

Business Strategy Analysis in Retail Economy: A Case Study of 7-Eleven

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Abstract. With the rapid development of society, the retail industry is threatened by big shopping malls and online shops. This article investigates the secret of 7-Eleven's success under threat through books and online research. The study found that 7-Eleven has actively responded to the changing times and continuously made innovations. 7-Eleven has created an intensive site selection strategy which significantly improved selling efficiency. 7-Eleven also convinced the suppliers to continue working during holiday, which keeps 7-Eleven's products fresh all the time. In addition to that, 7-Eleven also developed a new delivery pattern that reduce the need of delivery trucks. While 7-Eleven pay much attention on maintaining various of products, it also creates own products, which attract millions of customers. Through analyzing 7-Eleven's business wisdom, this article gives the retail industry ideas about how to survive and success in the rapidly developing society.

Keywords: Retail economy; Business strategy; 7-Eleven.

1. Introduction

With the development of society, the operation mode of many industry is facing changes. Small retailers have been hit by the threat of big stores and online shopping. In this case, if the retail industry wants to continue to develop, it needs to actively change its development strategy. As a typical representative of small retail, convenience stores bear the brunt of reform. And 7-Eleven is the pioneer of this change, fully displayed their wisdom in the business community. The 7-Eleven brand was originally owned by Southern Company and became a Japanese company in 2005. In 1927, Southland Ice Company, the predecessor of 7-Eleven chain, was founded in Dallas, Texas, USA. Its main business was the retail of Ice products, milk and eggs. In 1946, The Southland Corporation extended its hours from 7 a.m. to 11 p.m., resulting in the birth of 7-Eleven. It was introduced to Japan in 1974 by Japanese retail operator ITO Yokado and has been open 24 hours a day since 1975. In 2016, 7-Eleven is the best convenient store in Japan. And the company of 7-Eleven is the 20th retailer who has a turnover of 513.85 billion of dollar, which has a huge advantage over other convenience stores [1]. This paper examines 7-Eleven's retail economy to find out why it has been so successful even as the retail industry has taken a beating.

Table 1. Convenient stores ranking in Japan

Company	Convenient store Ranking	Retailer ranking	Retail turnover in fiscal 2016 (Billions of Dollar)
Seven & I Holdings Co., Ltd.	1	20	513.85
PJSC "Magnit"	2	57	159.57
CP ALL Plc.	3	75	127.54
FEMSA Comercio, SA de C.V.	4	100	96.62
Co-operative Group Ltd	5	102	96.31

2. Literature Review

From the perspective of development strategy, many articles have analyzed the success factors of 7-Eleven. On the basis of 24-hour retail service, 7-Eleven convenience store has developed a lot of convenient services. The commonly used goods and services in people's life can be basically satisfied in 7-Eleven convenience store. In fact, it already has a community service function [2]. The biggest benefit of franchising is the ability to expand at a low cost without the risk of capital investment. 7-Eleven stores attract investment from all over the country to achieve rapid development and seize the market in this way [3]. 7-Eleven stores are small, with an average space of about 100 square meters, but they offer more than 3,000 kinds of daily necessities. All goods must be replenished in a timely manner through the distribution center [4]. This is not just a matter of delivery time. It also includes the fastest way to receive order information from various stores through the information network and the most efficient collection of goods for each specific order [5]. Every product at 7-Eleven is "convenient, daily, and indispensable" to the target customer [6]. In order to ensure that the goods in the store are best-selling products, each store changes about 70% of the goods every year [7]. 7-Eleven will also offer special products according to the characteristics of different regions [8].

From the perspective of marketing, the success of 7-Eleven convenience stores is based on clear target consumer positioning, which is also explained by many articles [9]. 7-Eleven is a 24-hour convenience store offering a variety of services [10]. The basic starting point of the store is convenience [11]. It can meet the needs of most customers anywhere, anytime, and customers are willing to pay more for this convenience [12]. 7-Eleven has long targeted young, unmarried urban shoppers [13]. The survey found that convenience stores are mainly visited by single young white-collar workers, who are more inclined to pursue convenience and speed due to their fast-paced life [14]. They advocate convenient consumption, are not sensitive to price, and pursue convenience and freedom. These customers are often willing to pay more to expect higher added value due to convenience or urgent needs [15]. 7-Eleven perfectly meets the needs of its target consumers.

