

Shiseido annual report 2012

[Business](#)



On the Cover: Tough and here for the long term, with plenty of potential to grow in the future. All the charm of a thriving 140-year old tree.

Proud past, bright future. Shiseido keeps on keeping on. Forward-Looking Statements In this annual report, statements other than historical facts are forward-looking statements that reflect the Company's plans and expectations. These forward-looking statements involve risks, uncertainties and other factors that may cause actual results and achievements to differ from those anticipated in these statements. Our Mission, Values and Way 4 SHISEIDO ANNUAL REPORT 2012 Shiseido's Value Portfolio Shiseido commenced operations as Japan's first Western-style pharmacy in Tokyo's Ginza district 140 years ago in 1872, a time when Chinese herbal remedies were the mainstream in Japan. The name Shiseido derives from a Chinese expression meaning "praise the virtues of the great Earth, which nurtures new life and brings forth new values.

"In line with this expression, Shiseido remains committed to its founding spirit of serving customers and contributing to the world through beauty by bringing together all things on Earth to create new value through Our Mission, which is Shiseido's raison d'être. Shiseido has a 140-year history of innovation in its various activities to help people live beautifully. The value portfolio we have built up in creating beauty and wellness enhances our strengths. Shiseido will continue to take on challenges to remain an outstanding company in the future. SHISEIDO ANNUAL REPORT 2012 5 Brand 140 Years in business 15 (#1 globally) Number of top awards received at International Federation of Societies of Cosmetic Chemists (IFSCC)

conferences and congresses Over the 140 years since its founding, Shiseido has established a strong corporate brand by helping people live beautifully.

As one of the leading cosmetics companies in the world, Shiseido has built a solid position in global markets, and the Company's record of top technology awards demonstrates its world-leading position in cosmetics research and development. Customers trust brands. The source of brand value is multifaceted, including elements such as technological capability, function, quality, safety, hospitality at sales counters and advertising, along with philosophy and history. Strong brands are the key to Shiseido's growth. We continue to refine the value of the brand portfolio we have been building for many years.

Shiseido Makes History Since launching our first cosmetic, Eudermine, we have focused on superior quality and high added value in continually creating cosmetics with new concepts and leading-edge beauty methods. With strong determination to deliver newer and richer sources of value as its cornerstone, Shiseido will strengthen its position as a leading brand in Japan and grow as a global prestige brand. 1897 Entered the cosmetics business by launching Eudermine lotion 1915 Shiseido's first president, Shinzo Fukushima, designed the HANATSUBAKI trademark, which later become one of Shiseido's flagship symbols. Note: Years in business and the number of top awards received at IFSCC conferences and congresses are as of March 31, 2012. 6 SHISEIDO ANNUAL REPORT 2012 Business 44.

3% Overseas sales ratio 87 Number of countries and regions where Shiseido products are available Shiseido has been expanding its business globally for

more than 50 years. Steadily increasing the markets it serves over the years, Shiseido now sells its products in 87 countries and regions including Japan. The hallmark of Shiseido's operations is continuous innovation to create unique value. Approximately 90 years ago, we introduced our cosmetics sales store business model, a first in Japan, and have since built a strong network linking us with our stores and customers. In April 2012, we complemented our network by launching a breakthrough business model using the Internet in continuing to take on new challenges. The research and development underlying the strength of our products also continue to evolve, driven by our focus on advanced programs and technologies, which has brought achievements such as the development of numerous industry-leading skin brightening ingredients.

Shiseido Makes History Shiseido has made great progress through innovation. In addition to establishing new systems such as the Shiseido chain store system in Japan, we built our strong position as a global player by developing overseas operations ahead of our competitors. We have been doing business in Asia for more than 50 years, and we celebrated our 30th anniversary in China in 2011. 1923 Initiated Shiseido chain stores, Japan's first voluntary chain store system. Introduced the system in China in 2004. 1957 Established Taiwan Shiseido Co.

, Ltd. and began fullscale overseas operations Note: The overseas sales ratio is for the year ended March 2012. The number of countries and regions where Shiseido products are available is as of December 31, 2011. "Shiseido products" means the global brand. 8 SHISEIDO ANNUAL REPORT 2012 People 46, 267 Shiseido Group employees worldwide 82.

<https://assignbuster.com/shiseido-annual-report-2012/>

9% Percentage of female Group employees in Japan Our founding spirit is serving customers and contributing to society through beauty. This spirit lives on in Our Mission. Initiatives to realize it have involved building a spirit of omotenashi (hospitality), a unique asset, to develop our businesses and increase corporate value. Shiseido comprises more than 40, 000 employees with diverse attributes, including nationality, gender, age, and employment status, values and viewpoints. A corporate culture that values diversity, an unwavering commitment to our traditional beliefs, and people who constantly innovate are the sources of Shiseido's value. Shiseido Makes History Shiseido builds ties with customers through sales counter activities that introduce beauty methods tailored to the skin and tastes of each individual.

Since introducing Miss Shiseido in 1934 with a mission to spread awareness of beauty, Shiseido has continuously worked to realize beauty through activities that touch the skin and the hearts of customers. 1934 Introduced Miss Shiseido, the predecessor to modern beauty consultants 2005 Included level of customer satisfaction with service in the evaluation of beauty consultant activities Note: The number of Shiseido Group employees worldwide is as of March 31, 2012 (in Japan) and December 31, 2011 (outside of Japan), and includes temporary employees. The percentage of female Group employees in Japan is as of March 31, 2012. 10 SHISEIDO ANNUAL REPORT 2012 Message from the President ; CEO Shiseido aims to become a global player representing Asia with its origins in Japan. In 2008, Shiseido drew up a 10-year roadmap with the goal for the year ending March 2018 of becoming a company with consolidated net sales in excess of ?

trillion and an overseas sales ratio of more than 50 percent that can consistently achieve operating profitability of 12 percent or higher and return on equity (ROE) of 15 percent or higher.

Our current Three-Year Plan culminating in the year ending March 2014 is Phase II of this roadmap, and has the theme of getting Shiseido into a growth trajectory. We are currently implementing four growth strategies supported by measures to reinforce our management base. Our top priorities are to revitalize the Domestic Cosmetics Business and accelerate globalization. In the year ended March 2012, the first year of the Three-Year Plan, we aggressively invested in marketing for future growth in Japan and overseas. We achieved a number of successes as we implemented initiatives such as cultivating existing products and refining brand value.

We intend to use the foundation we have built to generate solid growth in the year ending March 2013. Shiseido will continue to invest aggressively for growth, and will implement fresh initiatives such as introducing a new business model in Japan. In the year ending March 2013, Shiseido celebrates its milestone 140th anniversary. Since our founding, we have ceaselessly created new value in every area from product development and sales to sales counter hospitality and advertising in order to respond to the desire among people worldwide to be beautiful. Customers and communities worldwide recognize this value and have supported our progress, enabling us to continue our corporate activities over 140 years.

