

Special Feature: Online Sales Initiatives

In recent years, trends in online sales have evolved in a manner that continues to amaze. This is mainly due to growth in the online market and the increasingly widespread use of smartphones. Customers today obtain product information using e-commerce sites in advance. Physical stores then serve as a location to confirm size as well as styling and to complete purchase including payment. As this trend gathers momentum, e-commerce sites are expanding beyond their traditional role of purchase settlement by fulfilling the more significant function of a medium through which to attract and direct customers to physical stores. Amid the growing number of customers who strategically utilize physical and online stores according to their specific needs, UNITED ARROWS LTD. has continued to position online sales as an important component within its medium- and long-term strategy in order to seamlessly link both channels.

Trends in Online Sales in the Fiscal Year Ended March 31, 2017

In the fiscal year ended March 31, 2017, online sales came to ¥20.2 billion on a non-consolidated basis. This was 24.2% higher than the level recorded in the previous fiscal year. The ratio of online sales climbed to 16.0%, up 3.3 percentage points compared with the previous fiscal year. Amid slightly weak retail existing store sales, which declined 2.2% year on year, existing online store sales grew substantially, climbing 23.6% compared with the previous fiscal year. In the fiscal year under review, the total of retail and online existing store sales improved 2.0% year on year. On this basis, an upswing in the number of customers utilizing e-commerce sites helped drive overall results forward.

Two core factors underpin the aforementioned trends. In addition to successful efforts to expand online inventories, the Company promoted the shift of clearance sale needs to online stores.

1. Expand online inventories

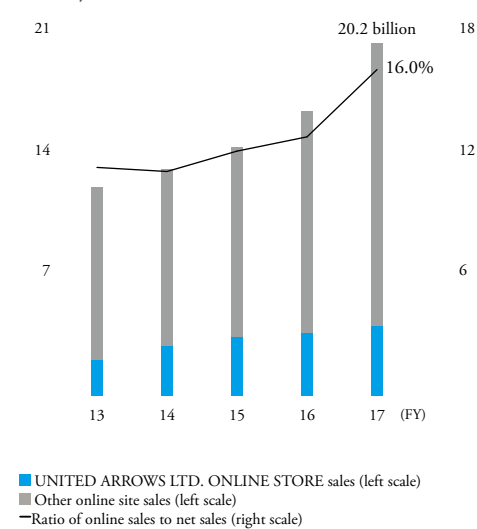
In addition to its own e-commerce site, UNITED ARROWS LTD. ONLINE STORE (UA ONLINE STORE), inventory information at the Company's distribution centers is linked to most other e-commerce sites. As a result, an item that is in stock at one of our distribution centers can be delivered and sold on to customers even when it is out of stock at a particular e-commerce site. This in turn helps to minimize sales opportunity loss. In addition, we post photographs of certain products on e-commerce sites without providing inventories. Items are then delivered after an

order has been received. Despite promoting these initiatives, the Company continued to fall short of adequately meeting reshipment requests from customers. By increasing the initial allocation of inventory to online sites roughly 30%, we were able to minimize opportunity loss and increase sales during the fiscal year ended March 31, 2017. In the fiscal year ending March 31, 2018, we will vigorously introduce inventory focusing on strategic products that can be expected to generate high sales volumes as part of our efforts to further reduce sales opportunity loss while continuing to strengthen the allocation of inventory.

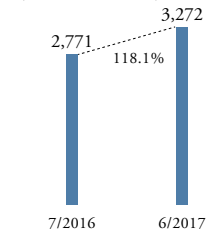
2. Shift clearance sale needs to online stores

The number of customers who purchase items through e-commerce sites to avoid the crowds that are part and parcel of most clearance sale periods at physical stores is increasing. Under these circumstances, and as stocks of items in the right color and size run out at actual stores toward the latter half of clearance sale periods, resulting in sales opportunity loss, steps are being taken to increase inventory efficiency by consolidating clearance sale products on e-commerce sites. In line with efforts to promote a segmented merchandising strategy in recent years, the need to quickly reduce inventories through the use of clearance sales is climbing. As an added benefit, the concentration of clearance sale products on e-commerce sites is helping to lift the ratio of online clearance sale sales and to strengthen new product proposals, which is in turn enhancing the fresh appeal of physical stores.

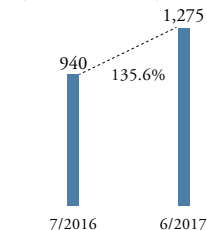
Online store initiatives and trends in online sales (non-consolidated)
billions of yen / %



Total Number of House Card Members
(Thousands of members)

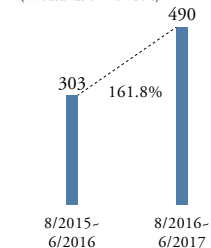


Number of Active Members*
(Thousands of members)

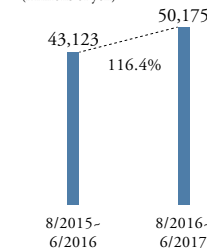


*Members with a purchase history within the past year

Number of New Members
(Thousands of members)



Members' Purchases
(Millions of yen)



UA ONLINE STORE Initiatives

The strong sense of reliability and integrity held by customers toward UNITED ARROWS LTD. that has been nurtured through its network of physical stores is recognized as the source and driving force behind the Company's online sales. Based on this understanding, every effort is being made to implement measures that will help to further increase collaboration between UA ONLINE STORE and the Company's physical stores.

