Keio Business School

# Seven-Eleven Japan Co., Ltd.[1)]

Founded on November 20, 1973, Seven-Eleven Japan (company name at that time was York Seven; the present-day name was adopted in 1978) is a franchise chain with a remarkable record of strong ongoing growth that since opening its first store in Toyosu, Koto-ku, Tokyo in May 1974, has expanded to 7,362 stores as of the end of February 1998 (including 48 stores in Hawaii; see Appendix 1). Even over the past few years, figures show that Seven-Eleven Japan has opened an average of more than 300 new stores a year, while sales from all chain stores reflect sharp annual growth of more than 20% (see Appendix 2). Fiscal 1997 sales (March 1997 – February 1998) for all chain stores was more than ¥1.7 trillion, and exceeded total sales by the parent company Ito-Yokado. Revenue from operations including sales by corporate stores and charges from franchised stores broke through the ¥100 billion mark in 1988, and today it stands at more than ¥270 billion. It is enjoying sustained high growth of more than 25% in ordinary income, reaching ¥112 billion in fiscal 1997. This is significantly higher than the ¥70 billion in ordinary income recorded by Ito-Yokado in the same year.

Considering the slump faced by the major department stores and supermarkets, the strong showing by Seven-Eleven Japan is quite striking. How has Seven-Eleven Japan managed to maintain such solid growth, overcoming the decline in the retail industry, the bursting of Japan's economic bubble, and price slashing?

## Background to establishment

The 1960s and the early part of the 1970s, the eve of Seven-Eleven Japan's establishment, was a period of remarkable economic growth for Japan during which nominal GNP

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grew by more than 10% every year, and personal spending increased in basic necessities such as food, general merchandise and clothing, and household electrical appliances and other mass-produced durable goods. This was also a period when new supermarket companies featuring large stores, self-service, and multiple shops under a chain operation enjoyed high annual growth of more than 30% through their strategy of handling mainly mass-produced goods, and concentrating their new stores in the suburbs of the major cities that were at that time showing sharp population growth with the progress of urbanization. Supermarkets were seen as a leader in the "distribution revolution" that could modernize Japan's distribution structure that could only be described as a small-scale multi-step process.

However, the turmoil in the Japanese economy that followed the first oil shock in 1973 started to apply the brakes to this rapid expansion by the supermarkets. Having shared the blessings of this high growth environment, the retail industry too was suddenly confronted by an increasingly severe market environment, and disputes over the large stores began to flare up everywhere. The days when all a company had to do was build a large store and stock the shelves, and the goods would quickly be snapped up had passed. Sales slowed, and even when a store was opened, it was met by vocal opposition from local shops. Like the supermarkets, small retailers were suffering from weak sales, and to them, the pressure on their sales applied by the encroaching supermarkets was to blame.

Within the mass consumer society underpinned by material affluence, changes in people's mind-set and consumption behavior started to emerge. A 1970 survey revealed that as many as 90% of people placed themselves in the middle classes, there was a prominent shift from goods consumption to services consumption, and people were leaning toward diverse and upmarket goods in their spending habits. Ito-Yokado had been groping for a breakthrough to the downturn, and turning its eye to convenience stores, it began negotiating business ties with Southland Corporation, the headquarters of Seven-Eleven.

American convenience stores have the following features: 1) open long hours; 2) small stores; 3) carry a full range of basic necessities; and 4) located next to residential areas, and complement supermarkets and other large retailers. They rose from a growing consumer need for time convenience after the small and medium retailers were swept away by the nearby large retailers. That is, they arose in a form that supplemented the inconvenience of the large retailers in that people had to travel considerable distance, hunt around a large area looking for the goods they require, then join long queues at the checkout, so this meant that the concept of the convenience store itself has to been seen in parallel to the large retailers.

In Japan at that time, though, there was little expansion of supermarkets and other large retailers, and there was a view that the traditional small retailers themselves were built on convenience, so mainstream thinking had doubts about the potential success of convenience stores in Japan. Of course, there were also many within Ito-Yokado who questioned the wisdom of moving into convenience stores, but in the end, a total of eleven staff were given the task of starting up Seven-Eleven Japan, including Personnel Manager Toshifumi Suzuki, who initially raised the idea of convenience stores, several of his subordinates, and a few others who had been hired for the new company. This was indeed a start by a group of novices.

It is, however, questionable whether Japanese small retailers at that time were in fact convenient. In terms of both opening hours and stock, they did not fully meet the needs of consumers for convenient shopping at a location near to home. With low labor productivity, they could not employ staff so they were in effect family operations, making it difficult to keep open for long hours, and because they were single shops run privately, it was effectively impossible to deal with a large number of wholesalers, so they only had a limited variety of stock (as an aside, the average general food store of roughly the same size as Seven-Eleven stocked about 500 items).

So against such a backdrop, there would be tremendous business opportunities and social value if convenience stores could break through these structural limitations of the small "mom-and-pop" retailers and increase productivity, and coexist and prosper with the large stores. The management group was aware of such issues when they decided on opening a chain through a franchise system, and this was a key engine driving them to embark on the new venture, despite strong opposition from within and outside the company.

However, to set up a convenience store franchise in Japan, the company had to clear a number of problem points faced by the small retailers mentioned above, i.e., low labor productivity, staff shortage, and the need to deal with multiple distributors. Under the franchise system, the actual running of the store would be left to the retail store owner, so it would be difficult to control the store through the normal chain-type directional format, and attempting to do so could undermine the independence of the stores. On the other hand, setting up a chain through Ito-Yokado's own stores would take considerable time, and the labor and funds required for acquiring land to establish the stores would be far greater than that under a franchise system (Note 1). It also went against the spirit of coexistence between small retailers and large stores. In any event, starting off a franchise system with small retailers as franchisees is different from the American structure, and considering factors such as store site conditions, realities of the wholesalers, manufacturers and other suppliers, and poor transport conditions that underscored differences with the U.S. from the range of goods stocked to chain store management, there was a need to set up a Japanese Seven-Eleven structure.

## Adoption of the dominant method of store opening and store recruiting

For developing its franchise in Tokyo, Ito-Yokado initially adopted a dominant (concentrated store establishment) strategy focusing on Tokyo's Koto district; i.e., a concentrated buildup of franchise stores near its first store (Toyosu). Toshifumi Suzuki (at that time managing director) gave a clear direction to the manager responsible for store development: "Do not move out of Fukagawa, Koto."

Store development, however, was not a smooth process. Koto district only had a limited number of stores that were conveniently located, were run by the right type of owner, had the standard nine-meter frontage, and a shop floor area of at least about 130 $m^2$ (later average of about 100 $m^2$). Moreover, the store owners were not interested in what the store development manager was proposing. They were suspicious about being lured into an arrangement in which they could end up being taken over by Ito-Yokado, or they were concerned about having to compete with nearby retailers, or they were fearful that the local community would think they had to submit to the control of a retail chain because their business was struggling. Compounding the difficulty of store development were the wholesalers that had dealt with these stores for many years. Fighting against the inevitable drop in sales that would happen as their business with these stores dried up, wholesalers other than the vendors recommended by Seven-Eleven (wholesalers that also have the function of delivering goods to the franchise stores), such as Nishuhan and Matsushita Suzuki, urged them not to take up the franchise. The steady and persistent effort by the store development manager was entirely one-sided.

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Note 1: Opening a total of 1,200 stores over the following eight years was a condition in the contract signed with Southland. At that time, Ito-Yokado had 300 stores, and a retail chain of that scale did not exist in Japan.

Against this backdrop, in 1975 Ito-Yokado prepared a flip chart to help explain the system to potential franchise stores.

The biggest characteristic of the Seven-Eleven franchise contract was the method of gross profit distribution, and there was strong dissatisfaction that charges were 45% of gross profit. The store development manager persistently explained about the concept and system of the Seven-Eleven franchise to stores until they understood, and drew up the kind of sales figures the stores could expect after joining the franchise. The manager also explained the various measures the headquarters would initiate to raise the stores' business efficiency, and the system for utility charges payment. He stressed the minimum guarantee system to owners who were worried about a drop in sales after joining the franchise. The guaranteed annual income for store owners was ¥11 million (the minimum guaranteed amount was subsequently reviewed many times, and had increased to ¥18 million by 1991 for franchise stores that were open 24 hours; see Appendix 3 for a summary of the franchise contract in 1983), while the cost to refurbish stores on joining the franchise at that time was about ¥15 million, so after deducting an annual repayment of ¥1.8 million over 15 years, owners were left ¥9.2 million for wages, other operating costs, and their own living expenses.

Newspaper advertising was one method used for recruiting stores into the franchise. The response was greater than expected, and they were inundated with applications. This was encouraging, but most applications did not reach the contract stage — poor store location, lack of cooperation or understanding from family members, the owner was over 50 and would take too long to become accustomed to the new system, or the owner already had a substantial loan or there were other funding issues.

But by far the best way to advance store recruiting was to show owners just how good sales were by franchise stores. In the early stages when there were only a few stores, many people visited the first store in Toyosu merely to have a look. There were also people who came by bus all the way from regional centers, while the store owner Mr. Kenji Yamamoto fielded many phone enquiries. Some people were even knocking on the doors in the middle of the night after the store had closed. The stores also featured in newspapers and other media, so Seven-Eleven was starting to attract growing attention among businesses in the retail industry.

Through such efforts, in May 1976, $2^1/_2$ years after the company was established and two years after the first store, the 100th store opened its doors. The Chairman of Southland, Mr. John Thompson, visited Japan to attend the ceremony marking the 100th Seven-Eleven store, and spoke about the remarkable achievement: "It took Southland Corporation 25 years to open 100 stores. York Seven has done it in two." During speeches that followed, Managing Director Toshifumi Suzuki had tears streaming down his cheeks, and Manager Hideo Shimizu also sobbed with emotion. Three and a half years later, the 1,000th store opened, but there were no tears then. Such was the overwhelming level of emotion attached to the 100-store milestone.

## Cooperation with vendors and rational delivery system

When establishing Seven-Eleven, Suzuki contacted about 80 of Ito-Yokado's vendors with the following request for cooperation.

