

Potential of D2C Brands as an Ecosystem

Direct-to-consumer (D2C) brands are brands that employ a new business model of forming relationships directly with consumers, via a directly operated e-commerce website or social media, without going through a retailer.

MARUI GROUP looks to support D2C start-up companies and develop a D2C ecosystem. D2C & Co. Inc. was established in January 2020 for this purpose. D2C brand operator Yuichiro Mori, who has opened physical stores for his brand at Marui stores, joined MARUI GROUP's Hirotosugu Kato for a discussion on the potential of D2C brands as an ecosystem.

Lack of Visibility of Brands Dependent Solely on E-Commerce

Kato: We first met, Mr. Mori, around three years ago if I recall correctly. I still remember how much everyone seemed to be enjoying their work when I visited your office. Despite this light-hearted atmosphere, questions about work were met with detailed, data-driven explanations using computer screens. I was shocked and amazed to get such a response from a start-up company. What made you think about launching your own business?

Mori: I have always loved fashion. When I was at university, I started up a fashion media outlet and even went to see fashion collection presentations in Paris and Milan. I believe that fashion has the power to fill you with positivity when you wear an outfit or items that you particularly like. Entering into the fashion industry after university, however, I felt that the industry was too tied up in past success stories, and was thus behind the times. I had previously thought that fashion was about proposing something new, so this experience was incredibly disheartening. Lost in this despair, I saw a new light in the IT industry and in venture companies and start-ups. I later took part in the early days of a real estate venture company and the marketplace app operator Mercari, Inc. This experience made me realize that I was more suited to the management style of start-ups, but I still couldn't shake my attachment to fashion.

Kato: During the bubble period, we were developing a business centered on fashion, which proved incredibly popular at the time. After that, however, we fell into a long period of stagnancy. I think our preoccupation with past successes was one reason for this fall. During this time, customer surveys brought scathing opinions, like how our stores were unsettling as they had nothing but clothes and how our customer service approach was a bit intimidating.

Mori: Apparently, my father bought his first suit at Marui, and I too strongly associated Marui stores with fashion. D2C brands are garnering attention at the moment. I feel that these brands

are founded less on the quality of their products and more on how much customers enjoy the overall experience of the brands, including their creative vision, the experience of purchasing items, and the sense of community they offer. I started a D2C fashion brand with the goal of creating a business model that combined my love of fashion with IT.

Kato: People who have been involved in traditional retailing operations tend to be highly conscious of sales targets. This consciousness often leads to interactions with customers ending in one-time transactions, and it can be quite difficult to shift to a perspective focusing on long-term relationships. I understand that you, Mr. Mori, keep up-to-date on your customers. It is amazing how much a difference effective quantitative analysis can make in the value of stores.

Mori: When I was at a real estate venture company, I learned that encouraging existing customers to continue to live in our properties was a better path to consistent earnings than trying to secure large numbers of new customers. Today, we refer to this idea with the term "lifetime value." If customers continue to buy our products over the decades to come, they will continue to shape our brand over the long term. You could even say that I embraced the concept of unit economics right from the start of FABRIC TOKYO.

Kato: Our ultimate goal is to make stores that do not sell. D2C brands like FABRIC TOKYO will be a core part of accomplishing this goal. As D2C brands can sell their product directly to customers through the internet, what value do you gain from physical stores?

Mori: Physical stores are a venue for soliciting the creative vision of our brand and for allowing prospective customers to experience our brand. They also serve a function similar to a media outlet. If we depend solely on e-commerce sites, we lack visibility, like opening a store in the middle of the desert. Physical stores, meanwhile, are a part of customers' everyday lives, making it much easier for customers to find us in them. Also, online advertising fees are skyrocketing. Accordingly, if we are able to make good use of both online and offline venues, we can



YUICHIRO MORI x HIROTSUGU KATO

Yuichiro Mori

CEO/Founder
FABRIC TOKYO Inc.

Hirotosugu Kato

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President and Representative Director, D2C & Co. Inc.



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Yuichiro Mori

CEO/Founder
FABRIC TOKYO Inc.

Born in Okayama Prefecture in 1986, Yuichiro Mori joined fashion event production company DRUMCAN inc. after graduating from university, where he took part in the planning and production of fashion shows and events. He later began joining venture companies, being involved in the early days of real estate venture Global Agents and the launch of the Mercari marketplace app. He used this experience to start up the FABRIC TOKYO (formerly LaFabric) made-to-order business wear brand in February 2014. Through FABRIC TOKYO, Mori aims to provide customers with suits that perfectly fit not just their bodies but also their lifestyles. FABRIC TOKYO stores can be found across Japan in locations such as Shinjuku Marui Main Building and Kobe Marui.

attract customers more affordably. I also like to use physical stores as a testing ground for new ideas before we implement them on our e-commerce site.

Kato: I think a lot of people would be surprised to hear what you just said, as it is commonly believed that attracting customers via the internet is cheaper. I want to spread understanding of such value to be gained from physical stores and to see other D2C brands set up more locations in our stores.