Reaffirming my gratitude to customers and communities, I believe that I must carry on the Company's founding spirit while continuing to innovate

so that Shiseido evolves and remains an outstanding company in the future. Shiseido has always embraced innovation, progress and challenge. They are facets of our corporate culture. The only way that Shiseido can evolve is by integrating its cumulative strengths to continuously create new and richer value. Shareholders and investors can look forward to further evolution from Shiseido. We are counting on your continued support.

Ten-Year Roadmap Three-Year Plan Globalization Phase Make a leap forward
 Paradigm shift through fundamental reforms Globalization Phase Improve
 quality of activities across the board Establish a presence in Asia
 Globalization Phase Get into a growth trajectory Become a global player 2005
 2008 2011 2014 2017 Year ending March 2018 Accelerated transformation
 into a global company (Integration of domestic and overseas business
 operations) Customer-oriented marketing reforms 12 SHISEIDO ANNUAL
 REPORT 2012 Shiseido celebrates its 140th anniversary in the year
 ending March 2013. Integrating the strengths we have acquired, we will con-
 tinuously create new and richer sources of value to evolve and remain
 an outstanding company. July 2012 Hisayuki Suekawa President & CEO
 (Representative Director) SHISEIDO ANNUAL REPORT 2012 13 Shiseido
 Snapshot Business Overview (Year ended March 2012) Shiseido's
 Reportable Segments Domestic Cosmetics Business Domestic Cosmetics
 Division Counseling Self-Selection Toiletries Sales by Segment High- and
 mid-priced cosmetics products through beauty proposals mainly by beauty
 consultants using techniques including value-added counseling and "one-
 point counseling" (tips) Low-priced cosmetics that customers select by
 themselves at the point of sale Shampoo, conditioner and other haircare

products as well as body care products Domestic Cosmetics Business 51. 8% Healthcare Division, Non-Shiseido and Others Original brands of beauty foods and over-the-counter drugs as well as cosmetics brands that originate within the Shiseido Group but are not branded as Shiseido cosmetics products Domestic Cosmetics Business Sales Channels The sales channels of the Domestic Cosmetics Business include voluntary chain stores, department stores, drugstores and general merchandise stores, and are divided into cosmetics sales store distribution and general product distribution. In addition, Shiseido launched a new business model using the Internet in April 2012. (Please refer to the Insight section, Taking on Challenges: A New Business Model, in Review of Operations: Domestic Cosmetics Business on pages 40 to 41 for more detail on Shiseido's new business model.

) Cosmetics Sales Store Distribution System of direct sales of counseling products and self-selection products to retail stores under contract without wholesalers General Product Distribution System of sales of toiletries to general retail stores using wholesalers Voluntary Chain Stores A network of cosmetics stores run by individuals that sell using counseling in collaboration with Shiseido, sharing its philosophy and operating policies Department Stores A representative counseling channel paralleling voluntary chain stores that sells high-priced cosmetics Drugstores, General Merchandise Stores, etc. Channels in which a broad range of counseling products, self-selection products and toiletries is sold General retail stores Wholesalers Shiseido 14 SHISEIDO ANNUAL REPORT 2012 Global Business Overseas Cosmetics Division Prestige Masstige Global Business 46. 9% High-priced premium products with a high quality, full-service image marketed through depar

tment stores and other channels. Led , our core by the global brand cosmetics brands in overseas markets also include fragrance brands that originated in Europe. With a name coined from “ mass” and “ prestige,” masstige products are positioned as more expensive than mass-produced products, but more moderately priced than prestige products.

Shiseido is aggressively marketing masstige products in China and other Asian markets expected to grow in the future. Overseas and Domestic Professional Divisions JOICO, DECLEOR, CARITA and other brands for spas and salons in Japan and overseas Others 1. 3% Others The Frontier Science Division (manufacture and sale of cosmetics raw materials, medical-use pharmaceuticals and other products), restaurant operation and other activities Shiseido s Global Operations The global brand was available in 87 countries and regions as of December 31, 2011, and overseas sales accounted for 44. 3 percent of net sales for the year ended March 2012. With four factories in Japan and 11 overseas, Shiseido is localizing production. Moreover, our R; D organization employs approximately 1, 000 people at 10 bases worldwide, exemplifying our efforts to develop products that reflect regional characteristics.

Europe 51 Asia (including Japan) 15 Middle East Africa Americas 6 9 Oceania 3 3 87 countries and regions Shiseido International France S. A. S. Shiseido China Research Center Co. , Ltd.

Vietnam factory Shiseido America Research Center SHISEIDO ANNUAL REPORT 2012 15 Overview of Results Shiseido Company, Limited, and Subsidiaries For the years ended March 31, 2008 to 2012 Highlights for the Year Ended

<https://assignbuster.com/shiseido-annual-report-2012/>

March 2012 Net sales + 1.7 Net sales increased 1.7 percent year on year. Net sales in Japan were essentially on par with the previous fiscal year despite factors such as the Great East Japan Earthquake. Overseas sales continued to grow strongly, increasing 5.1 percent year on year on a yen basis and 11.

9 percent on a local currency basis. Overseas sales ratio 44.3 - Overseas sales increased by double digits on a local currency basis in all regions, from the Americas and Europe to Asia and Oceania. The overseas sales ratio increased 1.4 percentage points to 44.

3 percent. Operating income 2.0 Operating income decreased 12.0 percent year on year largely because of marketing costs associated with energetic investment targeting sales growth in Japan and overseas. Net Sales (Billions of yen) Operating Income / Operating Profitability (Billions of yen / %) Net Income (Billions of yen) 723.

5 690.3 644.2 670.7 682.4 63.

5 35.5 49.9 8.8 7.2 50.4 44.

5 7.8 6.6 33.7 39.1 5.

7 19.4 12.8 14.5 08 09 10 11 12 08 09 10 11 12 08 09 10 11 12 (Years ended March) (Years ended March) Operating income Operating profitability (Years ended March) Return on Equity 5 (%) Net Income per Share (Primary) 1 (Yen) Cash Dividends per Share (Yen) 9.2 9.8 86.

1 84.6 34.0 50.0 50.0 50.

0 50. 0 5. 4 3. 9 48. 0 4. 9 32.

1 36. 5 08 09 10 11 12 08 09 10 11 12 08 09 10 11 12 (Years ended March)

(Years ended March) (Years ended March) Notes: 1. 2. 3. 4.

Net income per share (primary) is calculated based on the average number of shares outstanding during the fiscal year. Net income per share is calculated before dilution. Net sales by reportable segment and geographic area represent sales to external customers only and do not include intersegment/interarea sales or transfers. Profitability by reportable segment and operating profitability by geographic area do not include eliminations/corporate. Interest-bearing debt ratio = Interest-bearing debt / Invested capital* * Invested capital = Interest-bearing debt + Total net assets

16 SHISEIDO ANNUAL REPORT 2012 Shiseido Snapshot Return on equity (ROE) 4. 9 37.

9 ? 50. 0 ROE increased 1. 0 percentage points year on year to 4. 9 percent because of higher net income. Interestbearing debt ratio The interest-bearing debt ratio decreased 0. 3 percentage points to 37.