1. Integrate physical store House Card and e-commerce members while consolidating the point service program

Previously run on a separate basis, the Company integrated its House Card member system with UA ONLINE STORE members in August 2016. Under this initiative, House Card members can use their existing ID to make purchases on UA ONLINE STORE. At the same time, steps have also been taken to consolidate the physical store and UA ONLINE STORE point service programs. With each purchase of ¥100 representing one point and one point equivalent to ¥1, customers can accrue points irrespective of where or how the purchase was made and apply these points at either the Company's physical or e-commerce site stores. Again, and in conjunction with this measure, UNITED ARROWS LTD. has integrated its House Card with e-commerce site applications. In addition to iOS, the Company has launched an Android version as part of its efforts to broaden access to users. These endeavors are serving to not only help capture new members but also to invigorate existing members, resulting in substantial improvements in a variety of indicators.

2. Introduce a marketing automation tool

In conjunction with efforts to revise the UA House Card membership service, moves were also made to partially renew the mail magazine system and to introduce a marketing automation tool. Through the use of this tool, an electronic message is automatically sent to each customer in line with his or her purchasing history, drawing on multiple messages linked to customers' consumption patterns, depending on whether the purchase was made at a physical store or through UA ONLINE STORE. Looking ahead, we will expand the scope of purchasing patterns and types of messages with a view to distributing the optimal information at the right time. Plans are also in place to disseminate information to members using the LINE instant communication app.

3. Integrate and renew the Company's UA ONLINE STORE and brand sites

As the number of customers who undertake purchases through a combination of physical and online stores increases, we are seeing more and more media commerce sites that bring together in a single package media from which to obtain a variety of information and online sales stores that provide customers with an enjoyable shopping experience emerge. As far as UNITED ARROWS LTD. is concerned, the Company integrated its brand site, which posts information primarily about its physical stores, with UA ONLINE STORE in April 2017. This renewal entailed the opening of a completely new site. With a single point of entry to the site, we are

seeing the number of sessions increase by more than 40% compared with the number prior to renewal. UA ONLINE STORE sales have also increased substantially, climbing 24.2% as of the end of June 2017 compared with the corresponding period of the previous year. ①

4. Other

• Displaying actual store inventory

The status of actual store inventories for each product is posted on the product page of the UA ONLINE STORE site. This initiative is aimed at attracting customers who use online sites instead of browsing through catalogs. Inventory data is updated every 90 minutes, allowing customers to confirm the status of inventories on virtually a real-time basis. We are currently witnessing a substantial number of days when customer inquiries regarding the status of inventories at physical stores exceeds 1,000. On this basis, we believe that this service goes a long way toward addressing the recent customer trend of viewing e-commerce sites prior to visiting physical stores.

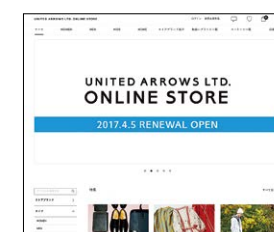
• Posting staff styling information

As a means for customers to gain an insight into the styles worn by staff at physical stores, the staff styling page is proving extremely popular. Styling proposals are displayed by brand, gender, casual as well as office wear, and height. ②

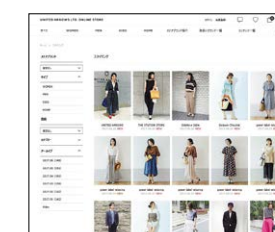
• Enabling customers to confirm the size of products online
UNITED ARROWS LTD. has put forward the VIRTUSIZE function that allows customers to compare the size of merchandise they are thinking of buying with items in their wardrobe on an online virtual basis. It is now possible for customers to easily compare the size of a product they are looking to purchase by registering the size of items owned together with a history of purchases through UA ONLINE STORE. The VIRTUSIZE function is attracting wide acclaim for its added convenience from customers who are hesitant to make an online purchase due to anxieties regarding whether the size will fit as well as customers who wish to simplify the processes required to confirm the size of products. ③

• Adding various services

In line with the renewal undertaken in April 2017, moves were made to increase the options available for settling online purchases. This includes mobile phone carrier billing, Rakuten Smartpay, and Guest Purchase. At the same time, we have added new services that allow, for example, customers to make adjustments to the hems of pants online. For the benefit of overseas customers, we have launched an automatic English and Chinese translation as well as cross-border e-commerce services from June 2017. Looking ahead, we will make every effort to provide online customers with the same services including gift wrapping that they are accustomed to receiving at physical stores. Drawing on each of the aforementioned, our goal is to deliver new value through functions and services that can only be achieved through online stores. ④



① Integrated site



② Staff styling information



③ VIRTUSIZE function



④ Adjusting the hems of pants