

“Focusing on what we want to produce”

Kazuhiko Yazaki, President & CEO, Felissimo Corporation

Profile

- 1978 Graduated from Faculty of Economics, Gakushuin University
Join High Sense Corporation (present Felissimo Corporation)
- 1984 Executive Director, Felissimo Corporation
- 1985 Chief Director
- 1986 Executive-Vice President
- 1987 President & CEO

Kazuhiko Yazaki ~~He~~ is in charge of the management of Felissimo Group.

He is also the Executive Director of DESIGN 21, a joint project of UNESCO and Felissimo to foster young artists and designers.

He serves as a board member for ~~J~~-Japan Direct Marketing Association.

This interview was conducted in 2000. So, what Mr. Yazaki talked in this interview and his background are original.

We desire that you search their website for the latest information.

This time, we had an interview with Kazuhiko Yazaki, President & CEO of Felissimo Corporation. The majority of readers of Business Insight are male and they might not know what kind of business Felissimo does. However, if you ask young women around you, you will see how well Felissimo is known and appreciated by them. If you take a look at the Felissimo catalog sold in bookstores, you will know it instinctively that Felissimo’s business is different from other direct marketing / mail order companies. You can see special features such as unique lifestyle-oriented presentation of their products. Here’s the important message of “Six stories by Felissimo to our customers” on the first page.

The first thing is that Felissimo produces only what they want to produce. They focus on what they wish to produce. Felissimo doesn’t manufacture only because they will be sold well. They ~~only~~ propose only the bests and originals to make everybody feel happy, not once in ten years but every day. Felissimo’s clothings and goods cater to the people’s everyday life, rather than to the very special occasion. So it says clearly, “We don’t intend to sell price-driven products. We would like to

offer nicer daily products at reasonable price.”

“Felissimo Collection” is their distinctive system which delivers the products to their customers once a month. The collection system delivers its customers not just the products but happiness along with the purchased items every month. The catalog presents various series of collection, product serious on its catalog. It said, “We wish to have longer relationship with customers and in that way customers will understand what Felissimo brings to them better”

Therefore Felissimo aims to become “a group to design “Shiawase”, a happy life” not just a mail-order company to develop and sell variety of cute products. “We produce our original products based on our philosophy and would like our customers to buy them if they want them and join us if they want to join our activities. That is the way we wish to be”, it said on its “High Sense Catalog”

The first page of the catalog is supposed to be the most valuable and profit-making space, but Felissimo prints these messages to convey their philosophy. Their clear-cut business concept penetrates all through from product development, the presentation of products, and to the sales method, and enables to have good acknowledgement and patronage from many young women.

This means, in marketing term, to establish firm relationship with customers. How does company communicate with customers in the mail order business where there is no face-to-face communication like stores? Instead, what kind of business system is effective for its needs? There must be a marketing key to the differentiation in the relationship marketing and a formula to the success. We expect to have those suggestions in this interview.

Company to design “life”

Interviewer: Could you tell me an outline of your business?

Mr. Yazaki: We operate mail order direct marketing business through catalogs. We position ourselves as mediating business to connect consumers with manufactures. We would like to focus on what we really want and create, and we want customers to buy it, rather than we just distribute the existing products from here to there. Therefore, we don’t regard our business just as a mail order company. We would like to be a “life-design producer” to realize the happy lifestyle and the comfortable space people lives.

It’s been ~~35th~~ years since we started this business. Our main customers are women in their 30s who

are married with children or who are single, career-oriented working women. We also have two smaller customer groups of women in their 40s with grown-up children. and young university students in their late teens.

When we founded this company, we originally started this business visiting the office and corporations where many working women work at. So we targeted for working women and their lifestyle. As time passes and these women get married and became housewives having children, we follow the changes of customer's life stage and start to develop wider range of products.

Interviewer: It seems difficult to obtain the market for young women in their 20s and 30s.

