



(Translation)

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Dear Sirs,

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## **Shiseido's New Three-Year Plan (Fiscal 2011 – Fiscal 2013)**

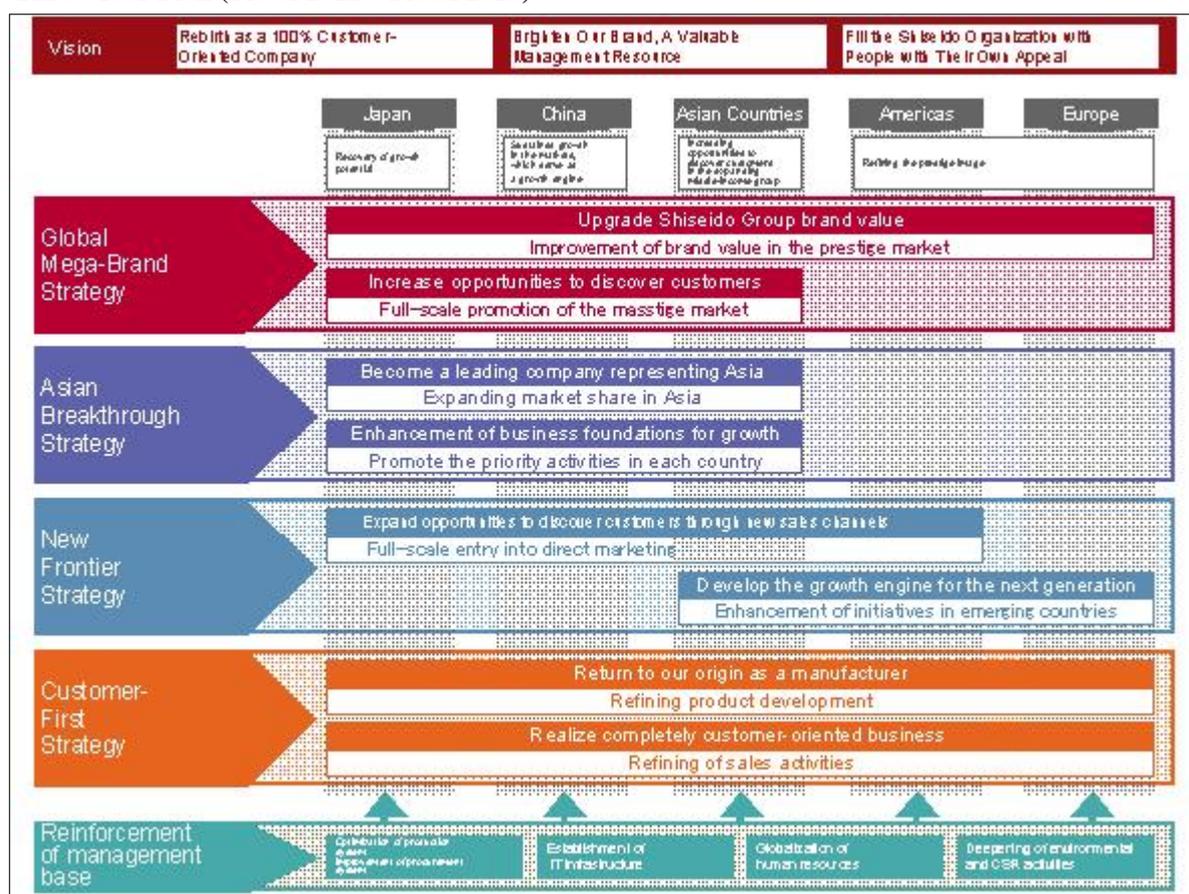
In 2008, Shiseido established a Three-Year Plan that takes a three-phased approach over the next decade with the aim of becoming “a global player representing Asia with its origins in Japan” within the next 10 years.

In Phase 1 of the previous Three-Year Plan (fiscal 2008 – fiscal 2010), Shiseido has taken initiatives to “create a brand loved by customers throughout the world” and “establish the highest level of world-class quality management” based on the theme of “improving quality of activities across the board,” together with the aims of “expansion of growth potential” and “improving profitability.”

In its domestic business, Shiseido has achieved results to a certain extent by pursuing “distinction and concentration” by channel; however, the level of overall business performance has not risen. At the same time, overseas business has achieved growth at a level in which the overseas sales ratio has exceeded 40% through realizing growth in the China business, acquiring Bare Escentuals, Inc. and promoting other initiatives <sup>\*1</sup>. Shiseido will promote the new Three-Year Plan starting from the current fiscal year with a focus on further strengthening its global business and rebuilding its domestic business.