3. 7-Eleven's Business Wisdom

3.1 Intensive Site Selection Strategy

Toshifumi came out with an intensive site selection strategy, which increased consumption and reduced costs. The strategy is to increase consumer interest in small - and medium-size retailers, which have fallen into decline due to the prosperity in large-scale markets. When the first 7-Eleven opened in Tokyo, the head of store development was asked to choose the same location as the first store. Other stores never take a step outside Guangdong District. To simply increase the number of stores, the usual approach is to spread them out: one in Tokyo, one in Kanagawa and one in Saitama. However, it's not advisable for 7-Eleven to cast a net too far. Instead of scattered "points", chains should be covered in "faces", extending in a network of locations adjacent to existing stores. The same situation happens in other business area. This site selection strategy will increase consumers' awareness, provide efficient logistic and distribution and make promotional activity more effective.

3.1.1 Higher consumers' awareness

It improves the brand effect of 7-Eleven in a certain region and deepen consumers' understanding of the brand. With the increase in awareness, consumers trust 7-Eleven and are more willing to buy.

3.1.2 More efficient logistics and distribution

When stores are concentrated in a certain range, the distance between stores allows for the improvement of logistics and distribution efficiency. As a result, not only delivery trucks, but also transportation time between stores will be shortened. Store management consultants have more time to discuss with the owner, which is very important.

3.1.3 More effective promotional activity

Advertising and promotional campaigns are more effective. If the stores are concentrated in the same area, not only logistics and labor costs can be effectively saved, but also the influence and coverage of a promotional activity can be greatly improved.

As a result of the joint development of convenience food with 7-Eleven, manufacturers of daily food such as rice balls usually set up dedicate factories around the intensive location. Therefore, the intensive site selection strategy enables 7-Eleven to have more than 98% special factories, ranking the first in the convenience store industry. Research shows that 7-Eleven has greatly increased in number [1]. Because of this effective strategy, in Japan, 7-Eleven store quickly increased in number from 2008 to 2017 (showing in Fig. 1).

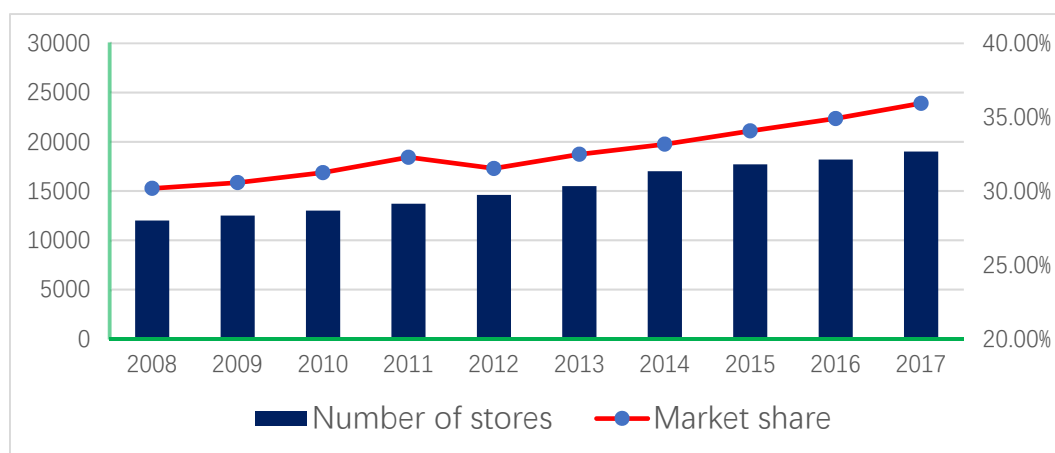


Fig. 1 The number of 7-Eleven stores and their market share

3.2 Uninterrupted Supply of Goods

7-Eleven add new supply schedule during New Year Holiday. At the time of the new store's opening, 7-Eleven was plagued by heavy inventory. The traditional way was to buy in bulk from wholesalers until supplies ran low and then move on to the next round. This will easily lead to the accumulation of bad inventory in stores, which will hinder the improvement of sales. Faced with this problem, 7-Eleven has responded by reducing the amount of goods it buys. None of the wholesalers, however, were willing to change tradition, and they denounced 7-Eleven's offer as a restitution. Yet as an industry that responds to change, 7-Eleven's people are relentless, knocking on doors one after another. In addition to that, since convenience stores operate all year round, 7-Eleven asked suppliers to deliver fresh food for the New Year, but they also refused. Manufacturers are off for the Lunar New Year, and they see the plan as another bad idea that "defies common sense." Once again, however, 7-Eleven used their stamina to convince Yamazaki in two years. Since then, 7-Eleven has been able to display fresh bread on its shelves every day during the Lunar New Year holiday. Fortunately, it wasn't long before rice and side meal makers began to match 7-Eleven's "Lunar New Year production schedule." The new production schedule of 7-Eleven is a landmark for the whole retail industry. Not only the Spring Festival, the new supply schedule was also implemented in other holidays soon. Since then, 7-Eleven has become the first convenience store in Japan to offer fresh products every day.