Mr. Yazaki: I have been telling my staff to create what they ~~we~~ really want and what ~~we~~ they really want to buy as a consumer. Our product planners are mainly women in their 20s and 30s. So, we don't need to have special research to get their needs as they are in the same generation. We have 100 staff members for the product development. If they were allowed to work freely without the framework of organization or section, we might be able to produce even more interesting, creative products, Considering organization management, however, it's difficult to go that far ~~do it~~. When we had smaller organization before, we did it that way. Now we operate the company in divisions with different functions and have its own role there. I think our operation system is considerably flexible within such a range.

We invest our money in design and trend-research. This is because Felissimo makes a merchandising plan more than six months ahead, even before designers present their collection in Paris and New York, otherwise, our annual operation cycle doesn't work. So, we cannot expect to get the inspiration out of something in front of our eyes. We have to gather information from something which is likely to become trend to get the inspiration and design to create the new products. When we complete a new catalog and show it to the editors in the publishing company, we get high evaluation for catching the trend and sensitivity.

We focus on products which make daily life a little happier. We think a daily life is a great stage. Many companies have focused their marketing on special occasional events like the New Year, Christmas and trip for long. Of course such special days are important, however, ordinary daily life is much more important, so we give a little more spot on them to sparkle it. This is our concept.

Customers participation in product planning

Mr. Yazaki: We ask our customers to join product planning. We have customers from junior or high school students to women in their 40s to give us their opinions by trying our various products and join the actual planning meeting to make products with us. We intend to do such activities aggressively. For example, we have a club called “Jolly Hockey Sticks” for teenage girls. We hold the club meeting in Tokyo and Kobe twice a year. We ask people to join the club on the catalog and develop the products with the young applicants. Although those people are not professionals, they have great sensitivity as well as feeling of their generations. People who grow up with magazine like “an-an” has a sensitivity of “an-an” through their lives. We have to catch the atmosphere, or feeling of each period and generations.

The products those teenagers get involved to produce were much more successful than the products which were born from grown up imagination of what teenagers want.

Of course, we don't just manufacture exactly to those participants idea but we examine their opinion carefully and apply the idea to our product planning system as a professional. High school coed-students participate in that planning process very seriously and positively. I think it's because we give them the opportunity to express themselves. That kind of opportunity isn't given in their school life.

Selling catalogs

Interviewer: In order to capture certain market volume of customers, it should be important to define whom you distribute Felissimo catalogs to.

Mr. Yazaki: The catalog sometimes goes by itself. I mean it spreads everywhere by word of mouth among customers. We sell our catalogs at the bookstores, too. We have emphasized on the visual image so that our customers can have vision of their life when they look at our catalog. The price is only 500 yen. Thinking of the cost-effectiveness, it's reasonable to buy because so much information are there. It would not be an exaggeration to say that shopping is human beings' instinctive action. Even browsing catalogs can be sole fun. That's why people pay money to get our catalogs.

We also sell quite a lot of catalogs in overseas countries. Our catalogs are distributed in Hong Kong and Taiwan by the wholesalers outside our usual circulation. People in those countries are so much interested in Japan, and many companies are engaged in developing and selling products to Japan.

So, they are very interested in our catalogs. As for Hong Kong, our Hong Kong subsidiary company do. I think the Internet will change the condition if information flow and logistics infrastructure were once established.

We have various widely-circulated catalogs for kids, clothings and lifestyle goods, which we issue about 200,000 catalogs each and sell out most of them. Most of each catalog is issued twice a year. Year by year, the catalogs are sold well in the bookstore, and retailers and wholesalers are very positive about handling our catalogs, but when we first started to sell our catalogs,, it was very difficult. When I went to those places to discuss fifteen or sixteen years ago, they said, “You should give your catalog for free. The magazines are sold well because they are edited by the professionals. The catalogs are made by amateurs” It took while until they finally decided to give it a try.