> "We've started Seven-Eleven with all the confidence of success, but we've nothing specific that shows categorically we'll succeed. We're determined to grow this new business shouldering all the risk and with anticipatory investment. Should you reach a consensus within your company to invest in this business, we would be extremely grateful for your cooperation." (*Owari-naki Innovation — Seven-Eleven Japan Shashi* [History of Seven-Eleven Japan — Never-ending Innovation], 1992)

Seven-Eleven adopted a total purchase system in which goods are not returned, and all payments are made on the due date by the head office, but there was active debate among vendors over such aspects as small-lot delivery, fixed-time delivery, and penalties for stockout. One reason for this was a lack of understanding about the type of business Seven-Eleven was operating. They had doubts that small-scale work such as breaking up packages and delivering in lots of five ran counter to the times in the era of bulk sales by discount stores. At that time it was completely unthinkable for wholesalers to break up packages from the manufacturers into smaller sizes.

As the name implies, Seven-Eleven stores are open every day. The company also tried to persuade the vendors to deliver on New Year's Day as well, but this was extremely difficult. The request for fixed-time delivery, too, was perceived by vendors as a form of interference in their internal business processes. Small stores like convenience stores have to put the goods on shelves as soon as they take delivery, so they have to roster part-time workers on at the time the goods are delivered. For this, they need to know the time of delivery in advance. Though this was a pressing need, the reality was that delivery routes were left to the vendorsí drivers, and even where retailers were advised of a delivery time, quite often the drivers would not stick to the time. Seven-Eleven made every effort to schedule their orders, and asked vendors to set rational delivery routes rather than leave it to the drivers so deliveries would be at a set time.

Many vendors were unclear on whether the margin guarantee for stockout (vendors pay a penalty of the profit margin for goods that were ordered by the store but not delivered) was the responsibility of the wholesaler, manufacturer, or head office, and objected that they would not be able to pay the margin guarantee. Some vendors actually stopped supplying Seven-Eleven for financial grounds after confirming that this would not affect their business dealings with Ito-Yokado (it was agreed between Ito-Yokado and Seven-Eleven that if vendors stopped dealing with Seven-Eleven, this would have no effect whatsoever on their business with Ito-Yokado, and this was made very clear to all other companies). Nonetheless, many vendors made up their mind to work with Seven-Eleven.

From the company's foundation to 1976, Seven-Eleven had about 80 vendors, most of which were also vendors to Ito-Yokado. At that time, goods were ordered through telephone or sales orders, and numerous orders from franchise stores were made to each of the vendors, so the ordering process involved a substantial amount of work. All vendors faced a mountain of work with orders from the ever-increasing number of franchise stores, and delivery of small lots to the many franchise stores was also highly inefficient.

Japan's distribution structure is based on the exclusive agency system, and business dealings between manufacturers and wholesalers had become vertical and strictly defined. For example, if a business wanted products from Manufacturer A and Manufacturer B, it would have to obtain product A from the wholesaler affiliated with Manufacturer A, and product B from the wholesaler affiliated with Manufacturer B. This added to distribution costs, and was quite inefficient, so Seven-Eleven restructured wholesalers beyond this exclusive agency system so that in a given region a wholesaler affiliated with Manufacturer A could handle the products of Manufacturer B, and in different region, a wholesaler affiliated with Manufacturer B could handle the products of Manufacturer A.

In 1976, when the number of franchise stores had reached 100, Seven-Eleven integrated the vendors, and each store was allocated about 35 vendors in an attempt to improve the efficiency of goods supply. It also negotiated a reduction of order lots and delivery of small lots for processed food and general merchandise, and began combined delivery of fresh foods in the Tokyo Metropolitan Area. Initially, combined delivery covered noodles, pickles, and fish and other chilled goods, which tended to be produced by small manufacturers that did not have the means to deliver to a large number of stores. For combined delivery, the company used the existing facilities of vendors that had spare capacity. Combined delivery expanded to include milk in 1980, processed meat in 1981, frozen goods in 1982, general merchandise in 1984, and cosmetics in 1985. Under this combined delivery system, the daily average number of deliveries per store fell from 70 at the time Seven-Eleven was established to 42 in 1976, and 20 in 1985. And continuing efforts at expanding combined delivery has seen this number drop further to 12 in 1990, and to ten as of today.

Building such a cooperative structure among the vendors did not stop at distribution, but extended to product development as well. In 1979 Seven-Eleven formed the Nihon Delica Foods Association (NDF) centering on the major rice vendors in an effort to improve and modernize the management of rice vendors.

Rice, prepared foods and other similar food categories were originally dominated by small and medium enterprises, with no involvement by the larger companies, so the vendors stuck to their old traditional ways. These outdated practices combined with the Tokyo Sandwich Co., Ltd. food poisoning incident in 1978 were the direct catalyst for forming the Association. It was therefore formed on the premise of improving quality control and health and hygiene management, but before long the Association also began tackling joint purchase of raw materials and product development as joint ventures.

### Integrated store network system centering on the POS system

The first step to the introduction of the integrated store network system centering on the POS (point of sales) system started with the batch processing of orders mentioned above. As the number of franchise stores approached 200, Seven-Eleven Japan changed the ordering method from individual stores placing orders with the wholesalers to the “slip order” batch ordering system.

Under the slip order system, stores write down the type and quantity of goods to be ordered in a booklet — Seven-Eleven Order Book — of about 50 pages in the same order that the goods are displayed on the shelves, then hand the order slips to the person who comes to collect them. After going around to all the stores to collect the slips, collectors return to the district office to input the orders into the computer, then these data are sent to the head office computer. At the head office, the franchise store ordering data are sorted by vendor, then sent out as a batch order. This proved to be a very systematic ordering method.

The slip order system had many advantages in that it simplified the ordering process for franchise stores, and it enabled the head office to gain a feel for goods flow, but it was still far from ideal. The system's limitation was that as the franchise expanded, it placed an increasing burden on the head office to collect the slips and input the ordering data into the computer.

Of course there was also a cost merit in that all the data were inputted at a single centralized site at a time when computer hardware was still relatively expensive. It was also judged that a system of having people without any computer experience input data would create too many difficulties. But the method of writing down orders on order slips then sending the slips to the head office could not achieve any reduction in the cycle time from ordering to delivery, and it did not address the issues of preventing stockout or stock reduction. This centralized data input system necessitated a sharp expansion of computer staff and hardware resources at the head office, and there was a concern that this could create a major bottleneck with the rapid growth of the franchise. So Seven-Eleven Japan began to examine a decentralized processing system in which data would be inputted at the franchise store where the data originated.

These days inputting data locally is a commonly accepted concept, but back in 1977 when Seven-Eleven Japan first began examining local data processing, this was indeed a very novel and pioneering idea within the distribution industry.

From August 1978 Seven-Eleven Japan began introducing a new ordering system to replace the slip order system, and by the end of the year, had completed a network that covered all franchise stores. Under the new system, barcodes for products and quantities would be read by a light pen, and the data transmitted from a desktop computer known as

"Terminal Seven" directly to the head office over a public telephone line. Advantages with this system were that it was easy to operate even for people who were unfamiliar with computers, and it cut ordering time. "Terminal Seven" is a trailblazing example of how the distribution industry completely embraced computer technology for ordering, and its major benefits were self-evident in faster, simpler and more accurate ordering.

Advantages for the franchise stores were that because the order-delivery cycle time was reduced enabling timely ordering, they were able to reduce their stock on hand, prevent stockout, improve product turnover rate, and maintain the freshness of food products. To the vendors, ordering information came much earlier than before, so they were able to manufacture without waste to meet orders, and reduce loss, especially in goods requiring daily delivery and fresh foods that spoil quickly. For Seven-Eleven Japan head office as well, there was no longer a need for data input processing, so the burden was much lighter, and the inflow and accumulation of ordering data made it possible to determine accurate product trends more quickly.

The introduction of Terminal Seven vastly improved the ordering process, and concurrent with this, Seven-Eleven Japan made a significant change in its computer resources. Previously, it used the computers of its parent company Ito-Yokado, but outsourced its data processing to Nomura Computer Systems (present-day Nomura Research Institute), a specialist information processing company.

> "Just because we expand, staff numbers increase, and planes are now more often used for business trips doesn't mean that we should own a plane. The logic of that is ridiculous. Suppose we own a plane, what about an airport, or aircraft hangar, or maintenance facilities, or maintenance staff for that matter. Suppose we have an airport for the departure, what about an airport at the other end. There's no reason whatsoever for us to own a plane. There are airline companies, so when it's necessary, we can use them. That's much cheaper, and we can always go by new planes that are well maintained and provide good service." (*Seven-Eleven Ryutsu Joho Senryaku* [Seven-Eleven Distribution Information Strategy], Tomoyuki Ogata, TBS Britannica, 1984)

As the business scale increased, there was a debate over whether the company should purchase their computers rather than leasing them, but ultimately, it was decided to outsource its data processing on the say of company president Toshifumi Suzuki.

Having computerized its ordering processes through the introduction of Terminal Seven, Seven-Eleven Japan immediately set about building up a new computer network. While Terminal Seven successfully made ordering more efficient, more accurate and faster, data based on orders, in the end, consisted of numbers showing what the franchise stores wanted to sell, and were different from numbers of what was actually sold. So the next system Seven-Eleven Japan looked at would give an accurate indication in almost real time of what products were actually sold. It goes without saying that the purpose of this was to find out what products were being bought when, where, by whom, and in what quantities, and use this information in product selection and stocking, and to improve the level of service by franchise stores to their customers.

One of the criteria of this system is to gather the information where and when the sale is made, and for this, the introduction of the POS system was essential (Note 2). Seven-Eleven Japan began introducing POS as a part of its integrated store information system in September 1982, four years after the introduction of Terminal Seven. By February 1983 the system was operating in all 1,650 franchise stores, and a total of about 3,600 POS registers had been installed. As an aside, in fiscal 1982 there were an estimated 4,000 POS registers in Japan. Naturally, this full-scale adoption of a practical POS system by Seven-Eleven Japan was the first for Japan's distribution industry.

The hardware for the POS system introduced by Seven-Eleven Japan consisted of a cluster terminal called a terminal controller and two POS registers, and later an EOB (electric order booking) ordering terminal was added.

