

Materiality 3

Creating Safe and Reliable Products and Services to Bring Convenience and Richness to Everyday Life



Social Background and Issues to Recognize: Significance

The retail industry is seeing the scale of its market shrink as Japan's population declines, and the rapid expansion of e-commerce has intensified competition with other kinds of businesses. These changes are greatly impacting how goods are sold and the retail world itself. At the same time, the maturation of retail markets has produced a shift from “tangible consumption” (desiring the functionality of a product or service) to “intangible consumption” (seeking satisfaction from the experience of purchasing and using a product or service). Consumers also care more about the environment and their own health. Thus, demand is growing for products and services that help to address problems faced by society and local communities. Other impacts include the concentration of the population in urban areas and changing demographics due to the declining birthrate and aging population. As a result, there are more working women, double-income households, and single-person households. That means less time for housework and greater demand for food products packaged in small portions, among other signs that the retail business environment is in a period of transformation.

We take these social conditions and people's changing and diversifying lifestyles as opportunities for the reassessment of convenience stores as familiar parts of consumers' lives.

We are committed to bringing convenience and richness to everyday life by expanding our lineup of products that save time spent on shopping and cooking; maintaining awareness of safety, security, the environment, and health; enhancing product development in ways that involve customers and complement local cuisine, with local production for local consumption; and promoting digitalization to improve consumer satisfaction and convenience, all while remaining close to consumers and local communities.

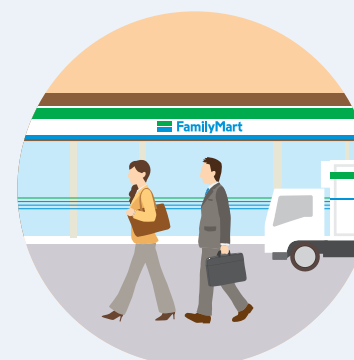
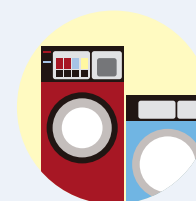
Vision: Approach to Our Initiatives

We will aim to develop unique products mindful of safety, reliability, and changes in consumers' lifestyles and values and to enrich our product lineup to meet increasingly sophisticated and diverse consumer needs.

In product development, we will strive to set ourselves apart from the competition primarily by gauging diverse consumer needs and providing highly value-added products that save time and are convenient and useful in everyday life. We will also work proactively to create products that appeal to consumers' health consciousness and the lifestyle trends of each generation.

Measures Taken

- Improvement of customer satisfaction / Promotion of digitalization to improve convenience
- Provision of products and services to improve health and well-being



Improvement of Customer Satisfaction / Promotion of Digitalization to Improve Convenience

Issues to Recognize

The population structure is changing due to the declining birthrate and aging population. Additionally, the population is becoming concentrated in urban areas, families are growing smaller, and more women are working. The result is less time for housework and greater demand for food products packaged in small portions. The growth of the internet, furthermore, has created rapid growth in e-commerce consumption and further diversified consumer behavior and values.

These social changes are transforming how goods are sold and the state of retail. Adding to that, in more mature markets, there is a growing trend of shifting from “tangible consumption” (desiring the functionality of a product or service) to “intangible consumption” (seeking satisfaction from the experience of purchasing and using a product or service).

Achievements and Performance

- Feedback arrived at Customer Service Office: more than 90,000
- Downloads of FamiPay app: about 4 million (as of the end of November 2019)

Management Approach

The advantage of brick-and-mortar stores is that their extensive product lineups give customers the opportunity to actually pick up and handle products that they have never seen before or that provide new value to their lives. We make full use of these characteristics to create sales floors that make daily life fresher and more interesting along with meeting a wide range of consumer needs, thereby supporting the desired lifestyle of each individual customer. We are also promoting digitalization with a basic policy of open innovation. The goal is to improve convenience for customers and reduce workloads for stores.

Enhancement of Product Development Incorporating Customers' Needs

We aim to develop unique products mindful of customers' increasingly diverse lifestyles and values and to enrich our product lineup to meet the wide range of consumer needs. We incorporate customers' diverse needs into the product development process, developing and updating products with a particular focus on highly value-added products that save time and are convenient and useful to everyday life. At the same time, we work to set ourselves apart from the competition. In concrete terms, we formulate development concepts based on customer requests and various surveys. Then, in each category, the divisions concerned decide on detailed product specifications. Our sales, marketing, and product divisions meet regularly each week to share information about promotions and the state of sales and to discuss how to improve quality. As a sales measure to provide new value to customers, we also proactively partner with manufacturers to plan sales promotions. We execute a plan in collaboration with one manufacturer each month.

