteriorated due to inventory reductions. We will close and replace unprofitable stores.

Growth Regions (Thailand, Vietnam, Philippines, Malaysia, Singapore)

- Thailand: Sales and profit increased, so we will continue to make structural improvements and accelerate new store openings.
- Vietnam: Operations have gone smoothly since we entered the market in 2019, and we will proceed with new store openings.
- Philippines and Malaysia: Sales and profit increased, and we will rebuild stores to expand floor area.
- Singapore: Sales and profits increased, and we will further strengthen our foundation.

Reorganizing Regions (Europe, North America, India, Australia)

- Europe: Achieving profitability is the issue. We will implement measures including closure of unprofitable stores, and invest resources in key regions.
- North America: We will further solidify our management structure and strengthen store management capabilities.
- India and Australia: We will make improvements to our management structure, including store management capabilities.

Regional Highlights

Special Feature

Development of Pet Supplies (Mainland China)

In mainland China, we began sales of pet supplies in September 2022. Many pet supplies in mainland China are elaborately decorated, and pet food with many additives is common. Therefore, we developed products that are the antithesis of existing pet supplies, including pet toys and dishes that are distinguished by the texture of their materials, and pet food with very few additives.

The pet supplies that we initially sold at just one store were popular, and we expanded sales to 32 stores in January 2023. They are also sold on our online site. We will turn our attention to all aspects of life and develop new products and new markets to support daily life.



Special Feature

Largest Store in Taiwan Opens in New Location with Expanded Floor Area (Taiwan)

In January 2022, MUJI Miramar moved to a new location with expanded floor area, and reopened as the largest MUJI store in Taiwan. It carries products essential to daily life, has an Open MUJI, MUJIBOOKS and an embroidery studio, and offers services by home interior advisers, styling advisers, and experience advisers. It also has many store-specific features.

In particular, “Found Market”—an initiative in which we find products that have been loved for a long time in Taiwan and sell them at MUJI to convey their benefits—has been highly acclaimed. Products carried in this section include honey, tea, noodles, soy products, and fresh fruits and vegetables sourced directly from the farm, as well as processed foods that use them as ingredients.



Special Feature

Local Products from Around the World Are Popular (Southeast Asia)

In Southeast Asia, our proprietary products developed to fit the local culture, climate and other conditions have been well received. The various products we have developed include items made of nylon to protect against squalls, and hats that Muslim people can wear.

In Vietnam, where more than 80% of people sleep with bolster pillows, we developed a bolster pillow for sale at MUJI AEON MALL Long Bien, which opened in April 2022. In consideration of the environment, pillows made from leftover fabric at the supplier's factory were made available for purchase in limited quantities. Six months after the store opened, the pillow was showcased on a local website that has 970,000 followers. It was such a hit that customers waited in front of the store before it opened for the day. We are also considering sales of the pillow in other ASEAN countries.



Mainland China

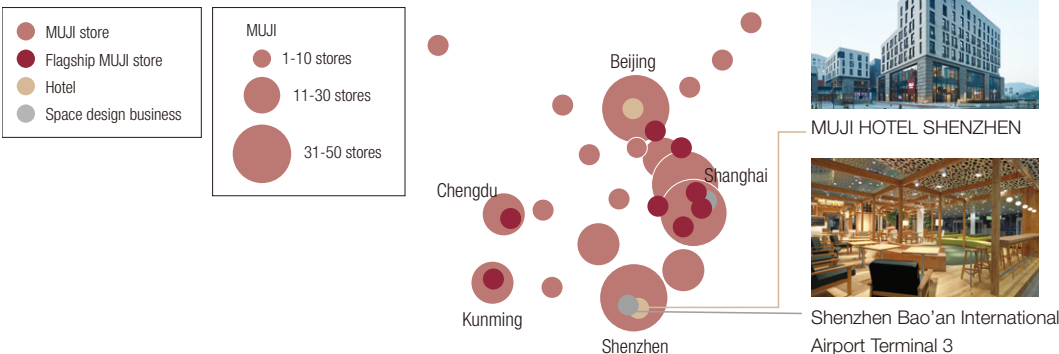
Recognition of Issues and Strategies

Our business in mainland China has grown steadily since it began in 2005, but the pace of expansion has slowed in recent years. We see this as largely due to the increasing competitiveness of rival products and the unique evolution of marketing capabilities, in addition to strict COVID-19 countermeasures. In mainland China, the market changes rapidly, so we need to be responsive to change. However, there is still plenty of room for growth. We will pursue the following measures, with a focus on key stores and our e-commerce business, and work to achieve business expansion.