The reason for the two POS registers was to cut down on customer waiting time at the counter, and this was a policy followed from when the company introduced mechanical registers. The POS system includes a barcode reading device known as a scanner, and as the scanner reads the product code when it is bought by the customer, information about the product such as price and date purchased by the store registered in the terminal controller is automatically recorded as sales data. At the same time, pushing the customer category

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Note 2: Point of sales system is a system for gathering all required data at the point of sale, and is defined by the Ministry of International Trade and Industry as follows: The POS system is an integrated information system for retailers in which sales information gathered for individual products through automatic scanning registers rather than conventional key-in registers and various other items of information generated through activities such as purchasing and delivery are inputted into a computer and processed and transmitted so they can be used effectively by the various divisions within the company.

button on the POS register records what kind of customers are buying what products in what quantities where and at what time.

Introduction of the POS system enables extremely detailed product control. Seven-Eleven Japan franchise stores have on average about 3,000 product items on the shelves, and always have available 5,500–6,000 kinds of head office recommended products, but every year a further 1,500–2,000 types of products are added, and at the same time, roughly the same number of products are dropped. But the individual management of such a vast range of products, cutting slow-moving items, reducing discarded goods, and eliminating lost sales opportunities is far from being a simple task. Moreover, there can also be no denying that relying on intuition for product selection as was done in the past is anything but accurate. The introduction of the POS system therefore achieved the retail industry's long held wish of accurate individual product control.

What if, though, these data were be printed out? Analyzing data for 3,000 different product items would be very daunting. Sales data are certainly very critical for product selection and ordering, but faced with this overwhelming task, quite a few franchise stores would think that the old ordering method based on intuition would still be better. In this case, then, the POS system would be meaningless in terms of Seven-Eleven Japan's aim of improving the level of service to customers and franchise stores.

So the company brought in the EOB ordering terminal. EOB is a kind of computer for ordering, and weighing only 300 grams, it was flexible and light enough so that even the young female high school students who found casual work in the stores could handle it with ease. For EOB ordering, the EOB is first connected to the terminal controller, and once the button corresponding to the shelf containing the product to be ordered is pressed, parts of the massive amount of data recorded in the terminal controller is copied to the EOB. Then, holding the EOB, the operator can order while actually looking at the products on the shelves. As the orders are made, the following product data are displayed on the EOB display screen.

1. Product name
2. Price
3. Gross margin
4. Designated delivery day
5. Morning or evening receipt

6. Ordering unit
7. Minimum ordering quantity
8. Product ranking (importance)
9. Minimum stock quantity
10. Product-specific information, such as the maximum number of days from manufacture that the item must be received, and sold.
11. Notes for day-by-day changes (e.g., Today is a public holiday, so take care with the order weighting. Or, There's no delivery tomorrow, so be careful of the amount ordered.)
12. Details of the past seven orders

Under EOB, the ordering data is arranged in the same order as the products on the shelves so that as soon as one product has been ordered, the operator can move straight on to ordering the next product. All the operator has to do is enter the quantity, and the ordering work is completed. The system also alerts the operator to ordering mistakes; e.g., the operator will be alerted if a quantity lower that the minimum ordering quantity is entered, and it will show up as an error.

The POS registers that were installed so stores could quickly adapt to changes in customer preferences and align their orders with the needs of their customers were replaced by two-way multipurpose POS registers (Note 3). This was a mere three years after the introduction of the initial POS registers.

Suzuki constantly stressed, "Unless we start dismantling systems as soon as they're built and develop them into new systems, we will never be able to keep up with the changes taking place around us." Nonetheless, Seven-Eleven Japan certainly surprised the distribution industry when it changed its POS registers after less than three years, and began upgrading its integrated store information network. In addition to the POS registers, Seven-Eleven Japan introduced store terminals displaying graphic information in August 1985, and upgraded terminal controllers and installed them in all stores in July 1986.

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Note 3: Unlike the previous POS registers, two-way multipurpose POS registers, as the name suggests, enables two-way communication between the host computer and POS register. Seven-Eleven Japan used this function for special orders of box lunches for delivery or Christmas cakes, and also for its agency role in the collection of fees and charges such as electricity, gas, NHK reception fees, and life insurance premiums.

No sooner was this third-generation integrated store system launched than work on the fourth-generation system began from 1987. There were two points to the new system: 1) establishing a structure that can provide a high level of ordering and single item control within the store, and 2) establishing a structure in which large volumes of data can be exchanged between stores, vendors and the head office in real time. In 1990 the company introduced store computers with AI functions (simultaneously process eight operations such as ordering, data display, and monitoring the operation of store facilities and equipment as an in-store system control tower), graphic order terminals (note-pad ordering computers that also provide advice on product sales trends and product information), and scanner terminals (goods inspection scanners that efficiently process the checking of delivered goods) into franchise stores. In 1991 it introduced an ISDN network that enabled the real-time transmission of large volumes of data. The ISDN network was a next-generation alternative communication method to the normal telephone line, and could transmit data at speeds 30 times as fast. The conventional communication network has capacity limitations, so until ISDN, the massive volumes of POS data that numbered up to 100 million items a week were stored and sent to head office on floppy disks. So even though stores had POS information on single products at their fingertips, the head office had to wait up to a week for the same information. ISDN broke through these limitations. With ISDN, 100 million items of POS data could now be sent to head office in real time, and three million items of ordering information a day from the stores could be processed at even faster rates.

In the fourth-generation integrated store information system, a "no-down" computer ran in the computer center as the core of the network. The internal workings of the computer were duplicated so even if there was a problem with one system, the other would continue operating, so it ensured safe and secure 24-hour operation. The center was also connected to several telephone exchanges to avoid a cut in communication if there was a breakdown at an NTT telephone exchange or in the telephone network.

In November 1977 Seven-Eleven Japan activated the fifth-generation integrated store information system based on satellite communication (see Appendix 5). Investment in the system amounted to ¥60 billion, and it brought together all of Seven-Eleven Japan's more than 7,000 franchise stores throughout Japan under the world's largest distribution network. The aim of the network was to transmit product information and sales know-how to stores in dynamic images so they could respond promptly to customers' needs. Anticipating Japan's financial Big Bang, Seven-Eleven Japan also looked into introducing automatic teller machines (ATM) into the franchise stores. The new system was jointly developed with 12 companies including NEC, Nomura Research Institute, and Microsoft, and extended to 53,000 terminals at 1,000 sites at franchise stores, head office and vendors. The system used satellite communication for information from the head office to stores and district offices, and ISDN for information from the stores and district offices back to the head office. The combined use of satellite and ground networks boosted the system's data transmission speed to 45 times as fast as the old system using only ISDN. With the new system, a staff member in the head office can advise a store clerk using image data combining video and graphs to increase the quantity of fast-moving items on shelves so that consumers can easily get hold of the popular products. It also enabled stores to increase the range of services they provide, such as collecting fees and charges payments. It was estimated that communication costs would be reduced by 20%, and that savings of ¥700-800 million could be achieved in paper, which was the equivalent of 90% of total annual paper use. Information shared with vendors increased, while stores were structured to be fitted with ATMs as soon as the government implemented financial deregulation. Stores were also set up to handle e-cash.

### Field service network system

Field service is a manual store management system quite the opposite to the computer-based system approach, and is one of the main characteristics that sets Seven-Eleven Japan apart from other companies.

The head office organization can be broadly divided into the division responsible for managing franchise stores and the division responsible for running the head office itself (Appendix 6). The franchise store management division is divided into seven regional zones under the Operational Head Office, and each zone is divided into many districts. Zones are headed by zone managers (ZM), and the districts are headed by district managers (DM). Under the DMs are a total of about 600 field counselors (FC) who liaise with the franchise stores. Each FC is responsible for 7–8 stores (as of 1991).

Instructions are passed from the Operational Head Office to franchise stores through the chain ZM → DM → FC, while information from the franchise stores is passed basically along the same chain in the opposite direction. In this sense, FCs are the contact point linking the franchise stores and Seven-Eleven Japan head office, and personally visit franchise stores on average 2.5 times a week.

The main duties of FCs are providing management advice to franchise stores, and gathering and assessing information from the stores, and they are required to submit assessment check-sheets on the stores weekly to their DM. DMs read the check-sheets from the FCs to determine the condition of the stores, and make a personal visit to any store that has received a poor assessment for two consecutive weeks to provide the necessary guidance.

In addition to the check-sheets, FCs are also required to submit reports showing the time they arrive at a store, what was discussed or what advice was given, and the kind of response given by the store proprietor. So anything that happens at a franchise store, even something quite minor, reaches the company president through the DM and ZM. The home telephone numbers of not just the responsible FC but members of the company's top management group as well are kept in the backroom of every franchise store so that if an accident or something similar happens even in the middle of the night, staff with the appropriate authority can be called out to take the necessary action.

Currently, FCs are responsible for an average of 7.3 stores, their average age is 32, and they are in the job for only about two years. However, their training is thorough. They receive practical training at a corporate store for at least six months, OJT training as assistant FC, and one month training at head office (including practical store maintenance, store location analysis, and case studies using past examples).

After completing this intense training, FCs start working on their own, but their training still continues. Perhaps one of the more important training sessions is the weekly general meeting.

Every Tuesday, Seven-Eleven Japan holds a general meeting at the Ito-Yokado Group conference room in Shibakoen, Minato-ku, Tokyo. The meetings are attended by more than a thousand staff, including all FC, DM and ZM throughout Japan, store recruiting managers, and head office staff. Although it can be said that the Seven-Eleven Japan store network is somewhat Tokyo-centric, it does extend from Hokkaido in the north to Kyushu in the south, so the cost associated with these meetings amounts to several hundreds of millions of yen a year.

The Tuesday schedule starts with the general meeting of all attendees from 9:00 am to 12:00 noon. At this meeting, the Product Head Office passes on product information and the different business divisions raise general items concerning their respective areas of responsibility, and senior management highlights and reinforces basic policies from an overall company perspective. Suzuki and other top managers also give pep talks, and provide advice and guidance based on actual occurrences or specific facts. The details of these meetings are compiled into pamphlets and distributed within the company organization, but whichever way one looks at them, the pamphlets are merely stating what is commonsense and ordinary fundamentals. Seven-Eleven Japan is entirely committed to the four principles of "selection of popular products", "freshness", "cleanliness" and "friendly service", and what Suzuki is reiterating again and again at these general meetings is essentially these four basic principles.