The idea of selling our catalog occurred when I talked to these customers. They are kindergarten teachers in Shizuoka, and their occupation gives them a lot of idle time such as kids’ nap time. So during those hours, they enjoy spending time looking at our catalogs. They look at our catalogs everyday, so they even memorized what is said on what page. One of them, a big fan of ours, said that our catalog is much more interesting than other fashion magazines to her. The information those magazines have are mostly about Tokyo and she cannot be no more than the receiving end of communication. She doesn’t feel belong to neither Shibuya nor Ginza. However, with our catalogs she can participate by ordering, even it was a product of 500 yen. She finds it very interesting and real and can’t help looking at the catalog seriously. This encounter assured me that we could circulate our catalog through bookstores.

Challenge in mail order system

Interviewer: By the way I assume there is a possibility of product shortage even in a mail order industry.

Mr. Yazaki: Yes, when the orders outnumber our production volume, we face product shortage. If such a condition occurs, we would have to ask the ~~like~~ customers either to give us a little more time or cancel the order. It would be a waste for our business. Basically our business begins when we present our customer what we can offer. The customers make orders from our catalogs, yet we have a possibility of a stock shortage. We do our best to prevent such conditions. Since we manage

our stock by analyzing data from past, we have been improving the situation little by little.

Interviewer: Do you outsource most of the production?

Mr. Yazaki: We scarcely engage in manufacturing ourselves. As I have mentioned at the beginning of this interview, Felissimo comes up with product ideas, and leave the manufacturing to our business partners. Our production mainly takes place within Japan, still we have oversea business partners. All of them are great partners with ability to produce the products of high quality.

Interview: What challenge do you have for sales aspect? The average sales per customer is important in the mail order business, isn't it?

Mr. Yazaki: Yes, of course, we put emphasis on the average sales per customer because it directly connects to profits, however the main assignment for our marketing is to increase number of customers. Expansion of product selection has supported our growth until now, but from now on we would rather focus on offering the market which would be supported by customers.

Interviewer: Felissimo invests money in the database system to manage customer's information and orders. Have you been doing it for a while now?

Mr. Yazaki: Yes, we have been investing considerable amount there for more than twenty years now. And we will be doing so from now on. A computer used to just substitute manual labors however it has taken different role now. We provide all employees with at least one computer to carry out their operation. Even product planning section is depending on computers in a great deal.

Potential of online shopping

Interviewer: What do you think of online shopping?

Mr. Yazaki: I don't think we would be announcing our online business yet. Among our business, it is not too much though, we have been actually receiving a lot of online orders. We sell several products on our web site and some of them sold online only. We have a market of several billion yen online.

We are thinking about various things we could do next when the market reach little more matured level. The internet will bring a global level of competition against different industries. One can start the online business from scratch and keep the business running on a hand-to-mouth basis. On the other hand one can start the online business by developing already existing foundation. I think the second one is likely to win in the end.

Pursuit of profitability, social relevance and originality

Interviewer: How come Felissimo emphasizes social and cultural activities.

Mr. Yazaki: We often discuss what we do our business for. Felissimo exists in this place during this period of time. That shouldn't be meaningful only to the employees, customers and business partners. We have to exist as the creator of better society. We want to establish ourselves as the creator of next generation not just as the company which transports things from right to left. We often mention 'profitability, social relevance and originality'. Of course, we have to make profits. But making profits doesn't mean all to us. Furthermore, we have to emphasize contributing to our society as well as keeping our originality. Where these three elements, profitability, social relevance and originality cross is where Felissimo is aiming as a company. Therefore, we implement social contribution only relating to our corporate activities, such as supporting tree planting and promoting the city of Kobe. During the period of the Luminarie event in Kobe, December, we gathered 1,225 pieces of handmade stuffed animals to build ~~make~~ a Christmas tree to display on the site. This year will be our third year. In this project, we asked our customers to send old fabrics to us. We receive 30,000-40,000 pieces. Then other volunteers to make stuffed animal with those fabrics. Customers who send us fabrics, customers who make stuffed animals and many customers who come to see this event. After the event, we donate them to the institutions for children not only in Japan but also overseas. Some of the institution offer to join the event next year. We want to value on such warm communication and expansion to create new business model beyond exchange of product and money.