9 percent because of repayment of debt. Cash dividends per share Emphasizing stable dividends, Shiseido paid annual cash dividends per share of ? 50. 0, and the consolidated payout ratio was 137. 1 percent. Net Sales by Reportable Segment 2 (Billions of yen) Profitability by Reportable Segment3 (%) Overseas Sales / Overseas Sales Ratio (Billions of yen / %) 42. 9 36.

9 287. 8 44. 3 302. 4 129. 7 82. 2 90.

5 12 20. 8 278. 8 17. 0 275. 7 10. 0 250.

4 9. 7 302. 6 8. 9 319. 7 10.

1 8. 1 6. 3 5. 5 4. 8 5. 1 10.

5 10. 1 11. 4 36. 5 38. 0 262. 0 9.

3 9. 9 8. 3 264. 3 237. 5 122. 0 115.

2 78. 2 112. 1 3. 8 3. 0 118. 6 423.

9 97. 6 383. 8 358. 4 353. 8 12 08 09 10 11 2. 6 12 08 92.

8 59. 4 88. 5 54. 9 73. 8 48. 5 87.

6 08 09 10 11 09 10 11 (Years ended March) Domestic Cosmetics Business

Global Business Others (Years ended March) Domestic Cosmetics Business

Others Global Business (Years ended March) Americas Europe Overseas

Sales Ratio Asia/Oceania Net Sales by Geographic Area 2 (Billions of yen)

Operating Profitability by Geographic Area 3 (%) Interest-bearing Debt /

Interest-bearing Debt Ratio 4, 5 (Billions of yen / %) 15. 5 102. 4 103. 8 56. 6

109.

6 100. 0 50. 7 117. 1 84. 3 85. 5 15.

3 13. 9 214. 197. 5 14. 3 185. 2 108.

0 82. 4 45. 7 125. 1 89. 2 86.

8 381. 3 12 11. 4 8. 3 6. 5 6.

1 7. 8 5. 6 4. 0 1. 6 6. 5 6.

0 5. 6 7. 2 4. 1 37. 0 38. 2 37.

9 460. 7 430. 0 408. 1 383. 8 5.

5 5. 0 3. 0 12 63. 2 13. 7 62. 1 15.

0 08 09 10 11 08 09 10 11 08 09 10 11 12 (Years ended March) Japan

Americas Asia/Oceania Europe (Years ended March) Americas Japan

Asia/Oceania Europe (Years ended March) Interest-bearing debt Interest-

bearing debt ratio 5. Shiseido Group subsidiaries in the Americas formerly

recognized samples and promotional items associated with marketing

activities at stores as assets when acquired and expensed them when shipped

to customers. However, effective the year ended March 2012 these

subsidiaries began to expense these items when acquired as part of its

efforts to standardize Group accounting policies. The Shiseido Group applied

this change retrospectively and restated the consolidated financial

statements for the year ended March 2011 accordingly. SHISEIDO ANNUAL

REPORT 2012 17 Please refer to pages 80 to 81 for an in-depth 11-year

summary of selected financial data.

Millions of yen (Except per share data) Thousands of dollars Note 1 Except

per share data YoY change 2008 2009 2010 2011 (Note 3) 2012 2012

2012/2011 Operating Results and Financial Position: Net sales Cost of sales

Selling, general and administrative expenses Operating income EBITDA (Note

2) Net income Total assets (Note 3) Short-term liabilities (Note 4) Long-term

debt Interest-bearing debt Net assets (Note 3) Net cash provided by

<https://assignbuster.com/shiseido-annual-report-2012/>

operating activities Net cash used in investing activities Net cash provided
 by (used in) financing activities Cash and cash equivalents at end of year ?
 723, 485 186, 466 473, 554 63, 465 94, 960 35, 460 ? 675, 864 38, 653 24,
 566 63, 219 399, 739 ? 5, 308 (5, 803) (95, 883) 120, 394 ? 690, 256 ? 644,
 201 160, 166 171, 752 433, 684 468, 590 50, 351 49, 914 75, 699 70, 149
 33, 671 19, 373 ? 606, 569 ? 775, 446 112, 693 27, 601 101, 754 34, 452
 214, 447 62, 053 365, 208 351, 951 ? 42, 768 ? 69, 432 (28, 158) (204, 885)
 120, 359 (32, 283) 77, 157 91, 858 ? 670, 701 168, 692 457, 551 44, 458 65,
 576 12, 791 ? 739, 120 16, 362 181, 156 197, 518 320, 127 ? 67, 587 (30,
 304) (39, 572) 88, 592 ? 682, 386 \$8, 307, 597 162, 990 1, 984, 295 480,
 261 5, 846, 859 39, 135 476, 443 76, 974 937, 107 14, 515 176, 710 ? 720,
 708 \$8, 774, 142 9, 735 118, 517 175, 418 2, 135, 598 185, 153 2, 254, 115
 303, 716 3, 697, 541 ? 2, 600 \$ 640, 370 (20, 668) (251, 619) (35, 482) (431,
 970) 82, 974 1, 010, 153 +1. 7% -3. 4 +5. 0 -12. 0 +17. 4 +13.

5 -2. 5 -40. 5 -3. 2 -6. 3 -5. 1 — — — — Per Share Data (In yen and U.

S. dollars): Net income (Note 5) Net assets (Notes 3 and 5) Cash dividend

Weighted average number of shares outstanding during the period

(thousands) ? 86. 1 946. 2 34. 0 407, 696 ? 48. 0 839.

9 50. 0 403, 240 ? 84. 6 875. 7 50. 0 397, 886 ? 32.

1 772. 1 50. 0 397, 864 ? 36. 5 729. 9 50.

0 397, 974 \$0. 44 8. 89 0. 61 — +? 4. 4 -42. 2 ±0.

0 — Financial Ratios: Operating profitability (%) Return on assets (%) (Note
 3) Operating ROA (%) (Notes 3 and 6) Return on equity (%) Equity ratio (%)

<https://assignbuster.com/shiseido-annual-report-2012/>

(Note 3) Interest coverage ratio (times) (Note 7) Debt equity ratio (times)
 (Notes 3 and 8) Interest-bearing debt ratio (%) (Notes 3 and 9) Payout ratio
 (Consolidated) (%) Number of employees at year-end (Note 10) Net sales per
 employee 8. 8 5. 0 9. 4 9. 2 56.

6 39. 1 0. 17 13. 7 39. 5 28, 793 ? 25. 1 7.

2 3. 0 8. 2 5. 4 55. 6 23.

6 0. 18 15. 0 104. 1 28, 810 ? 24. 0 7. 8 4.

9 7. 5 9. 8 44. 9 45. 4 0.

62 37. 0 59. 1 28, 968 ? 22. 2 6. 6 1. 7 6.

1 3. 9 41. 6 32. 8 0. 4 38.

2 155. 5 31, 310 ? 21. 4 5. 7 2. 0 5. 6 4.

9 40. 3 27. 3 0. 64 37. 9 137. 1 32, 595 ? 20.