In the afternoon the meeting breaks up into various sub-meetings. There are meetings for recruit field counselors (RFC) who look after the opening of stores, and for operation field counselors (OFC) who deal with store operations. The store operations meeting is then divided into eight zones, and at these zone meetings the FCs discuss the various issues affecting their respective zones, then they move into their respective district meetings to discuss issues at the individual store level.

DMs and ZMs attend not just the Tuesday meetings, but gather for meetings on Mondays as well. In the morning they meet with head office staff at the manager level and above to discuss issues that arose in the preceding week and measures to address those issues, and from the afternoon they are briefed by head office staff on field-related matters, for example, mid- and long-term management plans, and the introduction of new systems.

As mentioned in the store network system in the previous section, Seven-Eleven Japan maintains the most advanced information network in Japan's distribution industry. Information from the 7,300 franchise stores flow constantly to head office through the network lines, and the opinions of stores and details of issues affecting them reach head office through the thousand-strong field service network of FCs and the DMs and ZMs who manage them. Without doubt, no other company has such a thorough and extensive information network grounded in information technology and human resources. With this, then, what is the point in bringing together more than a thousand OFCs, DMs, ZMs, RFCs, head office staff, executives and others for weekly meetings? While this may possibly be seen as an overinvestment, company president Suzuki declares categorically that he has no intention whatsoever of putting an end to these meetings.

### Basics of the retail industry

What is the source of Seven-Eleven Japan strength? In one questionnaire, Suzuki responded as follows.

> "Somewhat abstract perhaps, but all we are doing are ordinary things in an ordinary way. Now, these ordinary things are in themselves ordinary. The world we know is constantly changing. Along with this, products are also changing, as is the way customers do their shopping. How do we find out what products our customers want, and how close can we get to satisfying those demands ... *(omitted)*.... Looking from the customers' side, when they shop, they want to go to a store where they can shop with peace of mind, and get the products they want. If they can find a store like that, they'll keep going back there for their shopping. So from the company side, what can we do to make sure that happens? I think the answer is in providing new food, and if it's the same food, then food that is tasty and fresh. These are the products we have to stock. For this we have to adopt a detailed systematic approach to switching around products and product delivery. This is what I mean by 'ordinary things.' Whether we are doing these ordinary things consistently and reliably is what will set us apart from other chain stores, and this is the issue." (*Seven-Eleven no Senpo* [Tactics of Seven-Eleven], Takeshi Yamashita, Seibundo Shinkosha Publishing, 1985)

So we can say that the secret to the strength of Seven-Eleven Japan is the capacity to understand exactly what customers want, and provide those products with a high level of service. What Suzuki calls ordinary things are, from the customer's perspective, essential for convenience stores, and correspond to Seven-Eleven Japan's four basic principles of freshness, large selection of popular products, cleanliness, and friendly service. Looking at these four principles, we can see that, as Suzuki said, they are indeed common, and that all the Seven-Eleven systems were aimed at realizing these four principles at an even higher level.

This Seven-Eleven Group mini-economic sphere is a very market-oriented organization, and is always highly attuned to the external environment. The telephone service "Young Talk Talk" aimed at young people from their teens to early twenties is a good indication of how Seven-Eleven Japan seeks to take in market trends in areas outside normal retailing, and reflects the company's attitude of establishing its own identity in meeting customers' convenience rather than categorizing itself merely as a retailer.

This market orientation is one of the most important elements of the Seven-Eleven system. Certainly, the four principles mention nothing about responding to changes in customer preferences. But to Seven-Eleven Japan, responding to market changes is simple common sense that does not need to be included in the four principles. In the questionnaire mentioned at the beginning of this section, Suzuki speaks about changes taking place in the world today.

> "Everyone talks about change, but they're merely talking about it. Very few people actually try to identify the change, understand it thoroughly, and respond to it. I'm not saying that how we are responding is any better than others, but I can say for certain that we are at least endeavoring to do it as thoroughly as we can and to the best of our ability. I often say in the company that the distribution industry stands or falls by how it responds to change."

## Future trends

In March 1991 Ito-Yokado and Seven-Eleven Japan acquired 70% of the stock of the struggling Southland Corporation for $430 million, and set about rebuilding the company. In the 1980s a fierce competitive war waged among convenience stores in the U.S. Major oil companies such as AMOCO, Shell and Mobil burst into the market when they renovated their gasoline stands into mini-convenience stores (called g-stores). Consequently, in the 1980s competition among convenience stores grew intense as the number of stores doubled.

Another blow to Southland was that supermarkets were staying open longer. Without their characteristic time convenience, convenience stores could not compete with their higher price structures. The health and beauty boom was also having a serious impact on sales of beer, cigarettes and snack foods, which were all flagship products for convenience stores. Compounding Southland's problems was the company's failure to move into oil refining, and this sent profits plunging.

The first step Seven-Eleven Japan took to turn Southland around was introduce financial reform. Backed by the standing of the Ito-Yokado Group, Seven-Eleven Japan was able to convert high-interest junk bonds into low-interest financial commodities. As a result, the before-tax earnings moved into black from fiscal 1994. The second step to reconstruction was boosting individual store profitability through single-item control.

Suzuki also put an end to the underselling that Southland had been doing before. He also abolished the distribution center owned by Southland, and totally outsourced distribution to McLane Company Inc. (distributor), a subsidiary of Wal-Mart. The third step was to change the existing product ordering system into a store-based ordering system. This was completely the opposite to the conventional American style of chain store management. In the U.S., the view was that ordering is a simple process that anyone can do, so it is only natural that the head office should do the ordering for the franchisees. This system did have its advantages in that because the ordering is done by the head office, orders are more accurate, regardless of the capabilities of the people working in the stores. A view held by some within the retailing industry in the U.S. was that there were too many risks in leaving the responsibility for product ordering to inexperienced or untrained store staff. Suzuki took the opposite view, and promoted single-item control stating "Ordering is the life of retailing. With training and education, everyone should be able to improve their judgement capabilities. If people find their work interesting, they'll be more motivated to work." Thus Suzuki brought Japanese style single-item control to the U.S., the world leader in retail distribution. Although still in the early stages, the store ordering system has reportedly led to an increase in store sales, and a jump in the previously low worker retention rate. If this trend continues, it is forecast that Southland will clear its capital deficit in 2000.

In Japan on the other hand, in fiscal 1994 sales by convenience stores were up 14.1% over the previous year and the number of stores jumped 9.0%, while in fiscal 1995 they were up 13.2% and 11.7% respectively[2)]. From this we can see that convenience stores in Japan are on an upward trend in both sales and store numbers. Over the past two or three years, the three major convenience store chains of Seven-Eleven, Lawson (Daiei) and FamilyMart (Seiyu) alone have reportedly been growing by a total of 1,500 stores a year. This growth, though, has led to intensifying competition among the convenience stores. Japan already has more than 48,000 convenience stores, so the market population for each store is 2,500. It has been pointed out that the level in Japan has already dropped below the 3,000 people per store in the U.S. at which point the market was saturated[3)]. In a related development, Daiei put forward its guidelines for converting small food-centered supermarkets with a floor area of less than 500 m$^2$ into 24-hour operations. There are

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[2)] *Nikkei Business*, February 24, 1997, p.14; however these figures are for convenience stores under a franchise chain.

[3)] *Nikkei Business*, June 23, 1997, Eisaburo Uchikura, stock analyst at Goldman Sachs.

currently more than 100 such stores in the overall Daiei Group. Daiei also extended the opening hours to 9:00 pm for 187 of its 375 large stores throughout Japan. Ito-Yokado also put back the store closing time to after 8:00 pm for roughly 40% of its stores[4].

The intensifying competition was reflected in the drop in the rate of annual sales increases at the existing convenience stores. That is, the rate of sales increase in the February 1996 quarter for all convenience stores including Seven-Eleven Japan was lower than the corresponding period in the previous year. Sales figures for the February 1997 quarter showed a 2.1% increase over the preceding quarter for Seven-Eleven Japan, a 3.1% increase for Lawson, and a 1.4% increase for FamilyMart, so while they all managed to avoid a decline from the previous year, there could be no disguising the fact growth that was at one stage running in the double digits was now indeed sluggish[5].

The average daily sales for Seven-Eleven Japan franchise stores was ¥670,000, and while this was substantially higher than the industry average of ¥450,000, the 24-hour stores, for example, were required to pay 43% royalty charges to head office, compared to 35% at FamilyMart and 32% at Lawson. So in contrast to the high earnings of head office, the net earnings of the franchise store owners were quite meager. Appendix 7 gives an example of these net earnings calculations. This applied not just to franchise store owners, but to vendors as well. For example, in the fiscal 1996 financial results, Seven-Eleven Japan recorded ordinary income of ¥105.1 billion, a rise of 7.2% over the preceding year, whereas the ordinary income for Warabeya Nichiyo, which supplied its entire production of box lunches and prepared foods to Seven-Eleven Japan, dropped 19.6% to ¥850 million. This situation was not unique to Warabeya Nichiyo, as many manufacturers were struggling with the high initial costs associated with new product development and production.

In October 1997 a wholesale company was established to supply Seven-Eleven Japan with miscellaneous daily goods. The new company was capitalized at ¥1 billion, and Seven-Eleven Japan held a 5% share. Initially, all 25 wholesalers (annual sales of about ¥70 billion) that supply miscellaneous daily goods to Seven-Eleven Japan were to invest in the new company, but seven pulled out. Those seven maintained that "wholesalers would no longer have any reason to exist". Each wholesaler had set up distribution centers exclusively for Seven-Eleven Japan, and had invested heavily and rationalized their operations so they could make deliveries twice a week at the scheduled time to 7,100 stores throughout Japan.