- 1) Increase the ratio of products developed in mainland China
- 2) Establish headquarters functions for IT systems, accounting, logistics and other areas that support sales activities
- 3) Speed up and localize management by training locally hired staff in mainland China

In particular, by developing products in mainland China, we can increase product variety as well as the number of stores selling our products, which will differentiate MUJI from its competitors.

Stores and Businesses in Mainland China
(As of August 31, 2022)



Key Initiatives

• Product development

By March 2024, we will complete modification or elimination of products that lack variety and products that do not fit local lifestyles. Specifically, we will work to provide not only items such as skin lotion and writing tools, but a wide range of products that can satisfy the needs of daily life, including household goods, home appliances, and food. We will also create new categories for products that have become a part of daily life, such as pet supplies and outdoor goods.

• Marketing strategy

We will expand customer contact points through measures including electronic payment, stores in shopping malls, and tie-ups with familiar brands. Our efforts will focus on expanding our brand recognition by collaborating with businesses in other industries, as well as through product development and marketing innovations. By enhancing communication to MUJI members and highlighting MUJI's uniqueness, we aim to create an original community.

• Store opening plan

For future store openings, the basic floor space will be about 550 *tsubo* (approx. 1,800 m²). In addition to major cities, we will also extend store openings to smaller cities. By improving our delivery service and category-specific platform stores, we will expand customer contact points, length of customer engagement, and the customer base to enhance the omnichannel effect together with in-store shopping.

• Organizational enhancement

We are carrying out organizational restructuring to enhance governance. This involves building future-oriented customer relationship management (CRM) and supply chain management (SCM) systems and introducing business intelligence tools that enable decision-making and problem-solving based on operating data. We are also working on transfer of authority, recruiting, and intensive training of executive candidates to become an organization capable of independent development.

• Expansion of business scope

We are expanding our housing and hotel businesses in mainland China. We will also work on the launch of new concept stores and promote the SPA (Specialty Store Retailer of Private Label Apparel) concept in agriculture.

Message from the Executive in Charge

We are improving our unique product development capabilities and overhauling our supply chain for a speedy response to market changes.

Market Conditions in Mainland China

Ryohin Keikaku's operating environment in mainland China is becoming increasingly severe, partly due to the ongoing impact of COVID-19. The growth rate there for lifestyle and consumer goods has been slowing, but the market is not shrinking. One likely reason for that is the diversification of people's tastes as their lives have fundamentally improved. The quality of local companies' products has also improved, with enhanced product lineups and marketing capabilities. Consumers' perception of quality and price has also matured.

Under these conditions, the top-priority management issue for the mainland China business in 2022 was making our products more competitive. Areas of focus included expanding the product lineup through local planning, reducing costs by improving the supply chain, and further strengthening quality control. Among our locally planned products, pet supplies were popular, with a strong response at stores as soon as sales began.

Another characteristic of the market in mainland China is the speed of its growth due to economic expansion. MUJI has gained recognition there as an ethical and universal brand that handles standard products. However, unless we constantly change and innovate, we will not be able to remain an option for consumers on par with local companies, which are not afraid to fail. We must also think outside the box in looking for room for further development though measures such as concurrently working on an omnichannel strategy. We take a heuristic approach in all aspects of management, and maximize investment of management resources whenever we find an opportunity. We also consider it important to continue communicating these efforts to our customers.

Urgent Need to Reform the Supply Chain and Channel Strategy

A channel strategy that encompasses our supply chain and online channels is currently a priority issue.

For the supply chain, rather than the conventional approach of concentrating planning and development functions in Japan, we are taking advantage of the close proximity of planning and production areas to conduct these operations in mainland China, adopting an approach of development together with reliable factories, regardless of their size. We are also working to systematize and standardize operations throughout the supply



Satoshi Shimizu

Executive Vice President & Director
Head of Mainland China Business Unit

chain and improve logistics efficiency. In cooperation with factories, we are working to improve efficiency by visualizing all aspects of operations from logistics costs, which have been rising in recent years, to shipping, inventory storage and merchandise transfer.

