

Panel Discussion

Kazunari Uchida: We are going to start the panel discussion. We have received so many questions from the floor. Because of time limitations we would like to introduce one each from the US and Japan. How do you deal with the food loss issue? Yes, I think food loss is a very important issue in this industry. Manufacturers are doing their thing, and distributors and families are dealing with this food loss issue and trying to minimize food loss. If you view the entire industry, I think this is going to be a very important issue for the entirety of Japan. Not just in Japan, but it's going to be an issue for the world. Mr. Kawano, could you respond?

Michael Sansolo: Prof. Uchida, that is also a big issue in the United States. There are estimates that 40 percent of our food is thrown away without the package ever being opened.

And so, it is becoming an issue — as you say, for both manufacturers and retailers — of how to reduce waste. Because obviously, when food is thrown away and it's never been used, there is waste at the farm, and in trucking... There is waste in every part of the supply chain. So I think, as an industry, we're going to hear a lot more about food waste.

Kazunari Uchida: Oh, I see.

Yukio Kawano: Food loss, of course, is a very important social issue. And at the same time as a company — in order to pursue profit — it's a very important issue. For my company, if you add discount loss and food loss, the loss is equivalent to the operating income. The food loss from disposal is about 10 percent, the operating income is about 16.5 billion, so close to 2 billion yen of food disposal loss is generated, unfortunately. One point that I was talking about is that everyone participates in this business. Those people who are working individually have to own this issue. For example, for the products you ordered from the manufacturer, you have to try to sell everything. Or because I made this product, I really need to follow through until the end. And working for a company, just following the manual is not good enough. They should have authority and take initiative to do these things. And setting up this kind of system is very important and meaningful in reducing food loss. Now, artificial intelligence [AI] is a very big area, and going forward we are going to rely on AI to do this business. Up until now, when we ordered the products, we ultimately used our senses to order the right number. But utilizing AI we would be able to engage in a more detailed and precise ordering process and to manage the inventory in more detail. In that sense, we want to minimize food loss as much as possible using new technology. Having said so, talking to people in the store we know that customers come later in the afternoon. If they find that there is no product on the shelf and if the volume of a certain product is small, it's very difficult to sell that product. So even in the late hours of the afternoon, we try to focus on a certain product and maintain a certain volume. If we are negative, we might be able to reduce the loss. But if we cause inconveniences for the customers and shoppers, and if we try to meet the requirement of the customers, we end up making a bigger loss. So, it's a vicious cycle. But we need to try to work out the ways to resolve these issues. Thank you so much.

Michael Sansolo: Thank you, arigato. I received a question specifically for Rich, but I'm going to expand it to you as well, Jerry. And we are near the Chicago area, and someone out in the audience got to see Rich's new stores — Harvest Market, Haymakers — and wants to know when you're going to bring them to Chicago. What I would like to expand to the two of you is: Rich, you have stores near Chicago; you're not in Chicago. Jerry, you have stores near New York and Boston; you're not in either city. In your companies, is there any strategic thought about going to these urban centers? Or is that simply not who you are, and you're going to stay away from these large urban centers? Rich, we'll start with you. And bring a store to Chicago, I've got somebody waiting for you here.

Richard Niemann, Jr.: Well there is a very different environment in these big metro areas for us, and we're not a metro company. And so, at the present time, there's no interest in those two particular areas. Now, that doesn't exclude other areas that we may go into in the future, but not that way.

Jerry Golub: I think Rich said it well: operating in a large metropolitan area is very different than operating outside metropolitan areas. The cost structure is much different, real estate is much more expensive, the cost of advertising is also more expensive. Unionization is a lot greater in metropolitan areas, and we're a non-unionized company, so there are a lot of reasons why we've stayed out of metropolitan areas. Looking forward I wouldn't necessarily rule it out, particularly for a store like Market 32 where you could put one store in with a minimal amount of advertising and do well, but for now we've decided to stay out of the metropolitan areas as well.

Richard Niemann, Jr.: Mike, I'll add one more thing to that, something that Jerry just mentioned a little bit, but with the way that marketing is changing for us, especially with the new concepts that we operate, we are not beholden to a critical mass to be able to communicate to markets. A lot more of it is social media, and that allows for a single store in a big market where you just couldn't do it before. So, in some ways it's easier to consider that today than it has been in the past.

Michael Sansolo: Let me add on one additional question to the two of you, because in both of your companies you have some method of giving employees a piece of ownership of the company. I don't know if this is done in Japan. Obviously, I think to the point you made it makes the employees much more committed to the success of the store. Is there any negative to this? And, assuming there isn't, how do you start something like this? Because it's a great way to ensure engagement among your employees.

Jerry Golub: We found that employee engagement over the years has been significantly greater because we do have this program. Forty-three percent of our company is owned by our teammates. We've found a way to do it. Actually there are a number of different ways to do it. Neimann does it a little differently than we do, as you'll hear, through an ESOP [employee stock ownership plan] program. We don't have an ESOP program. We have a profit-sharing plan and the difference is technical, but we can do a profit-sharing plan with non-voting stock. So, what

we've been able to do is actually give our teammates 43 percent of our company without giving up voting control, and that still provides a very strong sense of connection, commitment, and ownership on the part of our teammates while still maintaining the control that we feel we need in order to be successful. But over the years, it's made a huge difference in the lives of our teammates who have retired and had a really nice additional nest egg for their retirement, and it's made a huge difference in the quality of their life. And people hear those stories, and over time they mean a lot. And so, I think it really does deepen the connection between our teammates and our company.

Michael Sansolo: And Rich, before I turn it to you, we should explain ESOP. E-S-O-P is employee stock ownership plan.