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[4] *Nikkei Business*, August 4 and 11, 1997

[5] *Nikkei Business*, June 23, 1997

Seven-Eleven Japan planned to integrate their transactions into the new company in spring 1998, and to compensate for the lost business, the 18 wholesalers that invested in the company would receive dividends. However, the wholesalers that pulled out would lose their business with Seven-Eleven Japan completely. Seven-Eleven Japan's objective in setting up an exclusive wholesaler was to have access to stock which wholesalers that have business with other retailers do not make available, and also to obtain manufacturersí production information. It also wanted to pass on retailers' sales information to manufacturers through the new company in an effort to avoid product sell-outs and reduce distribution costs. There can be no doubt that the future activities of Seven-Eleven Japan as it strives to achieve further gains in business efficiency will exert a major impact not just on wholesale companies, but manufacturers (including Kao and Lion) as well[6)].

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6) *Nikkei Shimbun*, October 29, 1997

**Appendix 1**

**Franchise store growth**

| Year | Number of stores |
|---|---|
| November 1980 | 1000 |
| February 1984 | 2000 |
| April 1987 | 3000 |
| February 1990 | 4000 |
| February 1993 | 5000 |
| May 1995 | 6000 |
| June 1997 | 7000 |

**Franchise stores by region (as of the end of February 1998)**

| Region | All stores (franchise stores + training stores) | Training stores (operated by Seven-Eleven) | Franchise store sales (million yen) | Sales per franchise store |
|---|---|---|---|---|
| Tokyo | 1045 | 42 | 267,142 | 266.343 |
| Kanagawa | 703 | 25 | 168,699 | 248.8186 |
| Saitama | 634 | 14 | 146,268 | 235.9161 |
| Hokkaido | 615 | 13 | 141,542 | 235.1196 |
| Chiba | 589 | 17 | 134,996 | 236.007 |
| Fukuoka | 461 | 11 | 106,041 | 235.6467 |
| Ibaraki | 342 | 14 | 75,182 | 229.2134 |
| Shizuoka | 307 | 10 | 74,969 | 252.4209 |
| Fukushima | 297 | 4 | 71,382 | 243.6246 |
| Nagano | 276 | 4 | 67,804 | 249.2794 |
| Tochigi | 267 | 7 | 60,860 | 234.0769 |
| Gunma | 259 | 8 | 57,289 | 228.243 |
| Miyagi | 256 | 5 | 55,838 | 222.4622 |
| Hiroshima | 226 | 3 | 54,714 | 245.3543 |
| Niigata | 194 | 4 | 48,165 | 253.5 |
| Yamaguchi | 126 | 1 | 30,500 | 244 |
| Osaka | 122 | 19 | 29,461 | 286.0291 |
| Yamanashi | 121 | 3 | 21,695 | 183.8559 |
| Saga | 95 | 2 | 18,553 | 199.4946 |
| Kumamoto | 83 | 1 | 17,663 | 215.4024 |
| Shiga | 77 | 3 | 16,722 | 225.973 |
| Kyoto | 72 | 8 | 14,533 | 227.0781 |
| Miyazaki | 61 | 4 | 9,176 | 160.9825 |
| Hyogo | 54 | 16 | 5,515 | 145.1316 |
| Okayama | 32 | 0 | 3,907 | 122.0938 |
| **Total** | **7314** | **238** | **1,698,616** | **240.0531** |
| Hawaii | 48 | | | |
| **Total** | **7362** | **238** | | |

# Appendix 2 Seven-Eleven Japan Balance Sheet (Fiscal 1988–1997)

## Balance sheet

Unit: million yen

| | FY 1988 | FY 1989 | FY 1990 | FY 1991 | FY 1992 | FY 1993 | FY 1994 | FY 1995 | FY 1996 | FY 1997 |
|---|---|---|---|---|---|---|---|---|---|---|
| **Assets** | | | | | | | | | | |
| **[Current assets]** | | | | | | | | | | |
| Cash and bank deposits | 46,828 | 79,883 | 78,589 | 60,552 | 69,589 | 79,775 | 117,932 | 75,127 | 46,250 | 174,763 |
| Accounts receivable due from franchise stores | 1,291 | 1,034 | 869 | 1,591 | 7,203 | 2,550 | 2,558 | 3,170 | 3,914 | 9,297 |
| Accounts receivable from related companies | | 0 | 0 | 311 | 48 | 62 | 0 | 0 | 0 | 0 |
| Stock | 281 | 218 | 301 | 1,964 | 963 | 773 | 589 | 672 | 803 | 939 |
| Inventory goods | 3 | 3 | 4 | 4 | 3 | 0 | 0 | 0 | 0 | 0 |
| Prepaid expenses | 128 | 123 | 57 | 316 | 744 | 367 | 217 | 34 | 26 | 527 |
| Loans receivable | 52,227 | 29,136 | 54,064 | 45,959 | 58,518 | 89,179 | 83,053 | 139,987 | 209,933 | 99,897 |
| Accrued income | 1,225 | 1,547 | 3,130 | 2,671 | 3,117 | 3,187 | 3,770 | 3,843 | 4,627 | 5,279 |
| Treasury stocks | 402 | 246 | 86 | 116 | 54 | 50 | 81 | 64 | 186 | 60 |
| Other | 249 | 120 | 483 | 86 | 122 | 159 | 353 | 63 | 94 | 201 |
| Allowance for doubtful accounts | –319 | –180 | –326 | –283 | –386 | –550 | –516 | –860 | –1,286 | –648 |
| Total current assets | 102,318 | 112,134 | 137,260 | 113,292 | 139,979 | 175,553 | 208,040 | 222,103 | 264,551 | 290,318 |
| **[Fixed assets]** | | | | | | | | | | |
| Tangible fixed assets | | | | | | | | | | |
| Own company tangible fixed assets | | | | | | | | | | |
| Buildings | 2,083 | 1,882 | 2,492 | 4,037 | 3,457 | 3,267 | 4,526 | 5,859 | 6,277 | 6,795 |
| Structures | 180 | 122 | 228 | 322 | 252 | 317 | 401 | 520 | 665 | 726 |
| Vehicles and transport equipment | 1 | 3 | 2 | 5 | 3 | 2 | 8 | 5 | 3 | 2 |
| Facilities and equipment | 975 | 748 | 1,088 | 1,518 | 1,687 | 1,634 | 1,801 | 1,705 | 1,732 | 2,934 |
| Land | 8,786 | 11,396 | 14,550 | 21,799 | 12,435 | 9,508 | 15,660 | 18,950 | 18,564 | 20,676 |
| Construction temporary account | 739 | 1,400 | 900 | 1,361 | 339 | 278 | 527 | 291 | 428 | 562 |
| Own company tangible fixed assets | 12,767 | 15,554 | 19,263 | 29,044 | 18,176 | 15,007 | 22,925 | 27,333 | 27,674 | 31,698 |
| Loaned tangible fixed assets | | | | | | | | | | |
| Buildings | 17,803 | 18,715 | 20,041 | 21,858 | 27,568 | 29,830 | 33,327 | 37,929 | 40,106 | 44,640 |
| Structures | 976 | 1,088 | 1,148 | 1,384 | 1,902 | 2,173 | 2,326 | 2,701 | 4,067 | 4,764 |
| Facilities and equipment | 7,995 | 7,751 | 15,248 | 14,072 | 17,273 | 15,128 | 18,002 | 17,972 | 20,209 | 27,717 |
| Land | 38,459 | 45,749 | 52,144 | 59,084 | 74,277 | 80,056 | 78,456 | 84,159 | 89,502 | 93,907 |
| Loaned tangible fixed assets | 65,235 | 73,306 | 88,583 | 96,399 | 121,021 | 127,188 | 132,113 | 142,762 | 153,885 | 171,030 |
| Total tangible fixed assets | 78,002 | 88,861 | 107,846 | 125,444 | 139,197 | 142,196 | 155,039 | 170,095 | 184,559 | 202,729 |
| Intangible fixed assets | | | | | | | | | | |
| Leasehold right | 772 | 619 | 787 | 1,046 | 1,148 | 1,170 | 1,216 | 1,417 | 1,795 | 1,768 |
| Trademark right | 4 | 5,622 | 5,045 | 4,468 | 3,895 | 3,400 | 2,816 | 2,230 | 1,648 | 1,062 |
| Other | 463 | 488 | 519 | 556 | 607 | 666 | 719 | 782 | 823 | 869 |
| Total intangible fixed assets | 1,240 | 6,729 | 6,351 | 6,071 | 5,651 | 5,237 | 4,753 | 4,431 | 4,266 | 3,701 |
| Investments and other assets | | | | | | | | | | |
| Investments in securities | 2,910 | 2,973 | 2,950 | 3,955 | 3,903 | 3,900 | 3,803 | 3,403 | 3,251 | 3,328 |
| Investments in affiliates | | 5,960 | 7,009 | 42,559 | 42,559 | 43,098 | 43,666 | 43,666 | 43,062 | 42,153 |
| Investments in convertible bonds of an affiliate | 473 | 424 | 375 | 342 | 0 | 0 | 0 | 14,940 | 14,940 | 19,994 |
| Long-term loans receivable | 567 | 1,070 | 2,786 | 4,512 | 339 | 257 | 167 | 110 | 117 | 106 |
| Long-term prepaid expenses | 6,500 | 7,724 | 9,703 | 11,966 | 4,688 | 5,034 | 3,854 | 3,718 | 4,082 | 6,604 |
| Long-term leasehold deposits | | 0 | 0 | 8,500 | 15,337 | 19,220 | 22,864 | 25,645 | 29,106 | 33,157 |
| Other | 405 | 447 | 604 | 651 | 712 | 932 | 1,158 | 1,183 | 1,100 | 1,213 |
| Allowance for doubtful accounts | –2 | –2 | –2 | –1 | –1 | –1 | 0 | 0 | 0 | 0 |
| Investments and other assets | 10,855 | 18,599 | 23,427 | 72,486 | 67,539 | 72,443 | 75,514 | 92,668 | 95,661 | 106,558 |
| Total fixed assets | 90,097 | 114,190 | 137,625 | 204,002 | 212,389 | 219,877 | 235,306 | 267,195 | 281,488 | 312,988 |
| Total assets | 192,416 | 226,324 | 274,885 | 317,295 | 352,368 | 395,431 | 443,347 | 489,298 | 546,039 | 603,307 |
| **Liabilities** | | | | | | | | | | |
| **[Current liabilities]** | | | | | | | | | | |
| Bills payable | 526 | 582 | 673 | 879 | 770 | 715 | | | | |
| Accounts payable — trade | 731 | 771 | 954 | 1,285 | 1,257 | 1,416 | 1,556 | 1,612 | 1,709 | 2,248 |
| Accounts payable — franchise stores | 36,303 | 41,337 | 49,053 | 56,878 | 61,339 | 64,093 | 68,351 | 75,311 | 80,190 | 85,821 |
| Accounts payable due to franchise stores | 5,014 | 6,269 | 7,492 | 4,990 | 137 | 3,634 | 3,663 | 3,585 | 4,623 | 557 |
| Accounts payable — other | 1,441 | 2,061 | 3,655 | 3,995 | 3,568 | 3,400 | 7,834 | 4,555 | 8,207 | 14,709 |
| Arrears — franchise stores | 902 | 718 | 860 | 1,758 | 736 | 665 | 725 | 847 | 875 | 934 |
| Income taxes payable | 13,676 | 15,671 | 19,223 | 20,586 | 22,286 | 22,575 | 23,850 | 22,949 | 26,050 | 26,399 |
| Business taxes payable | 3,664 | 4,397 | 5,783 | 6,042 | 6,209 | 6,394 | 6,775 | 6,481 | 7,082 | 7,525 |
| Consumption tax payable | | 1,964 | 1,369 | 1,704 | 948 | 1,258 | 984 | 1,131 | 1,308 | 3,668 |
| Accrued expenses | 1,003 | 1,219 | 1,508 | 2,187 | 1,757 | 1,743 | 1,990 | 1,883 | 2,002 | 2,443 |
| Deposits received | 1,262 | 1,910 | 2,525 | 3,661 | 4,109 | 4,443 | 4,674 | 7,434 | 9,509 | 13,595 |
| Allowance for bonuses to employees | 483 | 519 | 735 | 837 | 967 | 1,055 | 1,178 | 1,322 | 1,351 | 1,574 |
| Deposits by employees | 0 | 0 | 1 | 1 | 1 | 1 | 2 | 1 | 2 | 2 |
| Bills payable — facilities | 1,760 | 1,170 | 4,822 | 2,808 | 2,578 | 1,977 | 1,453 | 857 | 0 | 0 |
| Accounts payable — facilities | | 0 | 0 | 0 | 0 | 0 | 0 | 962 | 1,199 | 0 |
| Other | 66 | 130 | 506 | 72 | 29 | 114 | 110 | 81 | 64 | 52 |
| Total current liabilities | 66,835 | 78,725 | 99,177 | 107,690 | 106,699 | 113,489 | 123,150 | 129,017 | 144,177 | 159,532 |
| **[Fixed liabilities]** | | | | | | | | | | |
| Guarantee deposits received from franchised stores | 1,781 | 1,932 | 2,070 | 2,249 | 2,476 | 2,672 | 2,869 | 3,117 | 3,336 | 3,551 |
| Allowance for retirement benefits to directors and corporate auditors | | | 0 | 353 | 348 | 404 | 679 | 724 | 782 | 811 |
| Total fixed liabilities | 1,781 | 1,932 | 2,070 | 2,602 | 2,824 | 3,077 | 3,549 | 3,842 | 4,118 | 4,363 |
| Total liabilities | 68,616 | 80,657 | 101,247 | 110,292 | 109,523 | 116,567 | 126,699 | 132,859 | 148,296 | 163,895 |
| **Shareholdersí equity** | | | | | | | | | | |
| [Common stock] | 17,145 | 17,175 | 17,200 | 17,200 | 17,200 | 17,200 | 17,200 | 17,200 | 17,200 | 17,200 |
| [Additional paid-in capital] | 24,618 | 24,588 | 24,563 | 24,563 | 24,563 | 24,563 | 24,563 | 24,563 | 24,563 | 24,563 |
| [Earnings reserve] | 1,491 | 1,919 | 2,432 | 3,152 | 4,070 | 4,300 | 4,300 | 4,300 | 4,300 | 4,300 |
| [Other surpluses] | | | | | | | | | | |
| General reserves | 58,079 | 75,409 | 96,007 | 120,697 | 151,678 | 185,368 | 220,541 | 257,421 | 296,121 | 334,421 |
| Unappropriated retained earnings | 22,466 | 26,574 | 33,434 | 41,389 | 45,332 | 47,431 | 50,041 | 52,953 | 55,557 | 58,925 |
| Total other surpluses | 80,545 | 101,983 | 129,441 | 162,086 | 197,010 | 232,800 | 270,583 | 310,375 | 351,679 | 393,347 |
| Total shareholdersí equity | 123,800 | 145,666 | 173,638 | 207,002 | 242,845 | 278,863 | 316,647 | 356,439 | 397,743 | 439,411 |
| Total liabilities and shareholders' equity | 192,416 | 226,324 | 274,885 | 317,295 | 352,368 | 395,431 | 443,347 | 489,298 | 546,039 | 603,307 |