9 — — — — — — — — — — \$254 -0. 9 points +0. 3 points -0. 5 points +1. 0
 points -1.

3 points — — -0. 3 points -18. 4 points +4. 1% -2. 3% Notes: 1.

U. S. dollar amounts are converted from yen, for convenience only, at the
 rate of ? 82. 14 = US\$1 prevailing on March 31, 2012. 2. EBITDA (Earnings
 before interest, tax, depreciation and amortization) = Income before income
 taxes + Interest expense + Depreciation and amortization 3.

Shiseido Group subsidiaries in the Americas formerly recognized samples and promotional items associated with marketing activities at stores as assets when acquired and expensed them when shipped to customers. However, effective the year ended March 2012 these subsidiaries began to expense these items when acquired as part of its efforts to standardize Group accounting policies. The Shiseido Group applied this change retrospectively and restated the consolidated financial statements for the year ended March 2011 accordingly.

4. Short-term liabilities = Short-term debt + Current portion of long-term debt

5. Net income per share (primary) is based on the average number of shares outstanding during the fiscal year.

Net assets per share is calculated using the number of shares outstanding as of the balance sheet date. Net income per share is calculated before dilution.

6. Operating ROA = (Operating income + Interest and dividend income) /

Total assets (Yearly average)

7. Interest coverage ratio = Net cash provided by operating activities / Interest paid

* * As stated in the statements of cash flows

8.

Debt equity ratio = Interest-bearing debt / Equity

* * Equity = Total net assets - Stock acquisition rights - Minority interests in consolidated subsidiaries

9.

Interest-bearing debt ratio = Interest-bearing debt / Invested capital

* *

Invested capital = Interest-bearing debt + Total net assets

10. The number of employees at year-end does not contain temporary employees.

18

SHISEIDO ANNUAL REPORT 2012 Shiseido Snapshot Major Events of the Year Ended March 2012 April 2011 Hisayuki Suekawa became President and CEO, and Shiseido announced a new Three-Year Plan with the theme of getting into a growth trajectory as the second phase in becoming a global player

<https://assignbuster.com/shiseido-annual-report-2012/>

representing Asia with its origins in Japan. We repurposed existing internal information on beauty, research and other topics and added it to sales counter activities to launch “Cool Life Proposal” beauty proposal activities in Japan. We subsequently implemented seasonspecific proposals in all channels for fall, winter and spring.

Shiseido held a ceremony to celebrate its 30th anniversary of business in China. We took this opportunity to launch the “Shiseido Future Beauty Project,” a program to support China’s next generation in the beauty arena. Shiseido announced a new message for Bare Escentuals, “BE A FORCE OF BEAUTY,” to celebrate the brand’s 35th anniversary and conducted a major campaign. Held in Thailand, the 26th IFSCC Conference recognized the world’s best cosmetics research. Shiseido won the top Conference Award for its oral presentation, raising its total of top IFSCC awards to a worldleading 15. We received the Japan Business Federation Chairman’s Award at the 21st Grand Prize for the Global Environment Award because our efforts to preserve the Earth’s blessings were united with business activities.

Shiseido was selected as one of the 2012 World’s Most Ethical Companies by the Ethisphere Institute, a U.S.-based international think tank dedicated to advocating best practices in business in such areas as corporate ethics and CSR. Hisayuki Suekawa became President and CEO New Three-Year Plan announced May 2011 “Cool Life Proposal” beauty proposal activities launched May 2011 30th anniversary of business in China September 2011 Major campaign conducted for Bare Escentuals December 2011 Shiseido won top award at the 26th IFSCC* Conference March 2012 Shiseido won award at the 21st Grand Prize for the Global Environment <https://assignbuster.com/shiseido-annual-report-2012/>

Award March 2012 Shiseido selected as one of the 2012 World's Most Ethical Companies *International Federation of Societies of Cosmetic Chemists Inclusion in Socially Responsible Investing Indexes (As of March 2012) Numerous institutions involved in auditing socially responsible investing (SRI) have recognized Shiseido by including it in SRI indexes worldwide. As of March 2012, Shiseido remained a component of SRI indexes including the leading U.

K. F TSE4Good Global Index and the Morningstar Socially Responsible Investment Index (MS-SRI) in Japan. SHISEIDO ANNUAL REPORT 2012 19 An Interview with the President & CEO Shiseido aims to become a global player representing Asia with its origins in Japan. We must therefore leverage the foundation we have built and ceaselessly take on challenges to accelerate growth. Hisayuki Suekawa President & CEO (Representative Director) Q1 Please discuss Shiseido's results for the year ended March 2012, the first year of the Three-Year Plan.

Sales increased in line with our initial forecast, and operating income decreased because of our aggressive marketing investments for growth. Our current Three-Year Plan has the theme of getting Shiseido into a growth trajectory. We are currently implementing four growth strategies supported by measures to reinforce our management base to revitalize the Domestic Cosmetics Business and accelerate globalization, which are our top priorities. The year ended March 2012 was the first year of our current Three-Year Plan. We concentrated on turning around our domestic operations and made aggressive marketing investments for the future. As a result, net sales increased 1.

<https://assignbuster.com/shiseido-annual-report-2012/>

7 percent year on year, achieving our initial forecast. In Japan, where we reformed marketing and sales activities, sales edged down 0.8 percent due to the impact of the Great East Japan Earthquake and other factors.

Overseas, we made steady progress in cultivating our brands, and the expanding Chinese market remained a growth driver. As a result, overseas sales increased 11.9 percent year on year on a local currency basis, and 5.

1 percent on a yen basis. Operating income decreased 12.0 percent year on year because of increased expenses, primarily marketing costs in Japan and overseas. 20 SHISEIDO ANNUAL REPORT 2012 Rebirth as a 100%

Customer-Oriented Company Brighten Our Brand, a Valuable Management Resource Fill the Shiseido Organization with People with Their Own Appeal Japan Recovery of growth potential China Sustained growth in the markets, which serve as a growth engine Asian Countries Increasing opportunities to discover customers in the expanding middle-income group Americas Europe Refining the prestige image Global Mega-Brand Strategy Improvement of brand value in the prestige market Full-scale promotion of the prestige market Asian Breakthrough Strategy Expanding market share in Asia Promote the priority activities in each country New Frontier Strategy Full-scale entry to direct marketing Enhancement of initiatives in emerging countries Customer-First Strategy Refining product development Refining of sales activities Reinforcement of management base Optimization of production system Improvement of procurement system Establishment of IT infrastructure Globalization of human resources Deepening of CSR Activities Q2 Please discuss the specific initiatives and successes in each business that enabled Shiseido to increase net sales according to plan in the year ended

March 2012. The Domestic Cosmetics Business undertook marketing reforms to depart from conventional marketing. The Global Business successfully cultivated brands.