For our channel strategy, we will incorporate the online-to-offline (O2O¹) concept into our existing framework of brick-and-mortar stores and e-commerce. We are conducting reforms tailored to customer purchasing behavior, which has changed in recent years. Our initiatives include collaboration with online platforms for ordering and prompt delivery through direct sales,² centralized use of inventory and handling of multiple channels by store sales staff.

Three Management Issues

We currently face three management issues.

The first issue is to increase the ratio of products developed in mainland China, while also making mainland China the center for a global mix of products developed outside Japan. Mainland China is the Company's largest market outside of Japan, and the approach to the standards

and costs of products developed there can be applied on a broad scale globally. Moreover, it is currently difficult to achieve economies of scale in countries other than Japan and mainland China, meaning we incur large losses manufacturing in other places. Mainland China will therefore continue to play a central role in proposing optimal solutions for overseas merchandising.

The second issue is establishing headquarters functions to support a continually changing sales force. To ensure reliable and accurate operations in sales activities that continue to change at a dizzying pace, with new products, new channels and new services, we will restructure the headquarters functions, including IT systems, accounting and logistics. In addition, enhancing the functions of our auditing office is an urgent task for ensuring thorough compliance.

The third issue is developing talent. Management and operation by local employees is essential in mainland China, where the management environment is becoming more complex. Currently, local employees have been appointed as division managers. At this stage, we are receiving support and information from the headquarters in Japan for our operations, but we will further accelerate localization of management by establishing a system that will allow us to transfer full authority in the near future.

1. Marketing measures to bring potential customers from online channels to make purchases in physical stores
2. Visiting customers to sell goods, services or other products

Human Resource Strategy

Human Capital Strategy

A Human Resource Strategy to Achieve “Public Interest and People-Centered Management”

Based on its core value of every employee “contributing to society and people,” Ryohin Keikaku places employees with a sense of ownership in leading roles in its business activities, where they take the initiative to pursue “a truthful and sustainable life for all” in which the activities of individual employees and stakeholders benefit the public interest. We define this management approach as “public interest and people-centered management.”

For Ryohin Keikaku, the greatest form of management capital is its employees who practice “public interest and people-centered management.” Development of human resources and creation of organizations is the cornerstone of our management strategy.

The Kind of Employees Ryohin Keikaku Seeks

Ryohin Keikaku looks for employees who want to contribute to society and people, and who will continue to work together with the people in their communities to help create the desired lifestyle and society of the future; who will help make sure that products and services are enjoyed, trusted and appreciated by many people; and who will experience personal growth and find happiness in the process of creating those products and services, which then becomes a motivator for their next business activities. Our goal is to gradually push society and communities in the right direction as activities by people who share these aspirations spread throughout the world.

The Type of Person Ryohin Keikaku Is Looking For

Strong Ambition

- 1. Passion and ambition to contribute to society and people
- 2. Empathy and sense of ownership
- 3. Professional mindset

Ability to Make Things Happen

- 4. Inquiring mind and intellectual curiosity
- 5. Creativity and conceptual ability
- 6. Teamwork and collaboration skills

Ability to Carry Things through to the End

- 7. Vitality and thoroughness
- 8. Challenging spirit and positive attitude

Special Feature

Start of Leadership Talent Development Session to Develop New Talent

Ryohin Keikaku aims to realize its management principles through various talent development programs. In 2022, we began the Leadership Talent Development Session, in which executives, general managers and managers from Japan and overseas come together to discuss issues. This also includes dialogue with the president. The event is a discussion-type session in which participants talk about the mindset and behavior necessary to produce results in day-to-day business, deepen their mutual understanding, and then link their actions to improvement in daily operations. Through this session, we will develop the leadership talent necessary to maximize our performance as an organization.



Feature

Message from the Executive in Charge

Developing independent store managers who contribute to the community will lead to a stronger Ryohin Keikaku going forward.

Urgent Need to Develop Independent Store Managers and Establish the Necessary Organization and Systems

We have set two major themes for our human resource strategy in order to realize Ryohin Keikaku’s corporate purpose as well as “public interest and people-centered management.”

The first theme is to develop human resources and establish an organization capable of opening approximately 100 stores annually in Japan up to 2030. To do so, each year we must develop 100 capable store managers and about 20 block managers in charge of regional support. We aim to develop independent store managers who can resolve local issues and contribute to the community, rather than people who can simply operate stores.

We have therefore set the following three short-term initiatives.