## Seven-Eleven Japan Income Statements (Fiscal 1988–1997)

**Income statements** Unit: million yen

| | FY 1988 | FY 1989 | FY 1990 | FY 1991 | FY 1992 | FY 1993 | FY 1994 | FY 1995 | FY 1996 | FY 1997 |
|---|---|---|---|---|---|---|---|---|---|---|
| **[Operating revenue]** | | | | | | | | | | |
| Franchise commission from franchise stores | 87,784 | 100,456 | 121,411 | 141,454 | 156,798 | 169,239 | 185,828 | 198,792 | 217,193 | 233,907 |
| Other operating revenue | 690 | 819 | 1,093 | 900 | 822 | 749 | 759 | 890 | 986 | 936 |
| Net sales of corporate stores | 11,771 | 12,568 | 14,772 | 20,466 | 24,340 | 25,679 | 27,972 | 31,544 | 36,437 | 42,341 |
| Total operating revenue | 100,246 | 113,845 | 137,277 | 162,820 | 181,962 | 195,667 | 214,560 | 231,226 | 254,617 | 277,185 |
| Cost of sales | 8,701 | 9,249 | 10,781 | 14,920 | 18,182 | 19,217 | 20,771 | 23,313 | 26,897 | 31,036 |
| Gross profit | 91,544 | 104,596 | 126,495 | 147,900 | 163,779 | 176,450 | 193,788 | 207,913 | 227,719 | 246,149 |
| **[Selling, general and administrative expenses]** | | | | | | | | | | |
| Payment fees and charges | 3,843 | 5,445 | 6,078 | 7,101 | 7,979 | 8,356 | 9,342 | 9,692 | 10,890 | 11,773 |
| Advertising | 5,678 | 5,851 | 6,915 | 8,970 | 8,881 | 11,133 | 10,148 | 11,629 | 14,038 | 18,140 |
| Consumables | 1,034 | 1,536 | 2,691 | 3,931 | 1,789 | 1,774 | 2,532 | 2,825 | 2,984 | 3,203 |
| Remuneration to directors and corporate auditors | — | — | 160 | 170 | 195 | 217 | 244 | 252 | 260 | 288 |
| Salaries and bonuses to employees | 7,558 | 8,618 | 10,009 | 11,255 | 12,330 | 13,444 | 15,126 | 16,247 | 18,314 | 20,137 |
| Provision for allowances for bonuses to employees | 483 | 519 | 735 | 837 | 967 | 1,055 | 1,178 | 1,322 | 1,351 | 1,574 |
| Statutory welfare costs | 738 | 975 | 1,035 | 1,188 | 1,330 | 1,535 | 1,680 | 1,917 | 2,129 | 2,277 |
| Rent | 2,000 | 2,576 | 3,206 | 4,494 | 5,700 | 6,954 | 8,270 | 9,578 | 10,468 | 12,000 |
| Depreciation | 5,770 | 6,132 | 7,335 | 9,927 | 11,930 | 11,873 | 12,613 | 14,245 | 14,734 | 16,234 |
| Utility charges | 9,177 | 9,854 | 10,708 | 11,836 | 12,973 | 13,812 | 15,477 | 16,612 | 17,357 | 19,492 |
| Repairs | 836 | 1,380 | 1,468 | 1,602 | 1,201 | 1,258 | 3,574 | 4,266 | 6,441 | 3,404 |
| Travel expenses | 1,266 | 1,366 | 1,407 | 1,710 | 1,868 | 1,906 | 2,156 | 2,325 | 2,759 | 2,990 |
| EDP expenses | 1,002 | 1,648 | 2,042 | 2,320 | 2,947 | 3,637 | 4,167 | 4,139 | 3,904 | 4,364 |
| Taxes and public charges | 635 | 678 | 822 | 1,050 | 1,110 | 1,224 | 1,212 | 1,509 | 1,634 | 1,567 |
| Business taxes | 5,929 | 6,846 | 8,558 | 9,516 | 10,601 | 11,229 | 11,565 | 12,097 | 12,741 | 13,965 |
| Provision for allowances for retirement benefits to directors and corporate auditors | | 0 | 0 | 39 | 37 | 56 | 275 | 102 | 95 | 70 |
| Provision for allowances for doubtful accounts | 2 | 0 | 1 | 0 | 7 | 3 | 0 | 5 | 5 | 0 |
| Other | 2,448 | 2,589 | 3,781 | 3,874 | 3,659 | 3,977 | 4,107 | 3,634 | 3,947 | 5,310 |
| Total selling, general and administrative expenses | 48,406 | 56,013 | 66,957 | 79,829 | 85,514 | 93,453 | 103,673 | 112,404 | 124,061 | 136,798 |
| Operating income | 43,138 | 48,575 | 59,537 | 68,071 | 78,265 | 82,996 | 90,115 | 95,508 | 103,657 | 109,351 |
| **[Non-operating income and expenses]** | | | | | | | | | | |
| Interest income | 2,893 | 4,113 | 8,039 | 7,854 | 6,531 | 4,840 | 3,867 | 2,958 | 1,433 | 1,717 |
| Interest on securities | 13 | 13 | 12 | 10 | 6 | 4 | 3 | 33 | 649 | 915 |
| Dividends received | 81 | 32 | 34 | 34 | 34 | 72 | 38 | 38 | 37 | 98 |
| Gains from sale of securities | 3 | 302 | 54 | 71 | 46 | 61 | 18 | 38 | 0 | 33 |
| Rents received | 40 | 65 | 67 | 93 | 112 | 130 | 132 | 113 | 63 | 61 |
| Gains from foreign exchange | 0 | 0 | 0 | 1,412 | | | | | | |
| Other | 162 | 235 | 301 | 240 | 297 | 245 | 580 | 417 | 370 | 364 |
| Total non-operating income | 3,194 | 4,762 | 8,508 | 9,717 | 7,028 | 5,354 | 4,640 | 3,600 | 2,555 | 3,190 |
| **[Non-operating expenses]** | | | | | | | | | | |
| Interest payable | 2 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| New stock issuing expenses | 892 | 7 | 7 | 4 | 3 | 3 | 3 | 4 | 4 | 0 |
| Valuation loss on securities | | 4 | 13 | 2 | 0 | 0 | 58 | 437 | 113 | 253 |
| Provision for allowances for doubtful accounts | 153 | 0 | 144 | 0 | 95 | 160 | 0 | 338 | 419 | 0 |
| Related business losses | | | | | | 0 | 1,238 | | | |
| Losses from foreign exchange | 0 | 0 | 754 | 0 | | | | | | |
| Other | 78 | 246 | 156 | 118 | 33 | 76 | 73 | 206 | 524 | 201 |
| Total non-operating expenses | 1,125 | 258 | 1,075 | 125 | 133 | 239 | 1,374 | 986 | 1,061 | 455 |
| Ordinary income | 45,205 | 53,080 | 66,970 | 77,664 | 85,160 | 88,110 | 93,381 | 98,121 | 105,151 | 112,086 |
| **[Special gains]** | | | | | | | | | | |
| Gain from sales of property and equipment | 334 | 115 | 449 | 187 | 50 | 188 | 363 | 87 | 55 | 104 |
| Gain from sales of investments in securities | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 10 | 0 |
| Gain from the transfer of allowances for doubtful accounts | 0 | 139 | 0 | 43 | 0 | 0 | 35 | 0 | 0 | 638 |
| Total special gains | 334 | 255 | 449 | 230 | 50 | 188 | 398 | 87 | 65 | 638 |
| **[Special losses]** | | | | | | | | | | |
| Loss on sales of property and equipment | 134 | 345 | 1,498 | 389 | 0 | 0 | 0 | 0 | 454 | 558 |
| Loss on disposal of property and equipment | 0 | 0 | 0 | 0 | 496 | 288 | 1,042 | 1,085 | 1,335 | 2,766 |
| Loss on sale of investments in securities | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 115 |
| Valuation loss on the stock of subsidiaries | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 604 | 908 |
| Provision of allowances for retirement benefits | 0 | 0 | 0 | 314 | 0 | 0 | 0 | 0 | 0 | 0 |
| Total special losses | 134 | 345 | 1,498 | 704 | 496 | 288 | 1,042 | 1,085 | 2,394 | 4,349 |
| Pre-tax income | 45,271 | 52,989 | 65,922 | 77,190 | 84,713 | 88,011 | 92,737 | 97,124 | 102,822 | 108,479 |
| Corporation tax and residents tax | 22,966 | 26,763 | 32,725 | 36,515 | 39,693 | 41,455 | 43,212 | 44,561 | 47,505 | 50,224 |
| Net income | 22,304 | 26,226 | 33,196 | 40,674 | 45,020 | 46,555 | 49,525 | 52,562 | 55,317 | 58,254 |
| Retained earnings brought forward | 2,258 | 2,915 | 3,318 | 4,838 | 5,317 | 6,195 | 6,539 | 7,015 | 7,526 | 8,582 |
| Interim dividends | 1,906 | 2,334 | 2,801 | 3,749 | 4,551 | 5,318 | 6,022 | 6,625 | 7,286 | 7,911 |
| Profit from interim dividends | 190 | 233 | 280 | 374 | 455 | 0 | 0 | 0 | 0 | 0 |
| Unappropriated retained earnings | 22,466 | 26,574 | 33,434 | 41,389 | 45,332 | 47,431 | 50,041 | 52,953 | 55,557 | 58,925 |