Richard Niemann, Jr.: Well, in order to maintain the kind of control that we wanted to maintain, we've gone with a little smaller percentage. We are 30 percent ESOP, and the ESOP does have voting rights with us. About 20 years ago, my family had two-thirds ownership in the business, and my uncle had a third. We bought them out of the business back then; we took that one-third value of the company and turned that into ESOP stock, and we've been gifting that. And every year, at the end of the year, the board decides what percentage of everybody's salaries and bonuses is going to be the profit-sharing. Then we do about 50 percent cash and 50 percent stock, and that's how people build their ownership.

Michael Sansolo: All right, I just got a note that we're apparently connecting to Carmela.

Michael Sansolo: Carmela, I want to throw out a quick question to you. Everyone, remember Carmela is with Jet.com with Walmart. There's been so much written about Jet lately, and for the folks in the audience who may not be aware of this, well, a lot of Americans love Walmart. There are also Americans who do not like Walmart. And I think there was a big article in The New York Times in the last week, Carmela, about some of the impact that Walmart ownership is having on both Jet and Bonobos — that the shoppers of those companies are concerned that they never wanted to shop at Walmart, and now they are. How are you making this marriage of these very different companies work? Because it does seem that some of these new companies Walmart has are not traditional Walmart-type companies.

Carmela Cugini: Great question, Michael. If you think about Walmart before, and you look at them today, what's always been there foundationally is that they are innovators and they are forward-looking. If you think about Sam Walton and what he built, it's really quite amazing. And he did this for the consumer. His motto was saving the consumer money so they can live better. So, although Walmart may not have the best reputation, as you get to actually know Walmart the reality is that they are an amazing company, and they do good for people. Once our brands really understand that, the openness to essentially go online across all platforms is very much welcomed. However, what we're trying to do to really make this marriage work is, number one — I mentioned it during my presentation — we have upgraded the site? We've tried to create a very exciting digital experience, much more modern. We have hired somebody from the fashion industry to lead those businesses that really understands those businesses, and we continue to

do this across all of our verticals. They are attracting brands that I can't even discuss at this point that are very excited to be part of this new omni-channel experience. So, you know, the news is the news, and they'll report what they want to report, but the reality is the brands that we have are very excited to be part of our team both on Jet and on Walmart. When you think about the number of views that we have — 110 million people coming to the site on any given day — this is great for building a brand. So, we really don't have to do a lot, because all of these companies really do want to work with us.

Michael Sansolo: Thanks, Carmela. It is such an interesting issue, and while there are a lot of people who will say that they will never go to a Walmart, obviously Walmart is not hurting for business — they interact with a lot of Americans.

I'm going to switch to the other side of the table, because, incredibly, I was given a question from my fellow moderator. The question is: "As millennials age, do you expect that they will keep their current tastes and habits" — we've talked a lot about how they're shopping so differently — "or will these change as they get older? Will they become more like us? Because we all do change as we age."

Kazunari Uchida: Thank you very much. Between Japan and the US, discussion might be different about the different generations. The baby boomers and the baby boomers' juniors are very strong in Japan, but because of a declining population with less children, the quantitative issue regarding the younger generation is not as much of an issue in Japan as it is in the US. The population is much smaller in Japan, so the impact is smaller. At the same time, in terms of quality, the younger people today reach out for their phone before they reach out to computers. So, our generation, it's not too much work for us to boot up a computer. But younger people, they don't want to take the time to boot up the computer, so they're going to reach out for smartphones, or AI speakers. You don't even have to turn a switch on. So that is very natural to them. So, the way they shop is different. So, in terms of quality they have a lot of impact, but in quantitative terms the impact is not as big in Japan.

Michael Sansolo: If you would like, we can send you some young people. Some of them are very annoying. Jerry, do you want to?

Jerry Golub: I think it's a really interesting question from our perspective, because the millennial population is becoming the largest purchasing power population in the United States and they've been late on everything. They're late to be financially independent; I know this as a parent. They're late to get married, they're late to have children, they're late to buy houses. Some people say they're not going to buy houses, they would rather rent. And so, it ends up being a very interesting question that I think is important for us to understand: "What is generational versus what is situational?" And I think that's going to play out over time. I would suggest, Prof. Lal, that you may want to do some work on this, because it would really help retailers understand what's changing, and what's going to change, and what's not going to change. For example, their focus on convenience and prepared foods. They are known as, for the most part, a generation that doesn't like to cook. Is that going to change as they start having

families, as the budget becomes tighter, and as they become more interested in creating their own traditions around the table? Are they going to start to cook more? The answers to those questions are going to be very important to us as retailers moving forward.

Kazunari Uchida: Maybe I can ask a Japanese panelist about that question. Personally, I think we need to focus on middle aged and older people in terms of the way they shop, but what do you think?

Ryuichi Isaka: As Prof. Uchida said earlier regarding millennials — who were born after 1995 — the number of people in that generation is not as big in Japan, so the economic impact is not as large. However, the IT or technology that they use, and the consumption pattern that they employ, will bring about qualitative change. So that's something we have to watch for going forward. That's the generation.

Michael Sansolo: I'd like to add to the generational issue. One of the challenges we have is that most of our middle managers, department managers, and store managers are baby boomers, and we have this new generation coming in to get jobs. How are we teaching our existing managers to become better at motivating and engaging with these younger workers? What are you doing at Walmart on that?