- (1) Establish new training and education programs
- (2) Recruit employees for headquarters to strengthen the organization
- (3) Introduce new personnel and evaluation systems

For (1), we will develop a management training program to develop new store managers and realize independent store management, and a skill development program to promote the resolution of local issues. Specifically, we are promoting training programs and career development to enable new university graduate employees to serve as store managers in their third year of employment, with the expectation that young people with experience will take on the responsibilities of the next generation of Ryohin Keikaku. For (2), we are recruiting headquarters employees to accelerate the development of our basic product lineup and establish robust work processes. Recently, middle manager-class employees and professionals from various fields have joined the Company from other industries, and we are strengthening our organizational structure to raise the level of our entire value chain, including IT, e-commerce, logistics, product development and store development. For (3), we are introducing systems and frameworks that enable diverse human resources to



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Executive Officer
General Manager, Human Resources Division

play an active role and to be rewarded for their work. To encourage independent, voluntary activities by each employee, we consider it essential to establish systems for correctly evaluating their activities and rewarding their contributions.

An Organization with a Truly High Level of Engagement

The second theme is corporate culture reform. To realize Ryohin Keikaku’s philosophy, each employee will play a leading role in reforming the corporate culture based on the concept of “co-ownership.” To achieve this goal, we want all employees to consider themselves as joint managers of the Company, to proactively give their opinions on local issues, and to act independently. Our initiatives include investment in human capital, implementation of a recruiting strategy and the introduction of a Japanese-style employee stock option plan (see page 71 for details).

In 2022, we conducted a Group-wide engagement survey of employees in Japan and overseas with the aim of quantifying how close we are to achieving the corporate culture we want so we can make improvements. Employees are engaging in discussions based on the results in order to create a better corporate culture. We have also started leadership development sessions, where executives, general managers and managers from Japan and overseas gather for discussions with the president, as we work to share a common understanding of our approach as a product developer and retailer.

By steadily implementing this human resource strategy, we hope that our human resources who have a passion for and ambition to contribute to society and people will grow and find fulfillment in their respective workplaces. We believe that maximizing the results of our organization by having each employee play an active role will lead to MUJI’s stores, products and services being loved by people around the world. Now is the time to lay the foundation for our future, and we will therefore work steadily to become an organization with a truly high level of engagement.

Human Resource Development Policy and Initiatives

The Six Pillars of Our Human Resource Development

Our human resource development policy for achieving "public interest and people-centered management," and examples of initiatives for it are as follows.

- 1. Recruit and develop employees who have the ambition to embody Ryohin Keikaku's philosophy and values
- 2. Foster a healthy corporate culture in which diverse employees can show their individuality, think independently and act on their own initiative
- 3. Create a working environment where employees can be themselves, realize physical and mental well-being and continue to work with peace of mind
- 4. Train and assign leaders capable of bringing out the individuality and potential of diverse employees and maximizing organizational performance
- 5. Develop and establish education and training systems to support the needs of employees who want to learn and grow through their careers
- 6. Establish and operate a personnel system to support employees' sense of participation and willingness to take on challenges

Human Resource Development Policy and Main Initiatives

1. Recruit and develop employees who have the ambition to embody Ryohin Keikaku's philosophy and values

We recruit employees who share Ryohin Keikaku's philosophy and have the passion and ambition to embody it, and provide them with training on our ideology, philosophy and values. Through that training, we foster empathy and a sense of ownership toward the issues of communities and society, and develop employees who are motivated to help resolve social issues and make a positive impact.

Main Initiatives

- In conjunction with our "Second Founding," redefine and conduct training on our ideology, philosophy and values
- Promote internal understanding of our philosophy, create ongoing opportunities for dialogue and motivate employees

Recruiting Results			
	2020/8	2021/8	2022/8
Number of new university graduate hires	200	32	103
Number of mid-career hires	52	43	105
Ratio of mid-career hires to total new hires	21%	57%	50%

2. Foster a healthy corporate culture in which diverse employees can show their individuality, think independently and act on their own initiative

We create the conditions for fostering a healthy corporate culture, where employees with diverse personalities respect each other and have open discussions in an environment of psychological safety; where every employee can think independently and show initiative; and where people enjoy working positively toward achievement of goals.

