Seven Eleven Japan (SEJ)

Factual Information

◆ Established in 1974. The largest convenience store in Japan with value of $95 B.
  – The third largest retail company in the world after Wal-Mart and Home Depot.
◆ In 1985, there were 2000 stores in Japan. Since then, increasing by 400-500 per year.
◆ In 2000, total sales $18,000 M, profit $620 M.
  – Stock value increased by 3000 times from 1974 to 2000.
◆ Average inventory turnover time 7-8.5 days.
  – 7-eleven annual inventory turnover rate is 50 in Japan (19 in the U.S.A.)

Individual store and products

◆ A SEJ store is about 1/2 the size of a US 7-eleven store, e.g., 110 m² =1000 square feet.
◆ Sales:
  – Products
    » 32.9% Processed food: drinks, noodles, bread and snacks
    » 31.6% Fast food: rice ball, box lunch and hamburgers
    » 12.0% Fresh food: dairy products
    » 25.3% Non-food: magazines, ladies stockings and batteries.
  – Services: Utility bill paying, installment payments for credit companies, ATMs, photocopying
Number of Stores: 10356 in 2004.
More on SEJ

More factual info:
- Average sales about twice of an average US store
- SKU’s offered in store: Over 3,000 (change by time of day, day of week, season)
- Virtually no storage space
- No food cooking at the stores

Japanese Images of Seven Eleven:
- Convenient
- Cheerful and lively stores
- Many ready made dinner items I buy
- Famous for its great boxed lunch and dinner
- “- On weekends, when I was single, I went to buy lunch and dinner”

SC strategy:
Micro matching of supply and demand (by location, time of day, day of week, season)
Information Strategy
Quick access to up-to-date information as opposed to data

♦ In 1991, SEJ implemented Integrated Service Digital Network to link stores, headquarter, DCs and suppliers

♦ Customer checkout process
  – Clerk records the customer’s gender, (estimated) age and purchased items. These Point of Sales (POS) data are transmitted to database at the headquarters.
    » Store hardware: Store computer, POS registers linked to store computer, Graphic Order Terminals, Scanner terminals for receiving

♦ Daily use of the data
  – Headquarters aggregate the data by region, products and time and pass to suppliers and stores by next morning. Store managers deduce trend information.

♦ Weekly use of the data
  – Monday morning, the CEO chairs a weekly strategy formulation meeting attended by 100 corporate managers.
  – Tuesday morning, strategies are communicated to Operation Field Counselors who arrive in Tokyo on Monday night.
  – Tuesday afternoon, regional elements (e.g. weather, sport events) are factored into the strategy. Tuesday nights, field counselors return back to their regions.
STORE
- Ordering
- Sales Analysis
- Accounting, Cash Report, Payroll
- Training

VENDORS
- Combined Distribution
- McLane
- Direct Store Delivery (DSD) Vendors

FIELD OFFICE
- Accounting
  - Invoice Processing
  - Accounts Payable
  - Market Office
- Sales Analysis
- Business Counseling
- System Training

HEADQUARTERS
- Merchandising
  - Item Master Maintenance
- Provides Product Information Systems
  - System Support
  - Order Processing
  - Information Analysis

NETWORK
- File Transmissions
- Software Distribution

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Information Analysis of POS Data

- Analysis of
  - Sales for product categories over time
  - SKU (stock keeping unit)
  - Waste or disposal
  - 10 day (or week) sales trend by SKU

- Sales trends for new product
  - In the early 1990s, half-prepared fresh noodle sales were going up, new fresh noodle products were quickly developed

- Sales trend by time and day
  - Different sales patterns for different sizes of milk at different times of the day results in rearrangement of the milks in the fridge. Extreme store micromanagement.
    » Let us speculate: Flavored milks are put in front of the pure milks in the evening (or the morning?).

- List of slow moving items
  - About half of 3000 SKUs are replaced by new ones every year
Facilities Strategy

- **Limited storage space** at stores which have at most 125-150 m² space
  - Frequent and small deliveries to stores
- Deliveries arrive from over 200 plants.
- **Products are grouped** by the cooling needs
  - Combined delivery system: frozen foods, chilled foods, room temperature and hot foods.
  - Such product groups are cross-docked at distribution centers (DC). Food DCs store no inventory.
  - A single truck brings a group of products and visits several stores within a geographical region
  - Aggregation: No supplier (not even coke!) delivers direct
- The **number of truck deliveries** per day is **reduced** by a factor of 7 from 1974 to 2000. Still, at least 3 fresh food deliveries per day. Goods are received faster with the use of scanners.
- Have **many outlets**, at convenient locations, close to where customers can walk
- **Focus** on some territories, not all: When they locate in a place they **blanket** (a.k.a. clustering) the area with stores; stores open in clusters with corresponding DC’s.
  - 844 stores in the Tokyo region; Seven Eleven had stores in 32 out of 47 prefectures in 2004. No stores in Kobe.
  - Success rate of franchise application $\leq 1/100$
The Present and the Future

◆ Point out which of the following strategies can also be used in US (or in Taiwan)
  – Information strategy
  – Facilities strategy
◆ Why SEJ does not allow direct delivery from suppliers to retailers?
◆ No direct deliveries to SEJ, what is the risk of this strategy if used in the USA?
◆ What, if any, is the risk of micro-matching strategy?

◆ Discuss the differences between the Japanese and US (or Taiwanese) consumers with regard to
  – Frequency and amount of grocery purchase
  – Use of credit cards vs. cash for purchase
  – 7-eleven inventory turnover rate is 50 in Japan and 19 in the USA
Seven Eleven in Indonesia

◆ Seven Eleven Indonesia
  – Sales of $35 million in 2011
  – 69 stores, all of them in Jakarta
  – Fast expanding, with 36 stores in 2011

◆ From 2003 to 2010, 50 million people in Indonesia entered into the middle income bracket with disposable income of $2-20 per day.

◆ Lures customers with free Wi-Fi, musical performances and organized events
  – 65% of customers are below 30 years of age.
  – People like to sit, relax and talk, which is called Nongkrong in Indonesian.
  – “People … like to talk about their lives, they like to gossip,” “Now we give them an alternative. It’s a warung [street-side food stalls] with better quality.”
    » Henri Honoris, president director of Modern Putra, 7-Eleven’s Indonesian franchisee.

Summary

- Appropriately designed information and facility strategies can greatly improve the performance
  - supply chain
  - financial performance
- The same strategy can be appropriate or not depending on the business environment: population density, consumer choices, local culture, infrastructure, macroeconomic factors.
  - Hence, benchmark carefully.