Carmela Cugini: Yes. I would say, within the world of e-commerce, it's a little bit different than the world of brick-and-mortar. The world of brick-and-mortar actually has formal training programs; they fund scholarships for employees, they will put them through their own college to get them ready to lead very big stores and supercenters. They do an amazing job there. On e-commerce, we are evolving. We absolutely have a unique way of hiring, so we go out and we hire top talent. We have a very flat organization, meaning that we have specialists. We have managers, we have GMs [general managers]. So, people have a lot of responsibilities very, very quickly. So, how we're dealing with that is really through a couple of avenues. Number one, a lot of one-on-one coaching. So, people like myself are in a lot of meetings on a regular basis trying to teach them how to handle issues, how to talk to suppliers, and a lot of it is on-the-job training — so they watch, they learn, and they do. We will also support them in providing additional training, so whenever a new employee comes along we put them through a 13-week formal training to help them really learn how to think with the proper mindset for retailing. But, candidly, it's something we're trying to figure out. It's interesting when we hire millennials. We're hiring them from very good schools — top 20 schools — and whether it's a millennial or not we're hiring very smart kids. And what's interesting is they want a very simple equation. One plus one equals two. So, if I do X, that means I'll get promoted in six months. It's been really interesting to try to teach people that you can't just keep getting promoted every six months — that you actually have a lot to learn, and it isn't as straightforward as school. We're trying to figure it out, and we're trying to implement training. But it has been something that, for myself, after having worked for so many years, I scratch my head and I think about it every night: "How can I get through to that group a little bit better?" How we're doing it now is just taking people by the arm, and I'm showing them how to do it, and then I'm watching them do it. And then we do a little bit of training on the side. I wish I could say we were fancier than that, but that's the thing on it.

Michael Sansolo: All right, thanks Carmela. We have Rajiv Lal from Harvard Business School here, so maybe we'll recruit somebody for you right now.

Michael Sansolo: Dr. Lal, when you think of your students what are Harvard Business School graduates interested in when coming into this industry, or what would we have to do? You just heard Carmela talk about, you know, it's Walmart. It's Jet.com. There's a lot of things that are attractive there. What can companies like this do to make themselves more attractive to the best and brightest of this new generation?

Dr. Rajiv Lal: We offer a course in retailing, and there are about 100 students who are enrolled in a class on retailing. So, despite the fact that there's so much, quote, unquote "bad news," people are still looking at the opportunity that this industry provides because it's in a state of flux. So that's the interesting part of it. At the same time, I think they want to get different things out of it. I think this millennial generation is less into destination — where will they be in five years — but they're more into the journey. They would like to have a more interesting journey for five years, rather than figuring out where they will be in five years.

Michael Sansolo: So, this panel, from both Japan and the United States, has been talking about the importance of creating experience for the shopper. We also need to create experience for the employee.

Dr. Rajiv Lal: Exactly.

Michael Sansolo: Jerry, I want to turn this to you, because with Market 32 you talked about how one of your concerns was how to attract a millennial without repulsing, I guess, or repelling, the boomer. What did you have to deal with there? Are there certain marketing styles that a millennial would like and a boomer would say, "I'm not going to that store; it's clearly not for me"?

Jerry Golub: I think it's easier than you might think. There are a lot of similarities between all individuals. Everyone's looking for good service. Everyone's looking for information on the products that they're buying. So, there are a lot of commonalities. What I think we want to try to avoid in marketing is really focusing on millennials in your voice and your style at the exclusion of boomers. We've done, I think, a lot to focus on making sure that the voice of the Market 32 brand is contemporary but relevant to both boomers and millennials. So, it's just a matter of really focusing on the right things: the things that you think are going to make a difference for everyone, but particularly are going to resonate with boomers. So, for example, local is important. And it's important to everyone, but it's especially important to millennials. Another is social media. We've done a lot with social media to integrate it into our marketing plans, and that of course has paid off handsomely in terms of the loyalty of millennials, but also the loyalty of boomers who are on social media. So, it's really not as hard as it seems — it's just a matter of making sure that you identify what those commonalities are.

Kazunari Uchida: Yes, we're talking about the people, and I'd like to ask the Japanese panelists. Listening to what you have said, the US is experiencing an increase in population, and younger generations are especially increasing, which is quite different from the Japanese situation. Now in Japan, we are reducing the number of youngsters, and it is very difficult to secure a good workforce in Japan. Now quality and quantity of the workforce — how do you view this issue from the Japanese side please?

Yukio Kawano: Yes, I'm sure all the participants here are having a difficult time in terms of labor shortage. Now students are a seller's market, and our industry will have a difficult time hiring people and this may continue in the immediate future. Now, warriors were important, and agriculture was important, and commerce was not very important historically in Japan; so from a younger person's perspective, our industry is not very attractive. And I'm sure you're very proud of how you manage your companies, and our job is very important for society, and we should convey this message to younger generations. It's a big challenge for us to do so. If you think about it, our work or job tends to be regarded as physical labor. Younger people do not regard our work as intellectual work. That is the main reason why they are reluctant to come to our industry. For example, in our company there are people who came from banks before coming to our company, and after they joined they realized, "oh, it is so difficult, I have to use my brain in order to manage this company." And they found this for the first time after joining this company. And if you think about it, this industry is deemed as physical labor and less of an intellectual labor. How our work can be regarded as more intellectual and how to convey this message to younger generations is going to be a big challenge for us. We have to look at customers' behaviors very closely and collect information, including weather and meteorological information, and we have to make plans, otherwise... We are really engaged in very intellectual work compared to other industries, but it's a big problem that they don't think so outside of our industry. Now viewed from outside, we must work for a long time and we cannot take any vacation. And that leads to the image of this industry. And in reality, our employees are very active and vividly working, and that has to be conveyed to other people.

Kazunari Uchida: Listening to what you said, to hire regular employees and to hire part-time workers, from my perspective it takes different approaches. Mr. Ueda?