Main Initiatives

- Visualize the corporate culture through a Company-wide engagement survey, and continue to implement improvement activities
- Promote internal understanding of our philosophy, and conduct related Company-wide training and ongoing dialogue

Company-wide Engagement Survey

Starting in 2022, we drastically revised the organizational vitality survey we had conducted in Japan, and conducted an engagement survey of approximately 30,000 employees working in Japan and overseas. This survey quantitatively verifies whether the necessary actions are being taken to realize our corporate purpose and vision, and whether the requisite conditions for that are in place. Our goal is to be a company with high engagement where all employees share our philosophy and take action. We will conduct the survey annually and make improvements based on the results.

3. Create a working environment where employees can be themselves, realize physical and mental well-being and continue to work with peace of mind

We provide and promote working environments where employees can be themselves, realize physical and mental well-being and continue to work with peace of mind, regardless of their nationality, birthplace, age, gender, disability, or the environment or life stage they are in.

Main Initiatives

- Consider and introduce expanded systems to accommodate diverse work styles (examples: balanced four-day workweek system,* return-to-work system, internal job posting, childcare leave and nursing care leave system, benefit programs)
- Establish systems and support for maintaining and improving the mental and physical health of employees

* See page 70 for details.

4. Train and assign leaders capable of bringing out the individuality and potential of diverse employees and maximizing organizational performance

We continually develop leaders who can bring out the individuality and potential of our diverse employees, direct them toward achievement of the Company's goals, and maximize the organization's performance. We also manage human resources by assigning such leaders to the right jobs.

Main Initiatives

- Improve education to strengthen management skills for leader development
- Provide opportunities for development through on- and off-the-job training for store managers and community managers, who lead independent store management and community activities

5. Develop and establish education and training systems to support the needs of employees who want to learn and grow through their careers

We have established education and training systems and a self-development support program to enable employees to learn the basic hard and soft skills necessary as a businessperson as well as the practical skills required for various positions and levels. With these programs, we maintain an environment in which motivated employees can continue to learn according to their needs throughout their career.

Main Initiatives

- Maintain and create training programs to fit the needs of different positions and levels in store and headquarters operations
- Improve problem-solving skills and foster independence through Quality Control/Industrial Engineering education and project promotion



Lifestyle Organizing School final presentation
<https://www.ryohin-keikaku.jp/eng/topics/035040.html>

6. Establish and operate a personnel system to support employees' sense of participation and willingness to take on challenges

We have introduced a personnel system in which employees who act independently and spontaneously to achieve goals, and employees who take risks and set difficult targets and achieve results are praised and rewarded. We create and maintain an environment in which employees experience growth through their work, and feel rewarded and happy.

Main Initiatives

- Introduce a grade system and evaluation system to assess each employee's ability, willingness to take on new challenges, and contribution to their organization, the Company and society
- Develop an internal recruiting system that encourages employees to take on new challenges and build their careers, and systems for personnel exchanges and dual employment to promote community activities and contribution

Special Feature

Store Manager Cultivation Project

Ryohin Keikaku believes store managers are a key growth engine in carrying out its "Second Founding." With that in mind, we started the Store Manager Cultivation Project in 2019 to prepare people to become store managers after two years of employment.

New employees participate in this Store Manager Cultivation Project whether they are hired as new university graduates or in mid-career. Working backwards from the goal of becoming a store manager after two years, this program offers employees on- and off-the-job training to give them the necessary skills. As of September 2022, more than 130 store managers have emerged from this project. We are also widening the scope of their work, including promotion to block manager (a position that manages multiple stores) after they gain business and store management experience.



Basic Policy and Strategy

We aim to become a leading company in product development by utilizing information technology (IT) for more efficient operations throughout the Company.

To support the reliable product development unique to Ryohin Keikaku and the management of its stores as community centers, we will maximize insourcing of IT for the following purposes: (1) cost structure improvement, (2) system stabilization, and (3) contribution to business.

Status and Recognition of Issues

Ryohin Keikaku has previously relied on vendors for its systems and related matters, and did not sufficiently consider non-functional requirements* such as scalability and support for operation and maintenance. As a result, we are aware that our systems have become extremely complex. This has slowed development speed, reduced cost efficiency, and made it difficult to respond to failures. We will rebuild our IT infrastructure by preparing development standards in-house and insourcing system development.