During the year ended March 2012, the Domestic Cosmetics Business departed from conventional marketing that was overly dependent on new products and their promotion. Working to raise the quality of activities across the board, we selectively launched new products, reducing the number of launches by about one-half. This freed up manpower and costs for redeployment in R; D, sales activities, hospitality at sales counters and other components of our value chain. These marketing reforms enabled us to create multiple hit products including Essence Glamorous Rouge in the MAQUILLAGE line, an over whelming success that has sold more than one million units. Moreover, improved information compilation drove success. We reorganized our internal database of beauty, research and other information and combined it with sales counter activities to of fer season-specific proposals.

This and other initiatives helped us cultivate our existing products. In the Global Business, brands with a presence in each of the world's regions have performed well, particularly the global mega-brands that we are focusing on cultivating. We are generating double-digit growth on a local currency basis in every region from SHISEIDO ANNUAL REPOR T 2012 21 the Americas and Europe to Asia, including China. Competition with global peers is intensifying in China, our core market, so we concentrated the investment of resources there to strengthen human resources, marketing and other aspects of our

business. As a result, we made steady progress in further strengthening our prestige business and expanding our masstige* business.

The sales growth rate in China was in the mid-teens year on year, substantially outpacing growth in the overall market. * A word coined from “mass” and “prestige.” Masstige products are positioned as more expensive than mass-produced products, but more moderately priced than prestige products. Q3 How is Shiseido positioning the year ending March 2013?

Please discuss the outlook for the current fiscal year. The year ending March 2013 is a year to generate solid growth. We will use the foundation we built in the year ended March 2012 to accelerate growth and increase sales and earnings.

A year to generate solid growth – that’s how we are positioning the year ending March 2013. As the second year of our Three-Year Plan, it is a crucial time in which we will use the foundation we built in the year ended March 2012 to accelerate growth. We will continue to conduct activities that were successful in the year ended March 2012. This will help us achieve even greater successes as we undertake activities to generate unprecedented value, including the introduction of a new business model in Japan. We forecast that net sales for the year ending March 2013 will increase 5.5 percent year on year to ? 720.

0 billion as a result of factors including continued increases of investment in marketing costs in Japan and overseas. Looking at the components of net sales, we plan to increase domestic sales 3.4 percent and overseas sales 8.1 percent on a yen basis, and by 10 percent on a local currency basis. We

forecast that operating income will increase 11.2 percent year on year to ? 43.

5 billion because of the increase in sales. We plan to increase marketing costs by a maximum of about ? 3.0 billion year on year in Japan and about ? 9.0 billion overseas. Performance Forecast for the Year Ending March 2013

| Year ended March 2012 (Actual) | Year ending March 2013 (Forecast) | Year-on-year change (Billions of yen) | Year-on-year change (Local currency basis*) |
|--------------------------------|-----------------------------------|---------------------------------------|---|
| Net sales | Domestic sales | Overseas sales | Operating income |
| Net income | Overseas sales ratio | Operating profitability | 682.4 |
| 380. | | | |

0 302.4 39.1 14.5 44.3% 5.7% 720.

0 393.0 327.0 43.5 22.0 45.

4% 6.0% 5.5% 3.4% 8.1% 11.

2% 51.6% 1. points 0.3 points 6% 10% * Assumed exchange rates: ? 80 per U. S.

dollar, ? 105 per euro, and ? 12.5 per Chinese yuan

22 SHISEIDO ANNUAL REPORT 2012 An Interview with the President ; CEO Q4 What initiatives will Shiseido implement during the year ending March 2013 to address the key priorities of revitalizing and turning around Shiseido's business in Japan? We will refine successful activities of the previous fiscal year to generate further successes while focusing on remaining issues involving major retailers such as drugstores and general merchandise stores. In Japan, we will further strengthen our emphasis on selectively introducing new products and making our products perennial bestsellers. As in the year ended March 2012,

<https://assignbuster.com/shiseido-annual-report-2012/>

we will continue to selectively launch highly competitive new products and cultivate existing products. In addition, we will energetically make season-specific proposals, which were very successful in the previous fiscal year. We also plan to develop beauty information for and make proposals in the senior market, in which volume is large and expected to expand further.

We will conduct even more intensive basic activities in each sales channel. In the year ended March 2012, for example, we conducted intensive activities including direct contact with customers' skin and use of beauty equipment at sales counters in the department store channel, which was expected to suffer from the impact of the earthquake and tsunami. As a result, sales in this channel increased year on year. We will further enhance such activities that leverage our strengths in each channel. At the same time, we aim to increase sales at drugstores and general merchandise stores, where several issues have carried over from the year ended March 2012, such as numerous unwieldy policies.

We have not fully revitalized our self-selection business, so it will be our focus as we take steps such as fortifying in-store promotions and providing samples via our website to turn around our brands and step up collaborative initiatives tailored to the unique characteristics of each major retailer. Q5 What are the key points and aim of the recently introduced new domestic business model using the Internet? The goals of the model are to address changing consumer purchasing behavior and achieve a turn-around in our domestic business, with the aim of expanding the number of regular Shiseido customers. Introduced in April 2012, the new business model using the Internet is a core domestic initiative. The goals of this model are to address <https://assignbuster.com/shiseido-annual-report-2012/>

changing consumer purchasing behavior caused by rapid evolution in information technology and the advance of women into society, and to turn around the domestic cosmetics business. It is not simply an e-commerce model. It is an entirely new initiative designed to expand the number of regular Shiseido customers by using the strengths of the Internet and brick-and-mortar stores.

We launched two websites. The first is Beauty ; Co. a collaborative site featuring beauty- and health-related information as well as an online shopping mall. As of April 30, 2012, it had 28 corporate participants from fields including beauty, health care, medical care, fashion, relaxation and knowledge. The other website is Shiseido's total beauty service website, watashi+ (pronounced SHISEIDO ANNUAL REPORT 2012 23 " watashi plus"). It meets a diverse array of customers needs with a broad menu of services that includes online shopping and web-based counseling along with brick-and-mortar retail store introduction and search.

Moreover, we are gathering information via watashi+ and integrating it with purchase information collected at stores to build a customer database that will help increase sales at stores by supporting marketing promotions. Both sites are up and running and are attracting visitors, with a high proportion of young women registering as members. We expect them to yield a steady stream of opportunities to discover new customers. (Please refer to Taking on Challenges: A New Business Model on pages 40 to 41 for more detail on this new business model. Overview of the New Business Model Meet customers introduces Deepen relationship introduces Feel the quality Store Q6 Strong growth continues in China.

<https://assignbuster.com/shiseido-annual-report-2012/>

What are Shiseido's planned initiatives there? Also, please discuss the masstige business in Asia. In China, we are aiming to grow faster than the overall market by concentrating on further enhancing our presence. In the Asian masstige business, we will market aggressively. During the year ending March 2013, we will continue to place top priority on the Chinese market in investing resources. We expect to achieve ? 100 billion in sales by investing aggressively with a focus on marketing to continue generating an annual sales growth rate in the mid-teens, which is greater than overall market growth.