Makoto Ueda: In the retail business, even if we introduce IT at the store level, I cannot deny the fact that it's very labor-intensive. As I mentioned earlier, our supermarket chain is focused in the Tokyo metropolitan area. We have seen cost increase per head in recent years, and it's putting pressure on our operation. I talked about the 23 yen per minute. So, it's very important for us to focus on how to reduce the head count, but it is unrealistic to assume that the workload is going to be one-half of what it is from tomorrow on. Now, because it's labor-intensive, our biggest challenge is to secure a larger labor force. In our case, we have about 20,000 part-time workers, and 1,000 of them are foreigners from 26 countries of the world. The store managers are having a very difficult time adjusting to managing the foreigners. Depending on the store, 60 percent of the employees or part-time workers are foreign people and, because of that, something different is now required for management. Another issue is about old employees, and those people who are born from 1947 to 1949 are reaching the age of 70. At Maruetsu, we employ about 500

people over the age of 70. Of course there are some physical issues that come with the progression of age — people deteriorate physically with age — but they do have some experiences from the past that they can take advantage of, and we would like to provide work opportunities to high-quality retired people. And talking about millennials, we need to provide a very attractive workplace; otherwise we won't be able to hire millennials. There is a format called Maruetsu Petit, and it's a very simple operation compared to regular Maruetsu stores. There was one surprising incident last year. Last year and the year before we hired six female store managers, and three out of those six were originally part-time workers. And we have asked if there are any part-time workers who want to serve as a store manager. Of course we provided training. One thing I can say for sure is those three former part-time store managers are really doing a good job at increasing the numbers. And if it's a part-time worker who is specializing in a particular category, they are very conscious about that category when ordering the products, etc. When ordering bread, if she has to take a day off tomorrow, she has to order bread for today and tomorrow. And all those former part-time store managers are conscious about this, and what they say unanimously is that they don't want their employees to feel that way. It is not easy to change the content of the work, but in order for our work to be very attractive for younger people, I think it is very important to give authority to younger people from very early on. And of course in order to do that you have to change the human resources system, etc., and it was not that easy to do that. But we have to disrupt this kind of system; otherwise it's going to be very difficult to hire younger people. If part-time workers have enthusiasm, for the opportunity to go up the ladder, the management should focus on these things more and more going forward.

Kazunari Uchida: Thank you very much. So what you said was that, as Dr. Lal said, something like Amazon Go might be possible way in the future, but for now you have to work with the shortage of people. And, on the other hand, in order to resolve that issue, you have to work with diversity — foreign workers, elder workers, and women workers — so diversity management is very important. And now we are going to hear from Carmela.

Michael Sansolo: I'll turn it to Carmela in a second — because obviously we have all men on the stage. We don't have a lot of diversity. There are many areas we're seeing today where both Japan and the United States are confronting the same issues. Whether it's competition with e-commerce, reaching the young generation... Where we would be very different is that the United States is an extremely diverse environment. And it is interesting to hear about these challenges you're having in Japan with foreign workers, with people of different ages, and different genders. Because this is something we've been dealing with for a long time. Carmela, I hope you can hear me out there. Would you talk about how we're dealing with diversity in the workforce and what you are doing about that...

Carmela Cugini: Thank you, Michael, I'm so glad you asked. You know, I talked a little bit about the younger generation today, but what I will tell you is that I absolutely love them. As your Harvard professor said they are interested in the journey, and they are very value-based. So, what's really important to this younger population is that employees and companies have a culture of inclusion and of diversity. So, whether that's your race, your gender, your sexual

orientation, they want to come someplace that is very open, that supports every single person regardless of their belief, and doing that is what is really attracting and retaining employees. I was at PepsiCo, a very innovative company, and I had a wonderful career there. But when I came to Jet, it changed my life, because they have very strong beliefs as having employee resource groups. So, whether it's LGBTQ, or women, or Pan-Asian, we have places where employees can go and network whether they are a member of that group or whether they're an ally of that group. And we have activities to make sure we're actually living what we preach. In addition, we offer unlimited PTO or paid time off. Surprisingly, people don't take ungodly amounts of days; they actually work more, which is quite interesting.

So, what we have learned is it's not just about money. It's really about the value. And not only does this attract and retain our employees, but it absolutely results in more sales, because these consumers are voting with their dollars. Within the LGBTQ community, there's 800 billion dollars' worth of disposable income. Those people will choose where they spend their money based on whether an organization is supportive or not supportive to their needs or to their group. It is amazing to me and we see it every single day. It's a little awkward to do this on the telephone, but I'm going to share a personal story, because I can't stress it enough. We talk about baby boomers and we talk about millennials, and I think at the end of the day, diversity and inclusion is what is the common denominator across both of those populations. I'm 50 years old and I have a lifelong partner of 23 years. While I was with that partner for 23 years — and her name is Judy — I have a wonderful Italian family, and I would never put them in harm's way or do anything to disrespect them. I lived telling a lie until I moved to Jet. I pretended I didn't have a partner. I pretended a lot of things. So, when I went to work I had to live a double life.

I had to tell people I was something that I wasn't. And the reality is that when that happens you can't bring your true self to work. And when you can't bring your true self to work you cannot be authentic and you cannot perform. So, when I came to Jet, I didn't realize I was going to Jet for this. But they were so open and inclusive that, for the first time this past year, I actually shared this with people. And my life changed. I'm able to go to work and I can focus on what's important. I don't have to live a double life anymore. I have support from everyone around me and I realize that it's OK. So that has changed who I am internally. Although I've done great in my career, that has made it easier to do well, and I feel it's my responsibility to share these stories because it does make a difference. How we as organizations include every group is so important. These types of things are why people stay. This is why people spend. This is what makes this population stick. And whether you're old or whether you're young, these things are important. So, I just share that with you because I think diversity and inclusion is something we absolutely have to live at our core. If we don't, we will lose that consumer. We'll lose them, and we will not be able to retain them as employees either.

Michael Sansolo: Thank you so much. Rich, I want to turn this to you, because in the United States we do hear that there are tremendous differences, obviously, between the coasts, and the culture of the coasts with the heartland. You are a heartland company. You are dead in the middle of the United States. How in Quincy, Illinois, and the places where you are, are you

facing the challenge of a lot of diversity among your workforce, and how are you training managers who came up under one set of cultural guidelines to this new world?

Richard Neimann, Jr.: I think the first thing is to understand and really live the fact that a diverse team really helps us to be more creative. There's no question about that. We see that more and more every day, and we work very hard to be inclusive. It's easier for us in certain areas where we are. The more rural we get with stores, the harder it is, and when we get into the larger population areas, it's much easier. But it's something that we set targets and efforts for and work very hard at. And it is a path for us. We are certainly not where we need to be, but we're working on it every day.