\*1: Final results for fiscal 2010 will be announced following the settlement of accounts at fiscal year-end.

## New Three-Year Plan (Fiscal 2011 – Fiscal 2013)



The new Three-Year Plan (fiscal 2011 – fiscal 2013), which marks Phase 2 based on the theme of “getting into a growth trajectory,” is geared toward becoming “a global player representing Asia with its origins in Japan.” Under the new plan, Shiseido will promote four growth strategies and reinforce its management base that will support the growth strategies by placing the utmost priority on vitalizing the domestic cosmetics business, which continues to face hardships, and accelerating globalization that has steadily progressed to date in addition to continuously carrying forth the three visions established in 2005: “Rebirth as a 100% Customer-Oriented Company,” “Brighten Our Brand, a Valuable Management Resource” and “Fill the Shiseido Organization with People with Their Own Appeal.”

### 1. Four Growth Strategies

#### **(1) Global Mega-Brand Strategy**

Globally developed brands have increased their presence by respectively enhancing their unique brand value, including global brand *SHISEIDO* and *Clé de Peau Beauté*, which originate from Japan; *BPI*, *Decléor* and *CARITA*, which originate from Europe; and *Bare Escentuals* and *NARS*, which originate from the United States.

Shiseido considers markets beyond regional boundaries and exploits its marketing power from the perspectives of “distinction and concentration” with the aim of becoming a Global Multiple Brands Company that possesses multiple brands that respectively exceed a scale of 50 to 100 billion yen in sales and are competitive with other major companies. At the same time, ongoing efforts will also be made to maximize brand value by area. In this respect, Shiseido has selected three brands each from the prestige and masstige<sup>\*2</sup> categories to focus on their development as Global Mega-Brands. In Asia, initiatives will be taken to expand growth potential in both the prestige and masstige

market domains, while efforts will be also made to enhance brand presence in the European and U.S. prestige markets.

### **1) Improvement of brand value in the prestige market—Upgrade Shiseido Group brand value**

In the prestige market, Shiseido will cultivate global brand *SHISEIDO*, a brand currently available in more than 80 countries and regions worldwide, to compete with the other global competitor brands. Further, efforts will focus on enhancing the recognition and fresh appeal of *Clé de Peau Beauté* as a brand targeting the ultra-affluent segment in Asia and North America. Additionally, for *Bare Escentuals*, which was acquired by the Company in 2010, Shiseido will further expand growth potential in the United States and promote business expansion into Europe and Asia, centering on Japan and China.

### **2) Full-scale promotion of the masstige market—Increase opportunities to discover customers**

In the masstige market, Shiseido aims to further increase opportunities to discover customers in the middle-income segment, which is expected to increase significantly in Asia in the future. Shiseido will proactively invest in three brands as Global Mega-Brands, namely, *Za*, a total skincare and makeup brand that is expanding growth potential in Asian markets, primarily in China; *SENKA*, a skincare brand; and one other brand aimed at category expansion.

Furthermore, Shiseido will continue to cultivate *MAJOLICA MAJORCA* and *AQUA LABEL* brands, which have steadily increased their presence through effective approaches, as well as accelerate masstige business expansion, including entry into new markets.

\*2: Masstige is a coined word from “mass” and “prestige,” and refers to a category that is “more expensive than mass-produced products, but more moderately priced compared with prestige products.”

## **(2) Asian Breakthrough Strategy**

Shiseido aims to expand its overall share in Asian markets, which are expected to become the world’s largest in the near future, by designating Asia as the most important area. To accomplish this, ongoing efforts will be made to achieve growth and share expansion in China, which is the largest growth market, while also strengthening initiatives in respective East Asian countries and ASEAN countries.

Additionally, as a key area of the Asian Breakthrough Strategy, with regard to Shiseido’s domestic business, which accounts for 60% of consolidated sales, measures will be taken to rebuild marketing and sales strategies by placing top priority on securing growth that exceeds the rate of market growth.

As indicated below, to become a leading company representing Asia, measures will be executed to enhance Shiseido’s business foundations for growth and promote the priority activities in each country, and in turn, establish an undisputed presence versus global competitors in Asian markets.