## Appendix 3 Seven-Eleven Japan franchise contract

• Types of franchise contracts

Seven-Eleven Japan has two types of franchise contracts: Type A and Type C. Type A contract is for cases where the franchise store owner refurbishes or newly builds the store with their own funds or borrowings, and Seven-Eleven Japan installs the major sales facilities and equipment, while Type C is for cases where Seven-Eleven Japan sets up the store and recruits an owner. The contract term is 15 years, and when the term expires, the head office and store owner negotiate either an extension to the existing contract or a new contract. Dissolution of the contract is by mutual agreement, but after at least five years and when there are unavoidable circumstances, it may be terminated by providing written notice three months in advance of the desired date of dissolution. However, the contract expressly provides for penalties for a unilateral termination of the contract to which these circumstances do not apply.

**• Business requirements of franchise stores**

The contract stipulates the following four requirements that franchise stores must adhere to in products and purchasing.

1. Stores must notify and seek the advice of the head office regarding consignment goods.
2. Stores must not display or sell goods that do not conform to the Seven-Eleven image regarding category, type, quality, quantity, or variety.
3. In cases where stores purchase and sell products from vendors other than those recommended by head office, or purchase and sell products other than those recommended by head office, stores are to arrange a health and sanitation inspection for those products based on the food health and sanitation control standards stipulated by Seven-Eleven Japan. Any products that do not pass the inspection and all products for which similar contamination or other grounds for failing the health inspection can be expected are to be removed from the sales area immediately, and their purchase and sale are to be discontinued.
4. If the head office seeks information or an explanation regarding purchases or sales, stores are to respond without delay.

In addition to those above, franchise store owners must abide by the following five requirements.

1. Stores must not engage in any business other than a convenience store.
2. Owners must not use the Seven-Eleven system or similar procedures or processes at other stores.
3. Owners must not engage in other businesses in the same industry, and they must not engage in any business that is harmful to business know-how.
4. To maintain customer confidence in Seven-Eleven, owners are to ensure their stores are adequately stocked with no shortages, and are clean and tidy.
5. Owners are to take care to avoid a decrease in stock.

**• Necessary funds when taking out a Seven-Eleven franchise**

The following expenditure is necessary when taking out a Seven-Eleven franchise.

1. Owner's initial training costs (¥500,000)
2. Store preparation expenditure (¥1,000,000; expenditure associated with the basic store plan, equipment installation, goods set-out, etc.)
3. Store opening funds (¥1,500,000; equity capital and deposit that forms a part of the operating funds)
4. Funds necessary for store refurbishment (average of ¥15,000,000; however, Seven-Eleven Japan head office arranges a long-term bank loan to be repaid over 15 years; interest rate is the prime rate plus about 0.5%)

**• Preparation for store opening**

1. Training for owner (five days of classroom training at the Seven-Eleven Japan Training Center, five days of practical training at a training store, and in-store training as required)
2. Store refurbishment (two weeks before opening)
3. Stocking store with goods (two days before opening)
4. Store opening promotion (owner personally visits houses in the store business area with promotional fliers)
5. Store opening

• **Items concerning product sales criteria for franchisees**

1. Other than the time when the franchise store purchases the necessary initial stock when it first opens, Seven-Eleven Japan will not sell goods to the franchisee, rather, the franchisee will purchase from vendors recommended by Seven-Eleven Japan or any other suppliers.
2. Payment to Seven-Eleven Japan for initial stock on opening will be from a part of the store opening funds, and proceeds from sales will be sent to Seven-Eleven Japan as required. Payments will be deducted from this as required (the amount will be the equivalent of the cost price for Seven-Eleven Japan).

• **Seven-Eleven charge**

The Seven-Eleven charge stipulated in the contract (generally 45% of gross profit, but 43% for 24-hour stores) covers the following nine items.

1. Use of trademark
2. Equipment expenses (equipment such as computer terminals, and sales instruments and gauges)
3. 80% of utilities charges
4. Accounting services
5. Stocktaking services
6. Merchandising services (products, arranging suppliers, stocking shelves)
7. Advertising
8. Ongoing management consultation, sales support (field counselors, store management services)
9. Insurance

Seven-Eleven Japan has also set up a minimum guaranteed income system under which if the amount remaining after the Seven-Eleven charge has been deducted from gross profit falls below a set annual amount, the head office adjusts the charge rate so that the owner receives that set amount.

**• Franchise store profit**

Franchise store profit is gross profit (sales - product cost price) minus the Seven-Eleven Japan charge, operating expenses, and interest charges. Operating costs and interest charges are as follows.