Michael Sansolo: One of the other topics I wanted to come back to is one that both of you touched on, and some of our Japanese panelists: the importance of mission for the company, and of articulating that mission so your shoppers and your employees understand who you are and what you're about. Rich, you talked about the mission of Neimann foods. How do you communicate that? If I walked into a Neimann store today, how would I see that mission? Is it something that's online? Is it in signage? How do you tell me about that mission?

Richard Neimann, Jr.: I suppose all of the above. Communicating what you're all about and what you need to do and what you want to do is very important to all of us, I'm sure, and we do our absolute best to do that every day. And we will have a separate mission for each banner because it is a little bit different. There are common core beliefs and values, and then there are things that are special to each particular store banner.

Jerry Golub: I think we do a better job of communicating our higher purpose to our teammates than we do to our customers. A higher purpose from my perspective is not an advertising slogan. Those are two very different things. So, it's a little bit more difficult to communicate to our customers, and I think we could do a much better job of that. But in terms of communicating to our teammates, we do it right from the onboarding process and the training programs that we have, to putting it on the back of a person's name tag. In fact, on the back of everyone's nametag, it says, "Thank you for all you do to help our customers feed and care for their families." So hopefully that's a constant reminder. Every day they put that on, and not every day they're going to look at it, but hopefully they do it enough so that they remember that they're part of something that's bigger than any one of us, and they're part of an organization that makes a difference in people's lives.

Kazunari Uchida: So, mission and value conveyed to customers and employees is very important in Japanese companies as well. With the background of a labor force shortage, how does the company communicate with customers, as well as employees, about the missions of the company and its reasons for being? Mr. Isaka, can you answer that question?

Ryuichi Isaka: It's a very large theme. We were discussing diversity earlier, and we are trying as much as possible to learn from American society, which is more advanced in this area. Take empowering female workers, for example. The ratio of female workers is only 27 percent in

managerial ranks and by 2020 we want to increase that to 30 percent, but in order to create that kind of society, the private sector alone cannot take initiative — there are many things we have to do. For example, young fathers and mothers are raising children. We don't have many places where these children can be taken care of while they work and, since last year, we are taking initiatives as a company. We are in the distribution industry. On many occasions, people have to work on Saturdays and Sundays. And they can bring children to the company or stores, and the children can be taken care of in their offices. In 17 prefectures in Japan, we are trying a pilot project and we have started so-called slide work. You can start either at 8 o'clock, 9 o'clock, or 10 a.m. in the morning. It is so-called flex-time. And you can take your child to the childcare center in the morning and then come to work, or you can pick up your child earlier than 5 o'clock. Twenty percent of people who are doing this flex-time have reduced the amount of overtime being taken. From a larger perspective, what kind of positive contribution can our company make? What are we doing in order to resolve social issues? What are we doing? Is it making a difference in the society or not? That's a very important topic. SDGs [Sustainable Development Goals]. We have a global United Nations development goal, and we will participate in SDGs and do whatever we can do.

Kazunari Uchida: And this is my personal question to you. In the case of 7-Eleven you have a franchise system. And the headquarters. I'm sure it's not easy, but it is possible. But the whole franchise is made up of owners and part-time workers. Is it going to be possible to execute this kind of plan and hire those people who will be able to execute these plans?

Ryuichi Isaka: Those people who are working for franchisees are not always full-time workers; they choose whatever time they want to work during the day. In that sense, the part-time workers will be able to select the location where they can commute to very easily, and they can choose the time, so payment is not always the most important thing. In addition to that, we're thinking about how we can hire better people, and we are trying to improve the environment for mothers and fathers to work with children. For example, on the second floor of 7-Eleven stores they have childcare facilities, and those workers can bring their children, but full-time workers have priority. And it is very well-received, and as long as we can hire good caregivers this will be successful. In the case of Ito-Yokado stores, they are mainly located near train stations. On the way to work we are trying to provide stores with childcare centers, and we want to increase the convenience for those working mothers and fathers.

Kazunari Uchida: You have talked about the mission and the significance of existence in the society, but do you have any other plans to increase the motivation of employees and promote communication with customers?

Yukio Kawano: Yes, this is something simple; it's not very difficult. I am trying to continue to convey managerial philosophy to everyone else. I always talk to the employees and part-time workers who work for my company, and I'm sure they think that, "oh, he is saying the same thing again." I might be using a different phrase or words, but it's important for me to continue to repeat the same thing about my managerial philosophy. As I mentioned earlier, whatever behavior we take, there will be a response from the customers. So, customers are evaluating

our behavior. If our performance is bad, the review of our behavior is not good. It's not just the performance. Customers will give us feedback all the time, and each store will have an interview with customers to get direct feedback from customers. Putting individual issues aside, we want to make sure that customers give us good feedback. If customers' feedback is contrary to our philosophy, we need to dig into the issue and resolve the issue. If they praise us, we may want to make sure that that kind of person will be recognized at the store, intentionally.

Kazunari Uchida: Persistence is very important. I think acknowledgment — recognizing people for good work — is very important, too. Mr. Ueda, do you have anything to say about utilizing or motivating people?

Makoto Ueda: From the first of June in Japan, equal work equal pay — whether it is formal employees or part-time workers — was rendered by the Supreme Court of Japan. In this society, long working hours is considered to be a negative, and society requires the same pay for the same work. Those people who are working part-time or foreigners working for the store — depending on their skills, qualifications, and quality of work — we need to pay them well. In other words, traditionally, we had lifetime employment and the wages were determined by your years of service, but that idea does not work anymore. Equal pay for equal work ignores how many years of service you have, but it's very important to adjust at the store level to this unprecedented worker shortage. How can we secure high quality workers, and how can we motivate those workers so that they contribute to the company? Now the wage structure or employment structure for employees needs to be addressed. I think it's a very good opportunity to do that.