### **1) Japan**

In Japan, Shiseido will fundamentally review its marketing and business management style to revitalize its voluntary chain store system business model that has been employed to date. Moreover, the number of new products will be largely reduced to focus on cultivating predominantly strong brands and products as well as activities to realize a shift toward long-seller products. Additionally, in order to strengthen marketing suited to

regions or channels, authority for managing costs and certain sales planning functions will be transferred to sales companies, which are the closest to customers.

## **2) China**

In the China market, which is a growth engine, Shiseido will take advantage of its 30th anniversary of entering the China market and top priority will be placed on committing management resources during the current three-year period. Specifically, in addition to nurturing Global Mega-Brands and brands exclusively marketed in China, such as *AUPRES* and *URARA*, Shiseido will further augment its business foundation by promoting new frameworks such as the establishment of an onsite development system and customer services utilizing websites.

## **3) Other Asian markets**

In order to enhance its presence in respective Asian countries, Shiseido will strengthen its prestige business and promote full-scale expansion of masstige brands. Specifically, Shiseido will strive to expand sales by focusing on the markets in Taiwan, where Shiseido is firmly maintaining a competitive edge with an overwhelming share; Korea, whose market is large and possesses growth potential for Shiseido; and Thailand, which is the hub of ASEAN markets.

### **(3) New Frontier Strategy**

The consumer and distribution environments surrounding the Shiseido Group are changing at a furious pace and in order to pinpoint and make inroads into growth markets, Shiseido will promote the development and introduction of new marketing thrusts that will create points of contact with customers. Additionally, measures will be taken to accelerate growth through strengthening expansion into rapidly growing areas centering on emerging countries.

#### **1) Full-scale entry into direct marketing—Expand opportunities to discover customers thorough new sales channels**

In response to changes in customers' purchasing behavior and significant advancements in the IT environment, Shiseido will promote marketing both in Japan and overseas that is centered on websites, an area in which the Company lags behind and has yet to realize full-scale development, to create opportunities to come into contact with new customers. In global markets, Shiseido will launch e-commerce consecutively in the United States and China. In Japan, plans call for introducing a new business model that will utilize respective characteristics of stores and websites.

#### **2) Enhancement of initiatives in emerging countries—Develop the growth engine for the next generation**

In the new Three-Year Plan, Shiseido will continuously promote entry into new markets. However, due to the lack of attractive untapped markets, Shiseido will further strengthen its approaches for emerging countries, which have significant growth potential, and strive to create the next growth engine following China. Specifically, in Russia, Shiseido will enhance storefront activities centering on the skincare business through utilizing Shiseido's business foundation, which has been established by aggressively promoting the cultivation of new stores, with the goal of becoming one of the top five brands in the prestige market.

#### **(4) Customer-First Strategy**

The term “customer first” has two meanings. One is that Shiseido will implement activities that above all put customers first in all of its activities, and the other is to aim to become No. 1 in terms of customer support worldwide. Among the four growth strategies, this strategy constitutes the cornerstone of the overall new Three-Year Plan that relates to all corporate activities. By reviewing and refining product development and sales activities, which serve as the starting point of returning to its origin as a manufacturer, Shiseido will promote fundamental reforms in all areas of the value chain, including research and development, production, marketing, advertising, sales and consultation.

## **2. Reinforcement of Management Base**

To support the four growth strategies, initiatives will be carried out to reinforce Shiseido’s management base from various perspectives with an emphasis on global optimization. With regard to production and procurement systems, Shiseido will work to optimize and strengthen the supply chain, including further enhancing the efficiency of production and distribution in Asia. In addition to the establishment of information infrastructures throughout the world and the prompt development of global human resources in Japan and overseas, Shiseido will also strive in terms of corporate social responsibility (CSR) activities to further globalize the SHISEIDO LIFE QUALITY BEAUTY SEMINAR\*<sup>3</sup>, which has been promoted in Japan to date. At the same time, in addition to existing activities that are undertaken from the perspective of contributing to society, Shiseido will also place an emphasis on CSR activities that also consider the perspective of contributing to the Company’s sound management. With regard to the environment, the Shiseido Earth Care Project\*<sup>4</sup>, which has been underway since 2009, will continue to be promoted as a means of further strengthening product-related environmental response throughout the total life cycle and initiatives for reducing CO<sub>2</sub> worldwide.

\*3: The SHISEIDO LIFE QUALITY BEAUTY SEMINAR is a beauty seminar for elderly people, persons with disabilities and persons with serious skin concerns. The seminar is a CSR activity conducted through Shiseido’s main business of cosmetics.

\*4: The Shiseido Earth Care Project is an environmental activity in which all Shiseido Group employees participate.

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