We will also maintain operating profitability above 10 percent. We expect double-digit growth in the department store channel during the year ending March 2013. We will respond to expanding needs in the high-prestige category by introducing a premium line under the AUPRES brand at 150 top-ranked stores in terms of sales. We will also cultivate the global brand by enhancing sales counter hospitality and renewing counters at major stores, while focusing more strongly on nurturing the top-end prestige brand cle de peau BEAUTE. These moves will enhance the prestige image of both brands. In the steadily growing cosmetics specialty store channel, we will concentrate on further increasing sales per store in addition to the number of stores that handle our products with the aim of achieving double-digit sales growth and sustained earnings growth.

We will continue to reinforce the urara brand sold only in this channel, and the PURE; MILD brand, while introducing The Collagen and skin-brightening drinks to SHISEIDO ANNUAL REPOR T 2012 24 An Interview with the President ; CEO broaden our range of proposals for customers. We see the <https://assignbuster.com/shiseido-annual-report-2012/>

Asian masstige category as a future growth driver, and will therefore strengthen our focus on television commercials and in-store visuals to build the cachet of the core masstige brand Za, especially in China and Thailand. We began producing TSUBAKI in China in December 2011 with a formulation adapted to local customer needs, and will enhance seasonal promotions for this brand. Moreover, the SENKA, MAJOLICA MAJORCA and AQUALABEL brands that have performed well in Taiwan and Hong Kong will launch in various Asian countries. With these initiatives, we plan to achieve double-digit growth during the year ending March 2013 in Asia, including China but excluding Japan.

Q7 In the year ending March 2013, how will Shiseido cultivate its prestige brands in global markets? We will focus on global mega-brands as we enhance brand equity and expand regional coverage for brands with a presence in each area. In the prestige category, we will continue to concentrate on strengthening the global brand , cle de peau BEAUTE and bareMinerals, as well as designer fragrances , we will increase opportunities to discover new and the makeup brand NARS. First, for the global brand customers with emphasis on Corrective Serum in the SHISEIDO BIO-PERFORMANCE high-performance skincare line while enhancing the brand's prestige image though the SHISEIDO FUTURE SOLUTION LX premium skincare line. We have been energetically promoting cle de peau BEAUTE overseas, and will further refine this brand as we expand its presence in North America. Next, we will energetically promote Bare Escentuals to achieve double-digit growth.

While cultivating the READY makeup line launched in September 2011 within the flagship bareMinerals brand, we will fully develop synergies with Shiseido to expand category coverage into skincare. We are also looking to complement results in the key U. S. market with further growth in Japan, Hong Kong, the United Kingdom and Germany. In addition, the launch of bareMinerals in Brazil in June 2012 exemplifies our proactive initiatives in growth markets. We will support our designer fragrance brands, which we primarily sell in Europe, by increasing the number of stores that carry them and the countries in which they are available.

For NARS, we will build brand equity in ways such as opening directly operated stores and expanding country coverage to further increase sales, which continued to grow steadily in the year ended March 2012. Q8 Please discuss progress toward the targets of the Three-Year Plan. Achieving our target for operating income will be difficult. We therefore plan to push ahead with vigorous initiatives to reinforce earnings, such as drastically reforming our cost structure. In April 2011, we announced that we would maintain and continue working to achieve our pre-earthquake targets of compound annual growth in sales of 6 percent or SHISEIDO ANNUAL REPORT 2012 25 higher on a local currency basis and operating profitability of 10 percent within three years.

Steadily implementing the measures I have already discussed have put the target for sales growth within reach. On the other hand, although we currently expect to achieve operating profitability of 8 percent, meeting our target of 10 percent for operating profitability will be difficult. The initial assumptions under which we formulated the Three-Year Plan have changed

<https://assignbuster.com/shiseido-annual-report-2012/>

for reasons including our ongoing need to invest in challenging markets in Asia such as Japan and China, and continued amortization of goodwill due to the delay in converging Japanese accounting standards with the International Financial Reporting Standards. However, we are pushing ahead with initiatives to reinforce earnings to get as close as we can to achieving the targets of the Three-Year Plan. In particular, we plan to drastically reform our cost structure so that we can secure the investment resources required to prevail in our increasingly competitive businesses and maintain operating profitability of 10 percent. We plan to announce the details of specific plans as they become available.

Q9 What approach will Shiseido take in its focus on further reinforcing its management base to achieve continuous growth? While spreading and entrenching Our Mission, Values and Way, which are the basis of all our activities, we will continue our proactive CSR activities and innovate our approach to corporate governance. In this period of major management transformation, the Shiseido Group felt it needed guidelines that help all employees share the same *raison d'être*, values and spirit. We therefore formulated Our Mission, Values and Way (MVW) in 2011 as our corporate philosophy. Spreading and entrenching MVW throughout the Group is critically important because it is our homing beacon, guiding us as various changes take place in our operating environment going for ward. I will lead the process of inculcating MVW among employees worldwide. Shiseido also sees CSR as all corporate activities that put MVW into practice. We aim to create beauty and health for people through activities that address the issues and expectations of society. We have determined three areas in which

we can make an important contribution to society: women and cosmetics (beauty), culture, and the environment. In the year ending March 2013, we have launched the Mirai Tsubaki Project, in which all Shiseido Group employees throughout the world will conduct social contribution activities to deepen our relationship with customers and society. Moreover, as a global company, we recognize that we must establish corporate governance that earns a high level of stakeholder trust and strengthen senior management to succeed in our competitive business. Accordingly, we will continue to implement corporate governance reforms that enhance management transparency, fairness and speed.

26 SHISEIDO ANNUAL REPORT 2012 An Interview with the President ; CEO Q10 Cash dividends per share totaled ? 50. 00 for the year ended March 2012, and the payout ratio was 137. 1 percent. Please discuss future shareholder return policies. Maximizing shareholder value is a primary management responsibility. Shiseido aims to provide substantial shareholder returns based on its total shareholder return policy. The total shareholder return policy of Shiseido Co. , Ltd. aims to maximize returns to shareholders through direct means and by generating medium- and long-term share price gains. To this end, our fundamental policy is to make strategic investments that drive earnings growth while raising capital efficiency, which will lead to medium- and long-term increases in dividends and share price. Shiseido's goal for returns over the medium term is a consolidated payout ratio of 40 percent. Based on this target, we will also prioritize payment of stable dividends while implementing share buybacks in a flexible manner. Cash dividends for the year ended March 2012 were ? 50. 00 per share, and the payout ratio was 137. 1 percent. The high payout ratio reflected a temporary decrease in profit levels due to