Michael Sansolo: Thank you. We've been talking a lot about people on the employment side. We haven't been talking as much about customers. Jerry, let me start this with you. We're living in a day and age — and we heard this about Amazon, and about Walmart as well — that now has big data. We have so many ways of using technology to better understand our shoppers, their needs, and to hopefully meet those needs. How well are we doing on this, and what challenges do you see?

Jerry Golub: I think we're doing pretty well. Every company does it a little differently. For our company, we've had a loyalty card for a number of years, and we've really been able to collect purchase data for pretty much over 95 percent of our sales. So, we have the ability to go in and really look at that data and see what people are buying and what they're not buying, and over the last five or seven years we've done a lot with regard to segmentation of customers. And we've used that segmentation to do targeted promotions. I think we're just scratching the surface, though. When you look at machine learning and artificial intelligence and the capabilities that it provides us, there are questions that can be answered that I don't even think we really appreciate the questions for, yet. That's how powerful AI could be for this for this business and this industry. So, I think it's really important that we look at mining data and understanding the customer at two different levels. The first level is what we've always done, which is a tactical level — how can we better market ourselves and how can we sell more to our customers. But the second level is, I think, even more interesting and more difficult, which is a

strategic level. And using AI to really understand some of those questions is one of the most exciting capabilities that I think is being developed right now in the industry. And it's going to be, I think, one of the more important initiatives that any company can undertake over the next few years.

Michael Sansolo: We heard about that from Prof. Uchida earlier today — the importance of psychological understanding. That it isn't all about the shopping trip — when they're doing it, what they're buying. It's what their unmet needs are, or what their desires are. Rich, you and I right now are working on a project and trying to understand what the store of the future could look like. I said earlier today that I had the good fortune to be with this Kikkoman meeting five years ago. And if I was asked then to project what the world would look like today, I would have been completely wrong. So, I'm going to now put that hard question on you. Let's say five years from now Kikkoman has now been in Wisconsin for 50 years. It is their 10th distribution symposium between the United States and Japan. What do you think the industry is going to look like five years from now? And you can get wild on us here.

Richard Niemann, Jr.: That's what we're all trying to figure out, of course. I firmly believe that the traditional supermarket model is dying rapidly, at least in the US. And for all of us that have numerous stores, there are going to be stores that have a certain amount of life left. But, at least, our company needs to have a plan on what's going to happen. And as you saw in a couple of our prototypes today, we feel that the future really is going to revolve around the experience and that connection — that people will have to have another reason to go to the store. There has to be a bit of a social meeting place. We want to fill pantries like everybody does. But the old model of "get that 'A-number-one' location, put out a good weekly circular, be fresh and clean and friendly, have good stock levels" — that is not going to get it done in the future. There has to be another reason for people to connect with whatever concept it is, in my opinion.

Michael Sansolo: Carmela, do you want to take a shot at what things are going to look like five years from now?

Carmela Cugini: I think we'd love to know what it looks like in the future. What I've learned thus far in this brief time is that as soon as you think you know, it changes. So, I think the part that we have to be so careful of as we build systems to try to drive personalization, is that we don't create systems that are so rigid they can't flex on the fly, because things are developing and evolving so quickly. We can only guess and try to move along with the pattern. We do believe that hyper-personalization is where it's going to be. We also believe that discovery is going to continue to be very important. So, no different than those types of categories that aren't 100 percent penetrated online and never will be. We do believe the grocery store will always be a very important place, as does the other panel members. I think it just changes — that it could potentially be more discovery. It could maybe be more core items, and then you're in the store and you could be scanning things to get things delivered to your home. So, we're testing and learning a number of things. And all I can clearly tell you that I do know as a fact is I think it will change.

Michael Sansolo: Thank you again. And Carmela, let me thank you again for coming in by telephone today. We know it's a hard day for you, and we really do appreciate that. Let me turn it to Jerry. Jerry, five years from now, what are we looking at?

Jerry Golub: We really don't know. If I were to guess, I would say that there is certainly going to be a very large bricks-and-clicks component to most strategies. Whether you're a traditional bricks-and-mortar or whether you are a traditional pure play e-commerce operator, I think bricks and clicks are going to be very important five years from now. I think it really will be about the experience whether it's in the store or online.

The other thing that I would just add to what's been said is that I really think that as, bricks-and-mortar retailers, we're going to have to solve this long tail issue. By long tail I mean the products have become more and more fragmented, and there are so many more products out there today that people are looking for. For example, in the soy sauce category, we're talking about now bringing in low-sodium, gluten-free Kikkoman soy sauce. Well, that's going to appeal to a smaller segment of the population. And there are so many products out there like that, whether they be local products or free-from products. We're going to have to figure out how to satisfy our customers that are looking for those products even though we can't necessarily always carry them on the shelf. And we will also need to figure out the supply chain that is necessary to support them, both for those long tail specialty products and also local products.

Michael Sansolo: Thank you, Jerry. Prof. Uchida?

Kazunari Uchida: So now on the US side we're talking about the rise of EC, and the traditional supermarket especially might be dying. So having said that, do you think that type of rapid change will occur in Japan as well? Or maybe retailers in Japan can go on with the current model for a little bit longer. Now in the US, an experience, excitement, and those kinds of things could be offered to the customers. But since Japanese stores tend to be smaller, I'm worried whether we're able to provide that type of service to the customers.