Interviewer: Thank you for giving us so much precious ~~story~~ story today.

[From editor]

The mail order business is said to have become an industry which requires huge investment. The reasons it is said so are, first with an increasing number of customers and diversification of product, it's inevitable to invest in much more efficient data management system. Secondary, to cope with customers' increasing demand for freer order placement (time and means), the mail order company has to consider establishing advanced distribution system or advanced order processing system and structure. And the third reason is that the mail order company has to invest in advertisement since it is important to establish strong image to promote a vast distribution of the catalog and to reduce the risk of sending the wrong message therefore the amount of information in a catalog is limited. Especially the third factor will be much more important if the online order system expands in this industry in the future. We forecast leading online shopping company has to aggressively invest money in advertisement to maintain the place in consumers' minds for their web site tend to be easily linked to its product.

Same as other leading ~~big~~ mail order companies, Felissimo aggressively invest in these area. However, Felissimo aims to obtain the market which especially requires fashionability and differentiation for female consumers. Generally obtaining the share of this market is said to be difficult ~~to get this market share~~ no matter how ~~we~~ they invest money there. This is because analyzing past orders doesn't lead to the right amount of stock. It could lead to either having less stock or too much stock. And even if they advertise their brand image, usually their message , differentiation and innovativeness, doesn't reach the consumers. Sometime too much exposure even misleads the consumers.

Following two things might be important to appeal company's superiority. First, narrowing down the target and choose products suitable for them. The needs of market are easily changeable and unpredictable. So if the company accepts the order from wide range of the customers, too much inventory management cost and the risk will become too big and it will be hard to make any profit. Felissimo focuses on the market where finer taste in everyday life is appreciated by women. On the other hand, Felissimo doesn't focus on the fashion market of narrowly accepted unusual taste nor market of too-everyday life taste. By doing so, the mail order company can reduce the risk which can be caused by trend among the markets Felissimo is not focusing. The second thing is to establish relationship with customers. Based on the premise of focusing on a certain needs, if the mail order company could establish the mutual communication with customers, obtaining potential needs of customers would be easier. Furthermore, by making customers more satisfied, maintaining long

term good relationship will be easier. Building good relationship with customers lowers the uncertainty of needs to certain level, and also contributes to reduce the risk and unnecessary cost of product planning and stock management. Aside from whether Felissimo intends it or not, their focusing on relationship with customers suggests one of the means to cope with uncertain market. By the way, it is considered that the internet will be a factor to give an impact to the mail order industry. Mr. Yazaki says, “the Internet will bring a global level of competition against each other among different industries.”

Generally, it's inevitable to pursue economies of scale in the online shopping system. The company which gathers more products to lower the price and widely advertises to get consumers' attention will have most advantage. It is said that only some leading company could be the winners for their ability of maintaining healthy financial status, lowering price of products and having wide advertisement.

Certainly, if the consumers knew what they want, such as some product from well-known company or the specialties, the online shopping company which can invest aggressively will lead the market. However the items like clothing cannot be sold by simple open network communication system. The consumers respond not only to the product itself, but to the information which comes along the product. From these information they decide which one they want and why they want it. So, what the online shopping company has on the internet should not be only a product photo and price. Other items on the same page, the suggested scene of usage, these information are also taken into consideration upon placing an order. This cannot be done only by open network communication. You need a system to establish the standard through conversation with the consumers.

The internet greatly contributes consumers when they are searching for information. So if you look at the differences between those products, specialties and clothing, in other words the market whose consumers know what they want, and the market whose consumers come to see if there are anything they might to be interested in, the usage of internet might not same. This difference of usage can be often forgotten when we study the online business.

Mr. Yazaki says that for the online business, the company will have the advantage when it has the certain level of business foundation and develops based on it. He might be able to say so because Felissimo handles the products whose price could be decided through the communication between Felissimo and consumers. In this industry, it seems that it still is important to break down the target customers and establish the business on relationship with them.