1. Wages, social insurance
2. Liability insurance for facility managers, public liability insurance for manufactured products
3. Stocktaking increase, defective goods
4. Consumables
5. Telephone charges
6. Building, facilities and equipment maintenance
7. Cleaning
8. Approvals and license charges
9. Stamp duty
10. Cash discrepancies
11. Dishonored checks
12. Miscellaneous expenditure
13. 20% of utilities charges
14. Interest (interest on land and building funds is not included in the operating costs stipulated in the contract)

**Sales by product at franchise stores (March 1997 – February 1998)**

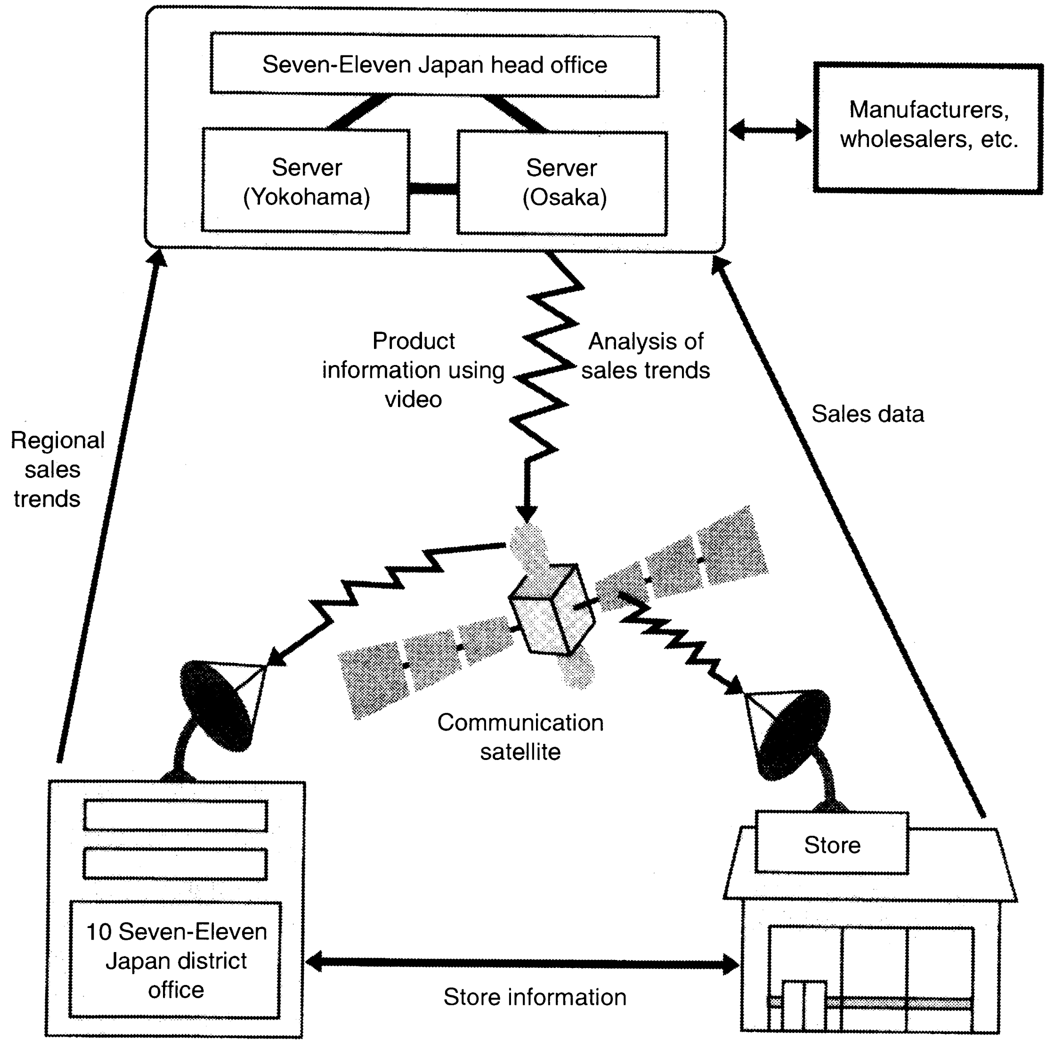
| | Unit: million yen |
|---|---|
| Processed food | 540,071 |
| Fast food | 525,089 |
| Daily food | 203,283 |
| Food total | 1,268,445 |
| Non-food products | 430,173 |
| Total | 1,698,619 |

## Appendix 4 System changes

| Distribution | Distribution information system | Integrated store information system |
|---|---|---|
| **1976**<br>· Integration of vendors, exclusive warehousing, 80 → 35 vendors per store<br>· Combined delivery of fresh food (17 vendors: prepared food, noodles, fresh fish, etc.)<br>· Small lot deliveries | | |
| **1978**<br>· Twice-a-day deliveries of rice products | | **1978**<br>· Slip ordering<br>· First-generation store system (computer ordering) |
| | **1979**<br>· Vendor online order receipt system, vendor integration package system | **1979**<br>· Vendors online<br>· Decentralized processing network |
| **1980**<br>· Combined deliveries of milk products (9 vendors) | **1980**<br>· Move to a full-scale combined delivery system | |
| **1981**<br>· Started combined deliveries of chilled foods and processed meat products<br>· Integration of combined deliveries of milk products and fresh foods<br>· Combined deliveries of general merchandise | | |
| **1982**<br>· Combined deliveries of frozen foods<br>· Integration of combined deliveries of milk products, fresh foods and processed meat products | | **1982**<br>· Second-generation integrated store information system (POS, EOB systems) |
| **1983**<br>· Development of a grading device | **1983**<br>· Upgrading of distribution center computers<br>· Computer-linked picking system | |
| **1985**<br>· Combined deliveries of local processed foods (7 vendors) | | **1985**<br>· Third-generation integrated store information system (two-way POS system, data analysis computer) |
| **1987**<br>· Three deliveries a day for rice products, Sunday ordering system | **1987**<br>· Online order receipt system by rice product manufacturers | |
| | **1988**<br>· Delivery time management system | |
| **1989**<br>· Second combined deliveries of general merchandise (7 companies) | | |
| | **1990**<br>· Implementation of the goods inspection system | **1990**<br>· Fourth-generation integrated store information system |
| | | **1991**<br>ISDN network |
| | | **1997**<br>· Fifth-generation integrated store information system |

## Appendix 5 Fifth-generation integrated store information system [7)]

**Diagram of the new system**

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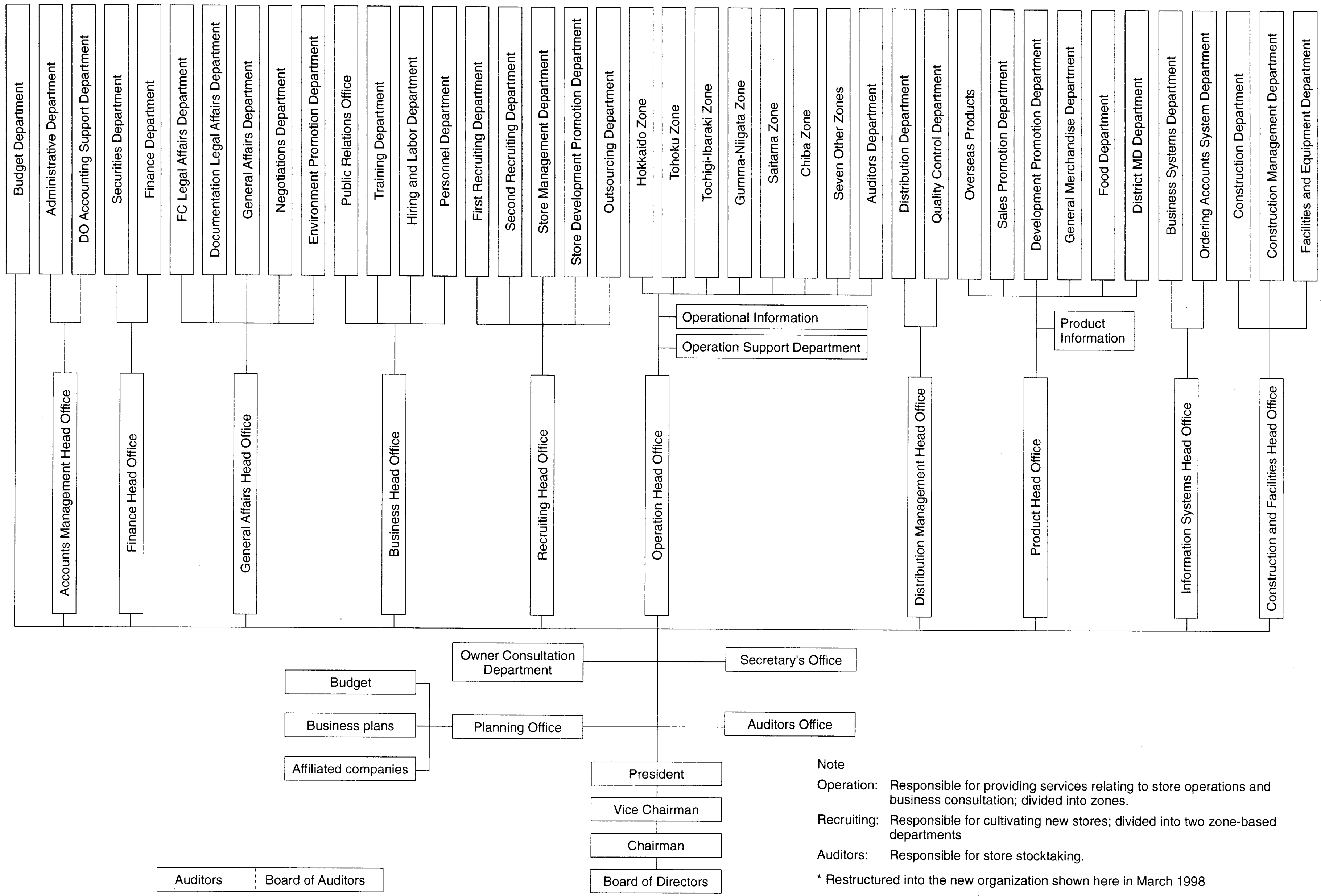
7) *Nihon Keizai Shimbun*, October 16, 1997

# Appendix 6 Seven-Eleven Japan organization




Note

Operation: Responsible for providing services relating to store operations and business consultation; divided into zones.

Recruiting: Responsible for cultivating new stores; divided into two zone-based departments

Auditors: Responsible for store stocktaking.

* Restructured into the new organization shown here in March 1998

## Appendix 7 Net earnings of franchise store owners[8)]

| | | |
|---|---|---|
| Store sales: Daily sales | ¥670,000 × 365 = | ¥244.55 million |
| Gross profit: | | ¥73.31 million |
| Owner's gross income: | Gross profit × 57% = | ¥41.78 million |
| Business expenditure: | | ¥24 million |
| Personnel expenditure (casual wages): | | ¥15.6 million |
| Discarded goods: | | ¥5.4 million |
| Inventory wastage: | | ¥600,000 |
| Others: | | ¥2.4 million |
| Owner's profit: | | ¥17.78 million |
| Store refurbishment expenditure repayment: | | ¥3 million |
| Owner's net earnings[9)]: | | ¥14.78 million |

8) Compiled from *Nikkei Business*, February 24, 1997

9) Including personnel costs for owner and family

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