

## Mitsukoshi Ltd. Changes the Retail Landscape with Intelligent Fitting Rooms that Increase Sales and Customer Satisfaction

### Executive Summary

**CUSTOMER NAME**  
Mitsukoshi Ltd.

**INDUSTRY**  
Retail

**BUSINESS CHALLENGES**

- Enhance customer service by improving the shopping experience
- Improve efficiency of sales staff
- Increase sales of high-end apparel

**SOLUTION**

- Smart Shelf
- Intelligent Fitting Room
- E-Recommendation
- Next-Generation Customer Management System

**BUSINESS RESULTS**

- High praise from 90 percent of customers and 100 percent of sales associates
- Reduced sales staff's multiple round trips to the stockroom by 25 percent
- Increased top-line sales revenue 15.8 percent over previous year

Operating one of the largest, not to mention oldest, retail companies requires a keen sense of knowing what the customer wants and the agility to change with the times in order to enhance customer service. Being in business for over 300 years, one could say Mitsukoshi Ltd., Japan's veteran retailer, is intimate with its customers' shopping style. And that intimacy is only growing, as Mitsukoshi continues to give its customers what they want: a pleasurable shopping experience. To start, Mitsukoshi is adopting radio frequency identification technology (RFID) and intelligent telephones to create "Intelligent Fitting Rooms," dressing rooms that give customers immediate access to sales staff and product information. Not only does this new technology produce happier and more satisfied customers and employees, it also brings additional benefits to Mitsukoshi's overall operations.

### Business Challenges

Since its beginning in 1673, Mitsukoshi has grown to become one of Japan's most popular department stores. Mitsukoshi's fourteen stores account for annual sales of US\$7.7 billion and have helped the company build a reputation as a creative retailer that always provides innovative merchandise and superior customer service. Mitsukoshi's flagship store in Ginza generates more than US\$2,000 per 1.2 square yards (one square meter) in one month and is viewed as a shopping destination for high-end shoppers.

### Successful RFID Initiative Lays Foundation for Japan's Future Store Project

Mitsukoshi takes pride in presenting a wide range of products in every department, designed to please its upper-middle-class customers. For example, the Mitsukoshi ladies' shoe department in its Nihonbashi store previously offered a broad number of different shoes, but due to space limitations, displayed only one size per shoe style or one shoe per pair.



While this strategy allowed the customer to view the wide variety of styles, it required the sales staff to make numerous trips to and from the stock room while the customer waited.

In 2005, Mitsukoshi adopted radio frequency identification (RFID) technology to improve the customer experience, achieving great success. RFID allowed the store to identify and stock best-selling shoe sizes, cut customer interaction time in half, increase the average number of shoes shown to customers from 1.7 to 3.1 per visit, and increase total shoe sales 10 percent over the same period of the prior year. But that was just the beginning.

“When we considered using RFID in our premium denim department, our greatest concern was to offer a less stressful, more pleasant shopping experience. We focused on fitting rooms to increase customer purchasing. Cisco IP phones, with a compact touch panel, provided the solution.”

Mr. Masakazu Nishida,  
general manager  
department store  
business headquarters,  
Mitsukoshi

“We saw success in the ladies’ shoe department, but shoes represent only a small portion of the products in our department store,” says Mr. Masakazu Nishida, general manager of Mitsukoshi’s Merchandizing division and Merchandizing System Promotion department. “We decided to take the challenge to our apparel department, which represents one-third of our overall product base.”

Mitsukoshi selected the premium jeans department in the Ginza store as the focus of Japan’s Future Store Project, a new program executed by Japan’s Ministry of Economy Trade and Industry, as part of a 2005 RFID experiment. Mitsukoshi chose the jeans department based on the large number of product types, high retail price range, strong fashion appeal, ability to absorb the cost of RFID implementation, and ease of tracking customer experience levels.

### Mitsukoshi Identifies Next Steps

As part of the RFID project, Mitsukoshi focused on achieving the following objectives:

- Create a process that would allow customers to check product availability
- Provide sales staff with immediate access to stock-level information
- Enable sales staff to recommend alternate styles or products to customers
- Alert sales staff when a very important customer arrives in the store

From these objectives, three primary goals were identified. The first goal was to adopt a next-generation inventory management system, which would allow customers to confirm stock levels of product styles and sizes directly from the display shelves and fitting rooms. The second goal was to implement a next-generation customer management system, which entailed outfitting 50 customer volunteers with active RFID tags that collected information about the wearer’s purchase history and store visit status, and transmit the information to hand-held terminals carried by the sales staff. The third goal was to develop a next-generation supply chain management (SCM) system that would link inventory management through electronic tags and electronic data interchange, facilitating paperless operations that required minimal or no inspections upon delivery.

With a goal of full-scale implementation within one to two years, Mitsukoshi invited the Cisco® [Internet Business Solutions Group](#) (IBSG) to participate in the initiative. IBSG consultants introduced global best practices related to current RFID usage, offered planning support for use of an RFID solution in the premium jeans department, and provided expertise to help Mitsukoshi quantify the benefits of adopting the technology.

## Solutions

### New Retail Business Model and Retail Solution

IBSG worked closely with Mitsukoshi to help the company develop a new retail business model and create a total retail solution through a [Cisco Unified Communications](#) strategy.