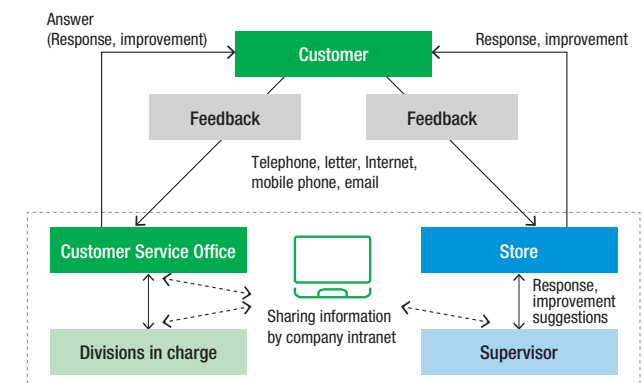
To decide a product's target consumer and price, we have introduced demand chain management to predict demand from POS data, allowing us to use various data strategically. We also use the internet and social media to share, collect, and analyze information. This helps us to monitor consumer preferences and trends and create products suited to the lifestyle trends of each generation.

Rapid Response to Customer Feedback


The Customer Service Office was established under the direct authority of the President to collect feedback from users of our stores and services so that it can be utilized in our business. In fiscal 2018, it received more than 90,000 comments from customers by such means as phone calls, letters, and the internet. Feedback is quickly passed on to the relevant departments. Staff and stores share information as needed and work together to apply it to speedy improvements. Customer feedback is also posted on the company intranet and otherwise shared so that all employees know about them and can use them to improve trust.

If we receive any feedback that could have a great impact on our business, it is reported to and discussed by the Risk Management & Compliance Committee.

How We Tie Customer Feedback to Improvements





Improvement of customer satisfaction / Promotion of digitalization to improve convenience

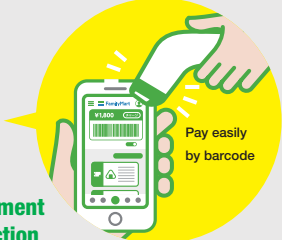


FamiPay

Smartphone app
with barcode payment function
Join now!








Pay easily
by barcode

Payment function

FamiPay

- ① Barcode payment (electronic money)
- ② FamiPay Bonus rewards
- ③ Connects to various services



App functions

FamiPay

- ① Member card (ID)
- ② New: Point card function
- ③ Digital coupons
- ④ Fun content and notifications
- ⑤ Connects to various services

Digital-Coupons

* Images for illustrative purposes only

Promoting Digitalization

Since November 2018, FamilyMart stores accept all third-party and overseas smartphone apps with barcode payment services. The FamiPay service, which uses a smartphone app to take payment via barcode, began in July 2019. FamiPay can be linked to many types of point programs from other businesses. As of November 2019, it had been downloaded about four million times. We are actively promoting services that focus on customer convenience, and not just those that FamilyMart itself offers.

About 15 million people visit a FamilyMart store on an average day. We communicate with them at the store level to actively introduce and recommend FamiPay to them as a very convenient tool. Cashless transactions made up about 20% of transactions at the end of February 2019, but we are working to increase that ratio. This will improve customer convenience and satisfaction and reduce store workloads.

Creating New Businesses with Digital Technology

Most of our customer interactions take place at the store level. Therefore, to promote digital technology, it is important to use our connections to customers and the purchasing data we get from day-to-day store management.

We established FamiPay as a new customer base. We will use it, along with internal and external resources including Group companies, to explore the potential for new businesses not limited to the sale of goods. Specifically, we are looking at developing FamiPay into a financial services business and advertising/marketing business. These would offer great convenience to customers and make good use of our management resources.

TOPICS

Famima Laundry: A New Business for Customer Convenience and Lifestyle Diversity

Famima Laundry is a coin-operated laundry service meant to reduce the burden of housework for the growing number of double-income and single-person households. The concept is a service that “makes daily laundry easier, more fun, and more thorough.”