<https://assignbuster.com/shiseido-annual-report-2012/>

aggressive marketing investments. Given our performance forecast and commitment to stability, we plan to maintain cash dividends per share at ? 50. 00 for the year ending March 2013. Going forward, the payout ratio is expected to approach our medium-term goal as we work to meet the targets of the Three-Year Plan. Q11 What are your closing thoughts for shareholders and investors? The opinions of our shareholders and investors drive us to devote ourselves to further evolution. We intend to experience growth in the year ending March 2013, our second year of getting into a growth trajectory. I also expect Shiseido to proceed step by step toward becoming a global player representing Asia with its origins in Japan. The key in doing so will be stronger earnings. We will work to maximize shareholder value by drastically reforming our cost structure. Since becoming president and CEO one year ago in April 2011, I have learned much through my dialogue with many people, including customers, shareholders and investors, employees in Japan and overseas, and victims of the Great East Japan Earthquake. Your opinions drive me, and they drive Shiseido. Shiseido has built a superb value portfolio over 140 years in business. Count on us to continue creating new value as we further accelerate our efforts to make even greater progress in the future. SHISEIDO ANNUAL REPORT 2012 27 Shiseido's Next Era Has Begun Celebrating 140 years in business, Shiseido is now heading into its next era. In this feature article, Shiseido's key people explore the value portfolio Shiseido has built up since its founding and discuss how the Company is now creating new value through innovative initiatives. We hope readers will share our excitement about taking on the challenges of our next era. 28 SHISEIDO ANNUAL REPORT 2012 Ginza in the 1870s Beauty Defines 012 Our Continuing Dedication to Innovation <https://assignbuster.com/shiseido-annual-report-2012/>

As we celebrate 140 years in business, first and foremost Arinobu Fukuhara Tokyo Pharmacy Magazine advocated the separation of medical care and pharmaceutical dispensing we are grateful for 140 years of support from customers and society. At the same time, we appreciate the efforts of our predecessors who helped Shiseido overcome various challenges. We have sustained growth over many years by remaining true to our founding spirit while continuously innovating to adapt to the times. Our 140th anniversary is a turning point. We need to increase corporate value and the value of our brands by once more focusing our energy on sharing our strengths with the world, such as the technological capabilities we have developed throughout our history and our involvement in society. At this point, I would like to reaffirm my commitment to ensuring that Shiseido continues for another 140 years and beyond. To achieve that, we must respond flexibly to the changing times and economic environment while creating new value with the belief that the diversity we embrace will be fertile ground for the new Shiseido that will come forth. We cannot afford complacent satisfaction with the achievements of the past, but must continually take on challenges with the future in mind. Our next era has begun. Shiseido will constantly innovate to achieve excellence in beauty.

1872 Redefining Beauty One hundred and forty years ago, Arinobu Fukuhara built on his experience working as chief pharmacist at a navy hospital to establish Shiseido, Japan's first Western-style pharmacy in the Ginza district of Tokyo. Concerned about the inferior medications then available to the public, he aspired to separate medical care and pharmaceutical dispensing in Japan. Shiseido's first president, Shinzo Fukuhara, led Shiseido into the cosmetics business in 1897. The only cosmetics sold in Japan at that

<https://assignbuster.com/shiseido-annual-report-2012/>

time, powder and lipstick, were simply for altering appearance. Dissatisfied with the status quo, Shiseido brought a fresh perspective to cosmetics. We formulated our products like pharmaceuticals because we strongly believed that the true value of cosmetics was in achieving healthy, beautiful skin. Based on this belief, Shiseido has developed with an unwavering philosophical commitment to high quality, innovation and authentic value. Millions of people have come to know and trust the Shiseido name as a result. The origin of the company name “Shiseido” is a passage from the Chinese classic, I Ching (The Book of Changes): “praise the virtues of the great Earth, which nurtures new life and brings forth new values.” Shiseido puts the intent of this passage into practice by discovering and creating new value. This is our founding spirit, and it continues unbroken as Our Mission, Shiseido’s raison d’être. Hisayuki Suekawa Representative Director, President & CEO

ntA work by Yamana incorporating the arabesque design Ayao Yamana Poster for the global brand (2012) 2012 Continuous Evolution Defines Shiseido The history of Shiseido cosmetics is the his- 1877 Unique Beauty Begins to Evolve Five years after its founding, Shiseido began framing its newspaper advertisements with an arabesque design. Symbolizing the richness and beauty of the human spirit, this design was to become the corporate symbol of Shiseido. Fast forward to 1929. Ayao Yamana, a pioneer of Japanese graphic design, joined Shiseido. His first project was to draw the arabesque design by hand. The design was simple but its look changed completely with pen pressure. This tormented Yamana, who left Shiseido after three years. Yamana later returned to Shiseido after gaining broad experience and becoming a representative Japanese graphic designer. He returned to <https://assignbuster.com/shiseido-annual-report-2012/>

drawing the arabesque design. A thousand times, then ten thousand times. His stubborn efforts dramatically transformed art nouveau arabesque into unique Shiseido beauty. Yamana created a stream of sublimely elegant works that captured society's attention and established the Shiseido style. He said, "I finally get arabesque" two years before his death in 1978. His lifelong commitment to carrying on tradition and the continuous evolution of beauty is Shiseido in a nutshell.

tory of Japanese cosmetics. Our marketing systems have driven innovation in our businesses, and our original designs continue to define the times. Shiseido design is not simply a picture. Drawing on commercial art, it communicates proposals to the people of the world. In an age when newspaper advertising was the mainstream, Shiseido conveyed beauty with open space rather than cumbersome text. In tandem with the use of illustrations that referenced Western culture, this approach proposed Shiseido's image for cosmetics. We applied illustration techniques to photographs when photography became mainstream, and pioneered the use of original imagery to express proposals in the television age. Shiseido style continues to evolve because we embrace new modes of expression as the world changes while honoring the style and intent of the creative minds that developed it over the years. It is the source of Shiseido's allure. We will design lifestyles, lead with new approaches to communication, and create beauty and wellness for the future. The Advertising Creation Department's mission is to constantly evolve as Shiseido's beauty authority.

Katsuhiko Shibuya Beauty Inspires 30 SHISEIDO ANNUAL REPORT 2012 Executive Creative Director General Manager Advertising Creation Department 8 97 The Fusion of Chemistry and Cosmetics

<https://assignbuster.com/shiseido-annual-report-2012/>

tic s Eudermine was the first lotion Shiseido launched. Supported by progressive technological innovation, it remains a perennial bestseller at stores worldwide. Nagayoshi Nagai, the father of the Japanese pharmacy, developed this product. He set out to develop basic cosmetics with the core Shiseido conviction that they should be science -based and high quality, just like pharmaceuticals. He worked day and night to develop high-quality cosmetics, assiduously researching Japanese skin and focusing intensely on raw materials. In 1897, he finally completed Japan's first lotion founded on Western-style pharmacology. The price of Eudermine was 2. 5 times higher than conventional lotions of the time. However, the product was popular because of its high quality, and became popularly known as " Shiseido Red Water. " In 1916, Shiseido created the groundbreaking Testing Room in the Cosmetics Division to both develop products and ensure their quality. Shiseido made progress in research, subsequently building a broad portfolio of scientific knowledge and technolog y. Represent ative of Shiseido's boundless innovation, the development of Hydrogen Peroxide Cucumber paved the way for our skin-brightening lotion business. The fusion of chemistry and cosmetics defines Shiseido's history of progress in R&D. Beauty Reveals Eudermine Nagayoshi Nagai SHISEIDO FUTURE SOLUTION LX 2012 Consis tent Global Leader ship Our R&D capabilities rank at the top of the global cosmetics industry. This is evident from our history of awards from the International Federation of Societies of Cosmetic Chemists (IFSCC), which is considered the World Cup of the cosmetics world. The number of top IFSCC awards that Shiseido has received is unmatched by its global competitors. A fter extensive research, our team was the first in the world to solve a der matological puzzle, thereby realizing the dream of customers for a half-