Consistent Sales During State of Emergency, Record Performance Thereafter

Kato: We had to close our stores for nearly two months due to the COVID-19 pandemic. This is the first time stores have been closed for this long since World War II. Was FABRIC TOKYO affected by the pandemic? I heard that the growth of e-commerce sites in the United States doubled as a result of the pandemic.

Mori: We too had to close our physical stores, which put a halt on the acquisition of new customers. Luckily though, existing customers continued to buy our products through our e-commerce site, and sales actually did not decline as a result. That is one of the advantages of a D2C brand. For us, the number of users with registered measurement data is our most important key performance indicator. We were able to post a record-breaking performance with regard to this indicator in the last week of July 2020, after stores were reopened following the lifting of Japan's state of emergency declaration. Size is more important for business suits than it is for other forms of clothing. We have thus seen a rise in demand for the option we provide to purchase made-to-order suits online, causing customers to flock to our physical stores.

Kato: That shows just how popular the FABRIC TOKYO brand is. What do you think inspires customers to become fans of FABRIC TOKYO?

Mori: We don't refer to our customers as "fans"; we call them loyal customers. This is because it's tough for fans to stay fans forever. We recognized the danger this truth represents, and thus started taking steps to monitor customer loyalty. We also value our concept of "Fit Your Life" above all else. By this, we mean that we want our suits to fit customers' lifestyles as well as their bodies. This concept is the common thread running throughout our website, store, and organizational measures. In fact, we often hear people raising the question "But does that 'Fit Your Life'?" at meetings.

Sustainability of the Made-to-Order Model

Kato: The concept of "Fit Your Life" is important to personalization, and personalization is in turn crucial to sustainability. A rather shocking data point from the apparel industry is that roughly half of what is made is not sold. That creates a lot of waste.

Mori: That is one of the reasons we adopted the made-to-order model. We are keenly aware of manufacturing-related issues, and we have thus defined technology, sustainability, and traceability as principles positioned under our concept of "Fit Your Life." In Japan, around 280,000 suits are put on the market every year, but only 130,000 of these were sold in 2019. Plus, 10% of the world's CO₂ and 20% of its wastewater are emitted by the apparel industry. This industry is polluting the earth to make products that it throws away. Our made-to-order model, meanwhile, is sustainable as we only make the products for which we receive orders.

Kato: It seems to me that a lot of start-up companies run businesses that address social issues. Could it be that the relative youth of their management is related to this high level of issue awareness?

Mori: That might be a factor. My generation witnessed a number of serious issues, including massive natural disasters, terrorist attacks, and the 2008 financial crisis, over the span of only two or three years. This experience could have sparked our awareness of such issues. People often talk of three types of value, but it would appear that this used to be two types: value for customers and value for business. The third type of value is new. This is value for society. The idea of developing a business targeting the intersection between these three types of values is commonly shared among younger entrepreneurs.

Kato: MARUI GROUP seeks to provide value that is shared by all stakeholders. In 2019, we newly identified future generations as the sixth group of stakeholders to which we aim to provide this value. Viewing future generations as stakeholders means that we have to consider environmental and food issues in our business. This has naturally led us to practice sustainability management.

Mori: That is quite admirable. I guess it was that thinking that led MARUI GROUP to invest in and collaborate with a sustainable power producer.

Growth of Quality Business and Brands After Acquisition of Necessary Management Resources

Kato: Many say that D2C brands are unlikely to show significant growth in terms of quantity. What factors do you think need to happen for D2C brands to grow in the future? If a brand were to come along that eliminated the issues faced by customers, would it grow?

Mori: We are only looking at the tip of the iceberg when it comes to D2C brands. These brands are currently in their infancy, and there are a lot more stages for them to go through their development. Those brands that are able to formulate a clear vision for the future stages of their development will likely be the market leaders of the future. FABRIC TOKYO's goal is to join the top 10 apparel companies within the next decade. I have the utmost confidence in our ability to accomplish this goal. After all, the products that see growth are those that are used every day and transform customer lifestyles, such as clothing, furniture, home electronics, food, and cosmetics.

Kato: The use of D2C brands is common among a younger demographic in the United States, and it can thus be assumed that millennials and younger generations in Japan will come to

increasingly embrace such brands. It is also likely that we will see an increase in the number of young people that aspire to set up their own D2C brand.

Mori: To increase such brands, we will need a healthy D2C ecosystem. Creating this system will require ambitious entrepreneurs followed by employees and other team members and eventually partner companies. When all of the necessary management resources have been acquired, including people, supplies, money, and information, we will see the growth of quality businesses and quality brands. D2C & Co. will have an incredibly important role to play in this ecosystem, and I truly hope that this company will come to be a leading force in the industry.

Kato: I too hope to work together with you, Mr. Mori, to build a co-creation ecosystem that includes D2C brands and contribute to society through this process.

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Hirotsugu Kato