These laundries share a facility with FamilyMart stores, so while waiting for their laundry to finish, customers can shop at FamilyMart or enjoy food in stores’ eating spaces. This is convenient for customers washing large items or doing laundry on a rainy day. Customers also like the fact that they can check on the status of their laundry by smartphone, which appeals to more diverse lifestyles.

Unlike convenience stores, coin-operated laundries attract more customers on rainy days, so stores can expect increased profit by adjoining or combining with a laundry service.



Illustration of an adjoining convenience store, Fit & Go gym, and Famima Laundry (FamilyMart Nakarokugo Daiichi Keihin Store)

Provision of Products and Services to Improve Health and Well-being

Issues to Recognize

Japan's population is the longest-living in the world. On the other hand, people's lifestyles, including their eating habits, are changing, leading to more lifestyle diseases. This is now a serious social issue for Japan. People are becoming more health-conscious, hoping to increase their QOL* and prevent the onset of disease. This means that dietary needs are changing. Improving people's lifestyles not only lowers health risks but also helps to address the rising cost of social welfare as the population ages. Therefore, there are growing expectations for the development of relevant products and initiatives.

* QOL: quality of life

Achievements and Performance

- **Percentage of ready-to-eat sales that are for health-related products: 12% achieved (1H FY2019)**
- **Sales of products using super barley: more than 100 million units cumulatively**

Management Approach

Lifestyle diseases are a serious social issue for Japan, but their onset and progression can be prevented by improving people's everyday lifestyles, including their eating habits. As a convenience store that is a familiar part of people's lives, we are contributing to customers' health and future happiness by enhancing development and expanding its lineup of products and services that support good health, including products that are additive-free, provide nutritional balance, and are calorie-conscious.

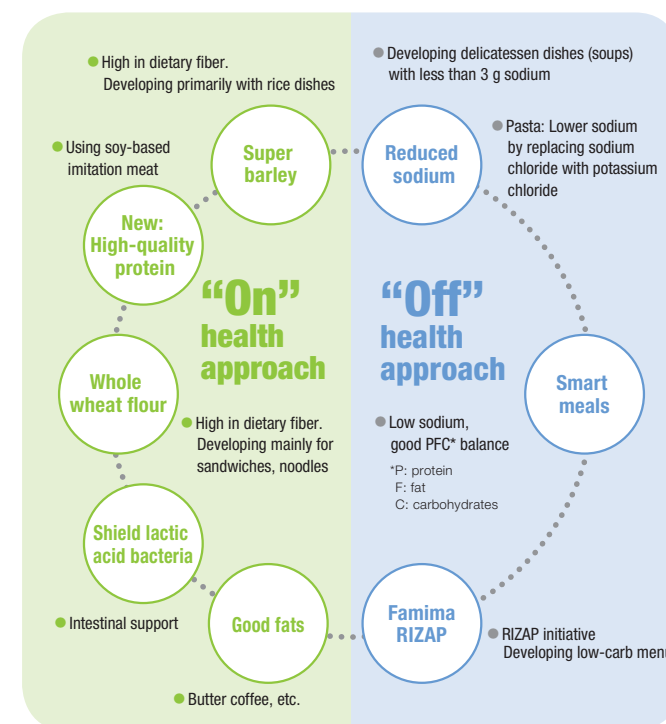
Developing Ready-to-Eat Products That Support Health

With consumers becoming more health-conscious, we are boosting development of ready-to-eat products that support health. This development takes a unique "on/off" approach. The "on" side means products that bring something positive to the body, like vegetables, lactic acid bacteria, or dietary fiber. Products using whole grains or super barley, rich in minerals and dietary fiber, have become widely popular with consumers for providing both health benefits and a delicious taste. We are particularly expanding the use of super barley. Beginning with rice balls, we have been expanding use to sushi, sandwiches, and tortillas.

The "off" side to our approach, on the other hand, means taking out or reducing certain ingredients from existing products without impacting their flavor. Examples include low-carbohydrate and low-sodium foods. "Off" products require the development of advanced technology to balance the health benefits with taste. Because there is high demand among customers for these products, we are focusing particular efforts on developing them. Our boxed lunches developed under the supervision of a registered dietitian have been praised as health-conscious products that are good for the body and convenient to purchase. We also support customer health by selling delicious, low-carbohydrate products like salads, desserts, and cup noodles developed in collaboration with RIZAP GROUP, Inc., an operator of personal training gyms.