Yukio Kawano: Currently, supermarkets in Japan are of course competing against each other in the same industry, but we're also competing against brand stores. My stores are also competing against brand stores, so what I tell my store managers is that a rich and fun diet cannot be reached through convenience stores. People go to convenience stores because what we provide is not enough for our customers. And I think it's the same for competition against e-commerce. So, we have to give reasons for customers to come to our stores. For example, seasonal produce is there, or maybe freshly-made prepared meals are there, or my favorite private brand is there, or there's one experience that you just have to go to this store to receive — something fun to provide. For example, you can get some kind of information if you go to this store, or a service is provided to make customers happy. I think that kind of experience is very important. And of course, in Japan, measures against e-commerce are not as developed as they are in the US, but very soon we will have to face the same situation as the retailers in the US, so we have to keep that in mind. So basically, how to make our stores more attractive is

very important. If the stores today are not satisfactory for our customers, then we have to make it better. But of course, diet and food are rather conservative in every country so it won't change as rapidly, but the change will occur for sure. So we have to adapt to those changes going forward, and we have to keep that in mind. One of our stores — when it opened — we invited a consultant, and the consultant said that you can't use a shopping list in this store. And I was very happy to hear that. If you go to this store you can get this particular thing, so unless you go to this store you can't get what you want. Or you can also discover something that you didn't even know that you needed. And that's something that we have to think about — what kind of stores we can provide in that way.

Kazunari Uchida: Thank you. Shopping for enjoyment instead of obligation is going to be something really fun to do, and you want to provide that change.

Makoto Ueda: Yes, I agree with him. Physical stores provide value in terms of experience; that's the only way that we can survive. That will really be a key to whether we can survive or not. In Japan, when we look at online shopping, there are some issues — a shipping cost increase, and also some loss or waste in shipping. So there are more pickups these days. But there is increasing cost in that some people will have to actually return items, and then the delivery company cannot absorb that kind of cost. So, online, I don't think retail is the business. In other words, they sell products and make money, but that's actually not their business — their online business is more about delivery. But they have to extend their business beyond just delivery, or else they probably won't be able to actually make financial sense at the end of the day. So yes, we know that e-commerce is there, but I don't think many companies are making money yet. Of course, I'm not saying that they're not going to be a threat to us in the future. But what I want to say is that the brick-and-mortar way to survive is to provide some kind of special experience that they can only experience at the physical store, and also some kind of special information or some amusement as part of shopping. We want to actually make it so that people want to come to the store — that particular store — and I think we have to be creative in building that kind of store.

Ryuichi Isaka: I am in agreement with other colleagues, but something that only the brick-and-mortar store can provide — can we actually embody that kind of experience? The online world is really convenient for consumers — they can actually show a lot of SKUs [stock keeping units] — but I think that this also has a downside, because when they have this assortment they cannot really get the idea about what products are better. And we would like to actually provide consultation for the customer. Also, we will be able to read our future — for example, there will be more working women, and there are also health needs. So, what can we do to help working housewives, or to reduce time burdens for women? And for seniors, what kind of attention can we provide? What are the needs? What kind of service can we develop for those seniors? So, we have to implement PDCA [plan-do-check-act] so that we'll be able to launch new services and new measures. So, in this regard, I think that IT could be a good use for us so that we can capture information, even for brick-and-mortar operators. And of course, we would like to collaborate with different kinds of business formats as well so that we'll be able to actually get this result as soon as possible.

Kazunari Uchida: Then I have a question for American panelists. The American population is quite large and has diversified age groups, a huge variety of incomes, and also you have ethnic diversity in the United States. So you have to focus on certain segments in this landscape — age group or lifestyle. Is it better that you focus on certain groups and do a niche business, or do you think that you have to do business on a larger scale so you can encompass a larger group of people?

Michael Sansolo: Thank you. It's a very good question. I'm going to turn it to the retailers in a second. I know from many of the retailers I speak with, the niches are very important. But first of all, you have to make sure it's a large enough population segment that it would support a store. Prof. Lal talked earlier about HE Butt supermarkets down in Texas. And Texas is very large geographically, and I believe its population is now around 30 million people. So, it is quite a large state, and the difference from neighborhood to neighborhood — not even city to city... If you're in Houston, you can be in a neighborhood of Houston that is all Mexican-American. One neighborhood next to it could be all Vietnamese-American. It could be all Korean. And so, H-E-B — and they're probably among the best at this — makes sure the store has the right products, the right kind of staffing, people that understand the cultures. But you have to be careful. If Jerry in Albany, New York, were to decide to have a store that catered to Vietnamese people, I think you'd probably be out of business at that store pretty quickly. But how do you determine? We have so much diversity. How big does the market have to be, and are there any signs you see that help you know, "All right, that's a possibility"?

Jerry Golub: It's a great question. You learn to define your customer. Who is your target? And you try not to be too wide and spread out in that definition. On the other hand, we've always cast a wide net in this industry, and that's what's made supermarkets successful over the years. When we look at the Market 32 strategy specifically, we view that not as a new format, or an upscale format, or a niche format, but we view Market 32 as the natural logical progression of the modern supermarket that does cast a wide net. Now, that doesn't necessarily mean that you try to be everything to everybody. But it does mean that we want to do enough in those stores to meet the needs of a very wide swath of the population. And in order to do that, certainly some things appeal to everyone — like good service. And other items, as Michael was mentioning, appeal to certain segments of the population. You need to make sure that you have enough of that to be relevant to those segments. So, for better or worse, right now we are trying to cast that wide net. And I do believe that in our markets, because they're not so densely populated, that that's the way that we need to go to be successful.

Michael Sansolo: And Rich, before I hand that to you, diversity is also a strength for us. For instance, the modern American family eats different ethnic foods during the week. We're all going to go home from this conference and tell our families all the new ways to use soy sauce, because we're now all converted to soy sauce. But for Americans, a new population group comes in and suddenly we're eating Mexican food, or Indian food. That has been the tradition of the United States: that groups come in, and what we consider American changes. And it's been

one of the great strengths of the country. Now Rich, you're in the heartland. Do you see as much of this, and is there a balance that you have to walk?