Key Initiatives

• Company-wide project

The operating system (OS) that has supported Ryohin Keikaku to date will not be enough on its own to achieve our goal of locally rooted stores with independent management. We are therefore conducting a project to rebuild our OS. For this purpose, we are working to visualize current business processes in order to identify system issues and update existing systems. We are conducting this Company-wide business reform project to support independent store management, decentralization and autonomy.

• Net increase of 100 stores per year and improved productivity per hour worked

In carrying out our plan to open 100 stores annually, we will increase self-service checkout lanes, redesign bagging areas and install and operate registers for a rollout to 1,200 lanes in 230 stores by February 28, 2023. During the second half of the fiscal year ending August 31, 2023, we plan to complete the switchover of software at stores that already have self-service checkout lanes.

• IT investment plan

To promote system insourcing, we will proactively invest in IT for e-commerce, stores, infrastructure and other applications with the aim of reducing information processing and outsourcing costs by JPY 1 billion compared with the fiscal year ended August 31, 2022.

• Establishment of a new business development organization

We have established an in-house app development team to handle new initiatives and services, including new businesses. Service design and operation flow can be completed by a single team, which we also expect to be responsible for core operations and system hubs as necessary.

• Increased hiring of IT talent

To promote system insourcing, we will ramp up external hiring to fill approximately 70 positions, including project managers and engineers.

• Creating an organization that lets engineers grow

To create an organization where engineers can grow, we are compiling a checklist of their skills and conducting individual evaluations. Other measures to raise the level of engineer quality will include holding internal technology sharing meetings, hiring technical advisors and formulating development guidelines.

* Non-functional requirements: Requirements that are not directly related to system functions, such as availability, performance, scalability, operability, maintainability, portability and security.

Message from the Executive in Charge

We will improve the environment and infrastructure for effectively using IT, with the aim of being a leading company in product development.

Improving Our IT Environment as a Technology-driven Company Is Imperative

In its 2030 Vision, Ryohin Keikaku has set out two objectives: “to be a part of people’s daily necessities” and “to take root in local society.” Achieving the goals of the medium-term business plan will require us to accelerate improvement of our IT environment to make Ryohin Keikaku a technology-driven company.

In the IT industry, the retail sector is generally considered to be lagging in IT uptake. Among companies that handle apparel, which has a high environmental burden, only those that manufacture products with integrity will survive as upstream traceability becomes more and more important. Ryohin Keikaku still often handles supply chain management and traceability with an analog approach, so there is a lot we can do with IT in these areas. That underscores the urgent need to improve the IT environment.

One issue to address is that work flows are not visualized. Since Ryohin Keikaku has long conducted product development with integrity, I am confident that it can become a leading company in product development by visualizing and standardizing work flows through the use of IT.

Another challenge is dependence on vendors. Communicating only functional requirements without defining non-functional requirements, and having different definitions and technical staff for each vendor results in extra time, effort and cost for operation and failure recovery.

At this point, our environment and systems, development standards, and IT-BCP* are also inadequate for a technology-driven company, so creating the IT infrastructure that addresses these issues is imperative.

* Business continuity planning (BCP) measures for IT systems



Tatsuya Kubota
Executive Officer
In charge of IT Services Division

Launch of Company-wide Business Process Reengineering Project

During the fiscal year ending August 31, 2023, we will move forward on schedule with a project that began in July 2022 to rebuild our IT infrastructure. More than just an IT systems project, this is a Company-wide business process reengineering (BPR) project that involves every employee. Through this project, we will resolve remaining issues in global supply chain management (GSCM), implement business process reforms to support individual store management and autonomous decentralization, and make innovations to our MD (merchandising) system.

To support a net increase of 100 stores annually in Japan, we are also reconstructing our POS system platform and store network, and expanding the rollout of self-service checkout registers (1,200 registers in 230 stores in the first half of 2023). In addition, we will expand online sales, carry out new business development and create a security governance framework.

Creating a Vibrant Work Environment

I will never be an engineer, but I want to be the top supporter of engineers. Without someone who understands them, even very talented engineers will not be able to make the most of their abilities. That’s why I want to be their supporter, and to foster a vibrant work environment and culture where they can work with enthusiasm.

Ideally, business units and engineers will cooperate with each other. On the business side, we will also be able to utilize technology as a problem-solving tool. The IT Services Division has a good understanding of the whole value chain, so we also serve as a bridge between organizations.

Currently, we are bringing in talented personnel. They are highly motivated, have respect for existing employees, and are people who like MUJI. Together with them, we will work toward achieving our goals.