In the first half of fiscal 2019, we achieved our target of health-related products comprising 12% of ready-to-eat products sold. Therefore, we raised the target to 15% for the second half and have continued working to develop and provide those products.

Ready-to-Eat Products Supporting Health with an "On/Off" Approach



Target percentage of sales that are for health-related products: 15%

Provision of products and services to improve health and well-being

Developing Ready-to-Eat Products That Support Health: Main Initiatives and Results

Cumulative Sales of Cooked Rice Products with Super Barley Surpass 100 Million Units

We became the first major convenience store to use super barley* in rice ball products in August 2017 in response to growing health awareness. Sales went full-scale in April 2018. When rice balls with super barley became a hit with customers, we expanded the use of super barley to boxed lunches in May 2018 and sushi in August 2018.

We develop these rice dishes (rice balls, boxed lunches, and sushi) with super barley under the concept that customers can keep consuming them day after day. Their popularity among not just health-conscious women but a wide range of ages (women in their 20s to 50s and men in their 40s to 50s) has pushed cumulative sales past the 100 million unit mark (as of September 30, 2019).

* Super barley: We use BARLEYmax®, a non-genetically modified barley that contains high amounts of dietary fiber including two times more than normal barley, seven times more than brown rice, and 40 times more than white rice. It also is four times as resistant to digestion as resistant starch. Three types of dietary fiber—fructan, β -glucan and resistant starch—resist digestion in the small intestine and then ferment in the large intestine, where they support healthful “good” bacteria.



A rice product containing super barley

First Convenience Store to Obtain Smart Meal Certification

In August 2018, we became the first convenience store to obtain Smart Meal certification.* The certification specifically went to a grilled salmon boxed lunch, named *Aburiyaki Shake Makunouchi Bento*, sold by reservation only. Developed to taste great with less salt and provide plenty of vegetables, the meal was recognized for providing nutritional balance with healthy ingredients.

A second product has since earned the Smart Meal certification. Ajiwai Gozen is a boxed lunch made of nine dishes along with rice. The mix was praised for its balance of nutrients including carbohydrates, fat, and protein.

* Smart Meal certification: Candidates for this certification are judged according to standards that were set by analysis of actual healthy menus from four food services. The standards are based on the Ministry of Health, Labour and Welfare's Criteria for Foods Provided to Help Prevent Lifestyle Disease and Provide Other Health Benefits (September 2015) and Dietary Reference Intakes for Japanese (2015). The Healthy Foods and Food Environments consortium oversees reviews of certification candidates. The consortium has 13 member academic societies: Japanese Society of Nutrition and Dietetics, Nutrition and Food Service Management, Japanese Society of Hypertension, Japan Diabetes Society, Japan Society for the Study of Obesity, Japanese Society of Public Health, Nonprofit Organization Kenkokeiei, Japanese Society of Health Education and Promotion, Japanese Society of Nephrology, Japan Atherosclerosis Society, Japan Prosthodontic Society, Japan Society for Occupational Health, and Japanese Association for Cancer Prevention.



Aburiyaki Shake Makunouchi Bento, sold by reservation only

Winner of Gold Prize at JSH Reduced-Salt Food Products Awards

Our Reduced-Salt Japanese-Style Dressing in a small-pouch form sold separately from salads was awarded the Gold Prize at the Fifth JSH Reduced-Salt Food Products Awards* (sponsored by the Salt Reduction Committee of the Japanese Society of Hypertension). It was the first time for a convenience store to win the Gold Prize. Since its launch, many customers have come to choose the dressing, which has 25% less sodium² but keeps the full flavor of ordinary dressing since it is made with the delicious taste of vegetables.

*1 JSH Reduced-Salt Food Products Awards: The Salt Reduction Committee of the Japanese Society of Hypertension began introducing reduced-salt food products (the JSH Reduced-Salt Food Products List) in 2013 as useful information for hypertension patients and other people trying to reduce their sodium intake. In 2015, it started handing out JSH Reduced-Salt Food Products Awards to products on the list that it considered outstanding examples of sodium reduction.

*2 Contains 25% less sodium than standard Japanese-style dressing based on Standard Tables of Food Composition in Japan - 2015 - (Seventh Revised Edition).