Richard Niemann, Jr.: We see the diversity in diets, needs, and wants, but our population centers tend to be a little bit smaller than a lot of other operators might be dealing with. The one thing that I know for certain — for us, not for everybody, but for us — is that playing in the middle going forward is the death zone. We cannot and will not stay in the middle. And so, we look to be flexible enough to pick our targets, whether it's with the concept or with the tweaking of the concept in a particular area.

Michael Sansolo: All right, we are beginning to run out of time. I want to thank the audience for being with us. It's been a long afternoon, but I hope you would agree with me that it's been a very valuable afternoon. Our panelists here, and Carmela by the phone, have really given so much depth to so many issues. Before we sign off, we thought we would ask each one of the panelists if there's anything you would like to say in conclusion. We'll give you a minute. Rich, you're all the way at the end down there. So, you get to go first.

Richard Niemann, Jr.: I would just like to say, once again, thank you so much to our host. This has been a wonderful event. I've enjoyed it; I've learned so much from everyone else here, and I just appreciate being here. Thank you very much.

Jerry Golub: I would echo the thanks from Rich. We've really enjoyed being here and you always take away much more than you give. When we have wanted to do something at the highest level over the years, we tend to go to where we believe there are people and stores that do it at the highest level. So, for example, if you want to do the best breads, you go over to Europe and you look at those old-world bakers, and how they make breads and how they present them. Or for charcuterie with the smoked meats, you go to Italy. But what really strikes me is that these conversations are so useful because we don't necessarily look at the other elements of our business that way. And there is so much to be gained by having these conversations in terms of understanding technology and understanding the issues that other people are facing, and how they're reacting to them. And I think that's what's so useful and beneficial about having this conversation and for being here today. And I think we've all learned that no matter whether it's bread or whether it's technology, it really makes sense to gain lots of knowledge from other countries and other companies.

Michael Sansolo: I think those are wonderful comments. Let me add my thanks to the people from Kikkoman and to the American team. Thank you for being here. It has been so eye-opening how common the issues are between Japan and the United States. Everything you were talking about, our panelists on either side of the table are confronting the same challenges and looking for the same answers. And it just proves the value of an experience like this, to hear from operators who are eight and nine thousand miles apart yet looking for the same solutions to the same problems. So, I want to congratulate the people from Kikkoman. I'm always in awe that it's a 400-year-old company because we don't have anything in the United States that's 400

years old. So clearly it is in the culture of Kikkoman to be searching for answers and finding new solutions. And thank you for holding this session. It is so valuable.

Carmela, are you still there?

Carmela Cugini: I am, yes.

Michael Sansolo: All right. We'll give you a second. Anything you would like to say to sum up?

Carmela Cugini: I would just like to say thank you for having me. I know this is probably a little bit uncomfortable for all of you to listen to me through a phone versus in-person. So again, my apologies for not being there. Particularly after sitting back and listening to the commentary and the discussion, I certainly know I missed a very rich event. So, thank you Kikkoman for helping me engage in some way, shape, or form. And Michael, thanks for moderating. And to all of you I haven't met, hopefully I'll get to meet you at some point in the future. If you're ever in New York, and if you're ever in Hoboken, please look me up. I would love to host you in our office. Thanks again.

Michael Sansolo: Well Carmela, thank you for giving us the time today. We really do appreciate it. And for anyone who doesn't know Hoboken, it is the birthplace of Frank Sinatra. That is all you have to know. It's a very important place in the United States. Carmela didn't know Frank Sinatra. You don't know Frank, do you, Carmela?

Carmela Cugini: I don't, know.

Michael Sansolo: You've got to work on your local history. Prof. Uchida?

Kazunari Uchida: Thank you very much. I would like to ask the Japanese panelists to say a few words. Maybe we can start with Mr. Isaka.

Ryuichi Isaka: I would like to thank Kikkoman for providing me with this precious opportunity. There are things that you should not change, and there are things that you must change, and I think I have better understanding of them. Thank you very much.

Makoto Ueda: Thank you very much for providing us with these kinds of opportunities. In listening to the panel discussion, and listening to the keynote presentations in the morning, I realized that what is happening now and what may be happening in the future will have to be considered, and we need to be sensitive to those developments and must react to them. But at the same time, we don't know what's going to be happening in five years' time. No one knows. Therefore, we will always have to think of a hypothesis, and we must verify them, and we must take one step at a time. Thank you very much for today. Mr. Kawano?

Yukio Kawano: Thank you very much to the people from Kikkoman. Today, I was able to listen to you and realize that both the United States and Japan are on a similar boat, a similar

situation. Each corporation or each supermarket has their challenges, as well as roles to play and functions to provide. We need to be aware of that so that, based on that knowledge and understanding, we can change. And at the same time, as was mentioned at the very beginning, we are now in a major age of transformation and I do hope that the young people will take leadership in leading the way in the future.

Kazunari Uchida: Thank you very much, Mr. Kawano. Let me say a few words from myself. I would like to thank all of the panelists for your participation. I strongly felt, as was mentioned by Mr. Kawano, that there are a lot of similarities between Japan and the United States. Brick-and-mortar store strengths are in the experience and what you can actually feel for yourself, and I think we need to focus on those strengths and highlight them. But the difference between Japan and the United States is the population demographics. In the United States there seems to be an increase in the population, but Japan is actually homogeneous and we are facing a declining population. To provide the maximum value to the customer was the major task of the manufacturers as well as the stores. But now workers have various restraints and constraints. How we can provide workplaces where they can feel fulfillment? And we need to think of managing both supply and demand for securing the workers, etc., in Japan. That may be the major area of difference between Japan and the United States in listening to your discussion today.

New technology as represented in e-commerce will change the world, including Japan and the United States, but we should not be afraid of such changes. We should have strong missions and values in companies, because they will lead to a solution. And also, the time axis may actually move forward even faster than you think; therefore, I think you should be ready for quick change. If things change faster than you expect, you should be ready and you should be prepared, and I do think that everyone needs to think about that. Thank you very much for your participation.