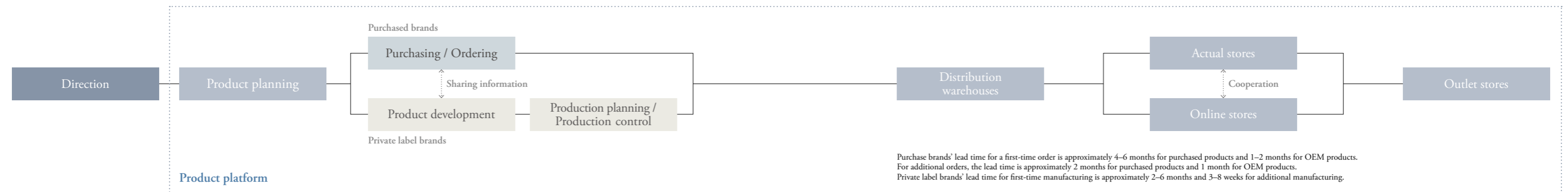


Product Flow (Value Chain)

UNITED ARROWS LTD. has positioned its stores at the frontline of its operating activities. Every effort is made to reflect the comments and opinions gleaned from customers in every facet of the value chain. All initiatives including product development, inventory management, and customer service generate synergy benefits within the value chain. This is the source of the Company's robust competitive advantage.



Direction

A feature that defines UNITED ARROWS LTD. is the direction that initiates all activities related to product development. Direction, which is based on shifts in social tastes, allows us to disseminate a common theme to all businesses on a seasonal basis. In addition, the marketing department consistently undertakes research into the latest fashion trends, providing this information across the Company. Each business then draws on this information to establish specific themes that incorporate particular attributes.

Product planning

Product planning entails dividing the year into 52 weeks and putting in place a process and lineup based on 52-week merchandising. Drawing on past customer trends and behavior as well as sales data, UNITED ARROWS LTD. puts in place a product strategy focusing on the most-appropriate items, prices, and volumes for each season. During each season, the status of sales is closely monitored. This monitoring process helps to verify the validity of each strategy and to alert the Company of the need to make necessary adjustments through detailed modification. In this manner, every effort is made to achieve the targets for sales and profit.

Purchasing / Ordering

Under the Company's concepts with respect to direction and product planning, buyers attend exhibitions and view fashion shows in Japan and overseas. This is done while undertaking detailed purchasing negotiations about the item, volumes, purchase price, and delivery. Buyers are also involved in the development of exclusive items with popular brands. Through these means, steps are taken to further differentiate products from other companies. In addition

to strengthening the integrity of existing brands, the Company's mission includes uncovering promising new brands ahead of its rivals.

Product development

Under the Company's concepts with respect to direction and merchandising, steps are taken to develop designs and fabrics and to prepare patterns. While fully expressing the concept of each brand, samples are also shared with the sales department. At the same time, energies are channeled toward incorporating feedback gleaned from staff in their dealings with customers at stores with moves made to push forward product development while undertaking minor adjustments. Designers accompany buyers during their purchasing trips to better grasp global fashion trends. Complemented by the mutual exchange of information, particular weight is placed on harnessing the merits of the business model that entails the combined development of purchased products and private label brands. This serves as the wellspring for differentiating the Company's products.

Production planning / Production control

UNITED ARROWS LTD. formulates production strategies that encompass the selection of contract factories as well as procurement of materials. This is in accordance with the specifications of each product, together with cost control initiatives. After placing an order, the Company collaborates closely with contract factories; controls delivery, quality, and costs; and oversees the entire process through to product completion. In addition to harnessing customer feedback to further enhance production planning, regular meetings are held with contract factories to improve the quality of finished products.

Distribution warehouses

UNITED ARROWS LTD. engages in distribution warehouse operations in collaboration with distribution companies. The Company maintains a network of three distribution centers that operate on a 24-hour basis in Japan. Product inventory control is conducted on a concentrated basis through various initiatives including price tagging and product inspection. While product deliveries to stores are maintained at an optimal minimum, a point-of-sale (POS) system is installed at all stores. With the exception of stores in certain regions, store sales data up to 11:00pm is transmitted to the appropriate distribution center. Any shortfall at a particular store is then replenished before the store opens the following day. This serves to minimize sales opportunity loss as well as the transfer of products between stores.

Actual stores

Based on its Mission Statement — It's All About the Customer — UNITED ARROWS LTD. strives to meet the needs of each individual customer and to provide a level of satisfaction and inspiration that exceeds all expectations. Sales personnel are provided with a host of on-the-job, UNITED ARROWS University, and other training programs. Through a series of award systems, including the Sales Master and UNITED ARROWS Grand Prix initiatives, the Company is quick to recognize outstanding personnel. Through these means, every effort is made to continuously enhance the knowledge, skills, and motivation of sales personnel. In addition, energies are channeled toward choreographing the shopping experience to deliver maximum excitement and delight. A key aspect of this endeavor is the creation of stores and interior environments that express the worldliness of each brand in a visually appealing light.

Online stores

In addition to operating UNITED ARROWS LTD. ONLINE STORE, the Company is opening stores on such fashion e-commerce sites as ZOZOTOWN. UNITED ARROWS LTD. ONLINE STORE is promoting initiatives to heighten collaboration between online stores and actual stores. In addition to a function that enables customers to check online the status of product inventories at actual stores, UNITED ARROWS LTD. ONLINE STORE provides a service where products can be delivered to a store chosen by the customer. In the fiscal year ended March 31, 2015, additional steps were taken to further increase convenience by enabling customers to compare the size of merchandise they are thinking of buying with items in their wardrobe on an online virtual basis.

→ P22 Special Feature 1:
Expanding Online Sales and Promoting an Omni Channel Retailing Strategy

Outlet stores

UNITED ARROWS LTD. OUTLET plays the important role of continuously reducing residual inventories of slow-selling products as well as excess stock in each business category. Promoting the prompt transfer of stock to outlet stores helps maintain the fresh appeal of products at frontline stores. The swift reduction of inventories and conversion into cash from sales also serves to secure improvements in gross profit and cash flows. UNITED ARROWS LTD. OUTLET stores are for the most part located in suburban and exurban areas. For this reason, these stores help raise brand awareness among residents who live outside the network of the Group's frontline stores.



Direction

Product planning

Material selection

Pattern making

Sample preparation



Sample checks

Factory production

Product inspection

Product inventory control

Consultative sales at a store