Reduced-Salt Japanese-Style Dressing

Initiatives to Reduce Food Product Additives

We began gradually reducing additives in our ready-to-eat products like noodles, bread, main and side dishes, and rice balls in March 2002. Since January 2005, we have prohibited the use of all preservatives, sweeteners, and artificial coloring in these products.

Category	Delicatessen dishes, salads, sandwiches, snack noodles	Rice balls, sushi, boxed lunches
Artificial colorings	Usage stopped since March 2002	
Artificial preservatives	Usage stopped since October 2002	
Artificial sweeteners	Usage stopped since October 2002	
Natural preservatives	Usage stopped since March 2003	Usage stopped since September 2003
Natural sweeteners	Usage stopped since January 2005	

High Standards for Ingredients

High standards for ingredients are fundamental to our development of food products. When we developed Family Soft, our private-brand butter-like spread, for example, we worked to provide an inexpensive product that would be safe and reliable for our customers. We committed to not using partially hydrogenated oil, a source of trans fat that puts people at greater risk of heart disease if consumed in excess.



Butter-like spread without partially hydrogenated oil

Provision of products and services to improve health and well-being

Developing the Medical Foods Business

In our aging society, more people are expected to require in-home medical care and more consumers will have to be conscious of their diets, including the amounts of sodium, protein, and saccharides. Given this reality, our stores located within or close to hospitals in 2015 started selling so-called medical foods, which are tailored especially for people with dietary restrictions, such as people with diabetes and kidney trouble or disease. We are a supporting member of the Japan Dietetic Association. We have also earned certification to use the Smile Care Food mark, a system being disseminated and promoted by the Ministry of Agriculture, Forestry and Fisheries to label foods designed for nursing care. Currently, we handle about 240 varieties of medical foods.



Fit & Go New-Style Fitness Clubs Support Health

We operate Fit & Go, a new type of fitness club that makes it easier for users to maintain a fitness routine and enjoy better health. Fit & Go clubs are open 24 hours a day, seven days a week. Members can download an app that offers a training menu and coupons that can be used at FamilyMart stores to purchase foods and exercise items. We will continue enhancing our fitness gym facilities to support comfortable and effective routines for building health.



Concept image of a Fit & Go (Nakarokugo Daiichi Keihin Store)

TOPICS

Supporting Active Lifestyles among Senior Citizens: “Keeping Tokyo Healthy with Delicious Food”

We concluded an “Agreement on Promoting Health through Ready-to-Eat Products” with the Tokyo Metropolitan Government in August 2019. As society ages, more senior citizens are living alone. Trends like this mean that more senior citizens are purchasing ready-to-eat products like boxed lunches and delicatessen dishes. The purpose of our business in this area is to enable senior citizens who purchase ready-to-eat products to enjoy a wide variety of foods that help prevent frailty* and to broadly disseminate and raise awareness about eating habits that prevent undernourishment.

Since October 29, 2019, we have put up special display cards and posters and distributed leaflets in about 2,400 FamilyMart stores in the Tokyo Metropolis to provide information on eating habits that help prevent frailty. We also started selling boxed lunches developed with advice from the Tokyo Metropolitan Government. We will continue to step up cooperation with the Tokyo Metropolitan Government as a member of the local community and help to build a society where members of the community can live with confidence.

*Frailty: a physical state brought on by aging and disease in which physical, mental, and social functions decline and the person will soon need nursing care.



In-store poster

① Launch of Boxed Lunches with Nutritional Balance in a Single Product

We developed and launched a *bibimbap* bowl containing seven out of the 10 food groups to coincide with recent initiatives. This product brings the staple (rice), main dish, and side dishes together into a single bowl, providing a good nutritional balance. Customers can mix the ingredients, making the product easier to eat.



Bibimbap bowl combining seven food groups

② Promotional Materials Showing Food Groups Used in Each of 20 Products

We place promotional materials in the boxed lunch and delicatessen area showing the 10 food groups used in our products. Because customers can see at a glance what foods are contained in products, they can easily check whether a product contains the foods they want and choose appropriate combinations of products.



A special display card

③ Leaflets on Preventing Frailty

Leaflets designed to educate consumers about frailty are available in stores. The leaflets concisely and handily compile basic information about frailty and how to make dietary changes and combine menu items to prevent it.



Leaflet