“This is an extremely challenging product category for which traditional sales methods are not effective,” says Mr. Nishida. Because the products are imported from overseas, customers are unable to get a detailed sense of how they will fit until they try them on. According to Mr. Nishida, since these jeans are only made in small quantities, stock-outs are common, and customers must wait while sales staff checks on inventory. “This creates a stressful situation, made even more so if the product is out of stock,” adds Mr. Nishida.

Mitsukoshi initially considered using tablet PCs to interact with the inventory management system but decided against that strategy because it would require the use of special pens. “We didn’t think that was realistic for our customers,” says Mr. Takuo Ito, section chief, Mitsukoshi Merchandising division and Merchandising Promotion department. “Then we were approached by [Cisco](#) about using IP phones.”

### Mitsukoshi Executive Sees Cisco IP Phones in Action

Cisco invited Mr. Nishida to its executive briefing center in San Jose, CA for a discussion and demonstration of Cisco’s advanced technology. There, Mr. Nishida quickly saw the advantages of using Cisco IP phones as the main interactive system terminal in their stores and, with his team’s support, selected Cisco IP phones based on five points:

- The system uses space-saving touch panels, a critical advantage in small fitting rooms
- A Power over Ethernet switch eliminates the need to install separate power sources
- The terminals for the proposed system were more cost-effective than PCs
- The response time was superior than other proposed systems
- Voice communication functions could be added to the system in the future

“Our plan is to make the most and best use of Cisco’s depth of expertise in retail and wide variety of other fields. Our number one priority is to create an infrastructure that supports a future convergence of global standards, given our experiences with intentions to move forward with these experimental projects. In this, we have the greatest confidence in Cisco as our business partner.”

Mr. Masakazu Nishida,  
general manager  
department store  
business headquarters,  
Mitsukoshi

Using Cisco IP phones that connect directly into the inventory management system would permit customers to search for different sizes and styles of jeans without having to leave the fitting room. “By allowing customers to check on available sizes and styles from inside the fitting room, which is where the purchase decision tends to be strongest, we allow the customer to have an enjoyable shopping experience,” says Mr. Nishida.

The compact size of the IP phones allows Mitsukoshi to place several units throughout the sales area. “In addition to using these terminals to provide information to customers, we also believe IP phones can be used to communicate important information to our sales staff,” says Mr. Nishida.

Mitsukoshi worked with Fujitsu, Cisco, and several other vendors to provide RFID solutions. Intelligent Fitting Room, developed and implemented by Cisco, enables customers to check product availability without leaving the fitting room and allows staff to check product availability without a trip to the stock room. In addition to Intelligent Fitting Room, IBSG’s engagement and quantifying methodology also influenced Mitsukoshi’s building concepts for additional solutions created by other vendors, including:

- Smart Shelf—provides real-time inventory management function across 110 product categories
- E-Recommendation—provides information to help influence customer purchase behavior
- Next-Generation Customer Management System—alerts sales staff when priority customers arrive

## Business Results

The trial runs in the Ginza store were very popular among more than 90 percent of the customer volunteers and all of the store’s sales. The experimental system in the premium denim department reduced wasteful round trips to the stock room by 25 percent, causing the sales staff to request full-scale adoption as quickly as possible.

“Cisco IBSG consultants helped us improve operations and establish goals for our premium denim departments in areas where we had only vague notions of what could be done,” says Mr. Nishida. IBSG professionals helped the retailer establish guidelines, citing cases of how other retailers had dealt with issues in the past. “They not only offered services related to networks, they actively offered a comprehensive solution incorporating IP phones,” says Mr. Nishida. “Discussing new ideas for our business with IBSG consultants has definitely changed our perception about the role of the network.”

Measurable results of the new Intelligent Fitting Room experiment include the following:

- Improved productivity—reduced sales staff’s multiple round trips to the stockroom by 25 percent
- Increased revenue—top-line sales revenue rose 15.8 percent over the prior year
- Enhanced customer satisfaction—received high marks of satisfaction from over 90 percent of customers and 100 percent of sales staff

“Rather than entering the fitting room with one pair of jeans, our customers were taking several pairs of jeans with different styles,” says Mr. Nishida. “The experimental system allows a customer to hold an item up to the tag reader to let them know how many items were in stock, in what variations, all in real time.”

## Next Steps

Mitsukoshi hopes to use the IP phones for voice communications in the future so that customers can call the sales staff from the dressing rooms, allowing employees to work more effectively with customers and eliminate the customers’ need to travel to and from the fitting rooms to the sales floor to find additional merchandise. “Most of the time our customers will take several pairs of premium jeans into the fitting room with them,” says Mr. Nishida. “Some might take as long as fifteen minutes trying on different jeans. Traditionally, our sales staff has had to interact with other customers while still worrying about those in the fitting rooms.”

## More Information

The Cisco Internet Business Solutions Group (IBSG), the global strategic consulting arm of Cisco, helps Global Fortune 500 companies and public organizations transform the way they do business—first by designing innovative business processes, and then by integrating advanced technologies into visionary roadmaps that improve customer experience and revenue growth.

For further information about IBSG, visit <http://www.cisco.com/go/ibsg>



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