<https://assignbuster.com/shiseido-annual-report-2012/>

century: strong skin that resists aging. We discovered that a rogue protein called serpin b3 causes rough skin and accelerates aging. After examining the skin of women in 18 countries, we realized that customers worldwide share this serpin b3 rogue protein. Loved worldwide, SHISEIDO FUTURE SOLUTION LX is a representative Shiseido skincare product that incorporates this knowledge. Shiseido's R; D history is a series of challenges that has spanned more than 100 years. Meeting these challenges has given us a large body of original research data and knowledge that is the foundation for new product development. Shiseido is therefore doing all it can to further strengthen its R; D platform. We need to please and delight customers in addition to satisfying their needs and wants. We must therefore harness the ceaseless flow of originality that runs through Shiseido. We undertake research each day firmly convinced that originality is the key to Shiseido's future growth.

Chika Katagiri, Ph. D. Senior Scientist Shiseido Research Center

1923 Retail Innovation In the 1910s, Japan's cosmetics retailers were locked in a debilitating price war. Noboru Matsumoto, who was in charge of Shiseido management at the time, wanted to resolve this situation by introducing the chain store system he had learned about as a university student in New York with the aim of fair selling prices and profits. However, other manufacturers did not follow Shiseido's lead because no other industry in Japan had successfully introduced a chain store system. Shop by shop, Matsumoto visited potential chain stores on foot to persuade them of the concept of and need for coexistence and mutual prosperity. Gradually, stores came around to Shiseido's thinking. As a result, we concluded voluntary chain store agreements with 2, 000 stores, which was 10 times our initial plan. The Shiseido Cosmetics Chain Store System became

<https://assignbuster.com/shiseido-annual-report-2012/>

Japan's first voluntary chain store system. Shiseido then energetically launched new initiatives. In 1934, we introduced Miss Shiseido, the forerunner to our modern-day beauty consultants. In 1937, we established the Hanatsubaki Club to deepen our relationship with loyal customers. Shiseido has truly been a retail innovator in Japan. Shiseido creates growth potential by continuously taking on challenges with high aspirations and passion. The watashi+ website Noboru Matsumoto A Shiseido chain store 2012 Launching Further Reforms Shiseido refines what it has built and evolves to ensure contemporary leadership. Customer purchasing behavior is changing dramatically. People use the Internet to acquire information by themselves and comparison shop beyond category boundaries. We have accommodated these major changes in the market environment by taking on the challenge of a new business model that increases regular users of our products by unifying our existing store-based sales business with a platform business and direct marketing using the Internet. The platform business is called Beauty & Co. , while the direct marketing business is called watashi+. Together, they will allow Shiseido to achieve the coexistence and mutual prosperity the Company values. I want to achieve three goals with this new business model. One, I want Shiseido to build direct relationships with customers and use them to steadily deliver the value they generate. Two, I want Shiseido to evolve from the cosmetics business to the business of providing total beauty solutions. And three, I want Shiseido to build a new earnings structure. etc. I am totally committed to succeeding in this new challenge of innovating Japan's retail market. Please refer to the Insight section, Taking on Challenges: A New Business Model, in Review of Operations: Domestic Cosmetics Business on pages 40 to 41 for further <https://assignbuster.com/shiseido-annual-report-2012/>

detail on Shiseido's new business model.) Beauty Changes Tatsuomi Takamori ri Director or Corporate Executive Officer er 19 57 S te p ping Out into the World Shiseido initiated full-scale overseas operations in 1957 by establishing a subsidiar y in Taiwan. Subsequently, Shiseido accelerated its advance into Europe and the A mericas, and st a r t ed it s busi nes s i n Ch i na i n 19 81, wel l a he a d of ot he r c om p a n i e s . We h a ve s i nc e continued to enhance our global presence. We emphasize diversity and brand equity. This is the standout feature of Shiseido's global operations. A prime example is France, which welcomed Shiseido in 1980 and then became t he st a r t i ng poi nt of ou r overseas prest ige strategy. We created an image that integrated the mystery of the East with the technology of the West, then executed meticulous prestige marketing. We also rigorously selected only those stores that were amenable to Shiseido policies, and focused on maintaining superior service and quality. As a result, Shiseido has successf ully dif ferentiated itself f rom other compa n ies , bu i ld i ng a st rong p osit ion as a prestige brand in France as well as in the markets of Europe and the Americas. We create new value in the same way when we acquire a brand. For CARITA, NARS, bareMinerals a nd a l l ot her br a nds we have acqu i red, we retain brand identity while developing synergies to generate continuous strong growth. Our corporate culture is a powerful foundation for growth because it values our origins and emphasizes diversity. Shiseido's overseas sales ratio is now 44. 3 percent, and overseas employees account for 46. 3 percent of total employees. Twenty years ago in the year ended March 1992, the overseas sales ratio was 6. 5 percent, which really highlights the speed of our global development. Shiseido's Global Business has generated average annual growth of 14 percent on a local

<https://assignbuster.com/shiseido-annual-report-2012/>

currency basis over the past three years. It is our growth driver. We absolutely must accelerate globalization if we want to actualize the Three-Year Plan theme of getting Shiseido into a growth trajectory. Our objective is to become a Global Multiple-Brand Company possessing multiple brands with annual sales of between ? 50 billion and ? 100 billion. In the prestige category, we are working to achieve our objective by providing value in the form of a rare and unique brand experience. In the mass prestige category, we are accelerating initiatives to discover even more customers in the expanding middle-income demographic. Moreover, we plan to concentrate on improved insight analysis and brand surveys to generate steady growth for all of our brands. Brands are not equivalent to products. Product technology, features, sales counter hospitality, point of sale, philosophy and history are all important to a brand. Shiseido will create value, communicate it and continuously refine it to prevail in global markets. Beauty Builds 2012 Ranked among the Winners Shiseido France in 1980 bareMinerals NARS Carsten Fischer r Representative Director r Corporate Senior Executive Officer r Review of Operations Shiseido aims to build a powerful brand portfolio by combining global mega-brands developed on a priority basis to extend beyond regional boundaries and brands for which it is enhancing presence in specific regions. Domestic Cosmetics Business Domestic Cosmetics Division Counseling Self-selection ? P. 36 Global MegaPrestige REVITAL GRANAS J MAQUILLAGE J C A AQUALABEL J C A Global brand uno J C A J C A U E ELIXIR SUPERIEUR J C A U BENEFIQUE J A Toiletries INTEGRATE J A cle de peau BEAUTE J C A U SEA BREEZE J A SUPER MiLD J C A ANESSA J C A Healthcare Division Non-Shiseido Bare Escentuals bareMinerals The Collagen J * In China, only Hong Kong CHOU-MEI-SOU J ' IPSA J C A