3.3 New Products Transporting Pattern

7-Eleven change its transportation system, which greatly reduce costs and increase customer. The logistics structure of "mix delivery", which overturns the past a large number of stock - based industry tradition, has played a significant role in the growth of convenience store chains. At the beginning of the business, as the manufacturer did not cooperate with a series of wholesalers, up to 70 delivery trucks came to the first 7-Eleven every day. Take milk as an example. At that time, there were ZEN-NOH Group, Morinaga, Meiji and many other brands of milk. Although these are the same products

to consumers, different brands of milk must be shipped separately by different companies. 7-Eleven found that this transportation system was inefficient, so they suggest that the similar products of different manufacturers in the same area should be mixed together for distribution. However, manufacturers are reluctant to deliver other competitors' products. They berated 7-Eleven for not understanding what it takes to build a brand. This point of view made 7-Eleven realize that manufacturers were still thinking in a seller's market, in other words, their thought did not improve with the time. To give manufacturers an idea of what the modern market really like, Suzuki conducted an experiment. In the past, when suppliers delivered their products to 7-Eleven, they would move the products of other brands to the back of the freezer and put their own products in the most prominent position so that customers could see it. To solve that problem, 7-Eleven changed the way the goods were displayed. They put the brands in a row. In this way, customers are presented with a wealth of options and can make their own choices. As a result, sales of the product increased significantly. The experiment effectively proved that the tradition of a seller's market was out of fashion and that the time had come to a buyer's market. In 1980, manufacturers accepted the idea of mix delivery, and 7-Eleven delivered milk jointly for the first time in Japan's history. In addition to that, 7-Eleven classified products when selecting products for distribution. According to the different characteristics of the products, the products are divided into four temperature categories: frozen (like ice cream), fresh (like lettuce and fruit), constant temperature (like canned drinks, etc.), and heat preservation (like bread and food, etc.). Thanks to 7-Eleven's "mix delivery" strategy, the number of delivery vehicles per store has dropped from 70 per day to 9. (showing in fig 2) In 2016, 7-Eleven shows a huge advantage in both profitability and ROE (return on equity) over other convenient store [1] (showing in Fig. 3).



Fig. 2 Delivery chain

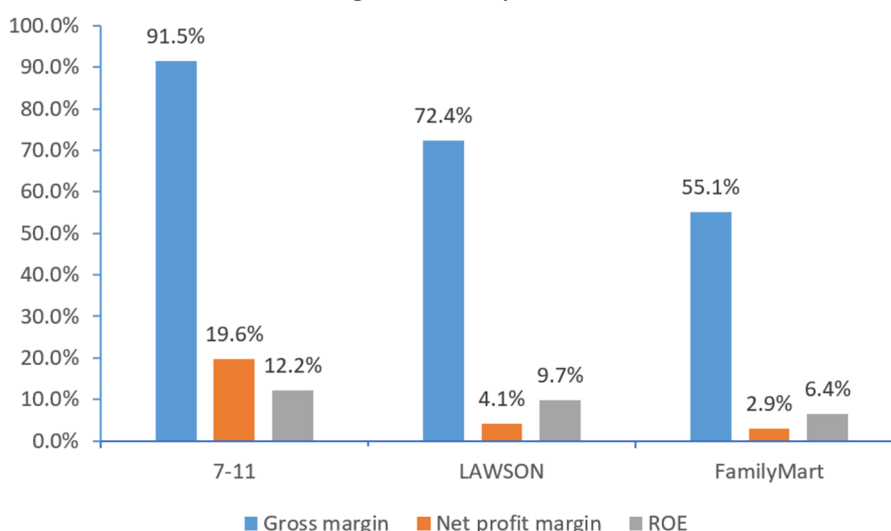


Fig. 3 7-Eleven's profitability and return on equity in 2016

3.4 Own Products

7-Eleven creates their own products, which attract millions of customers. About 60 percent of 7-Eleven's products are self-developed. The company will use the resources of suppliers and launch 100 new product research ideas every week, with an annual replacement rate of up to 70 percent. In order to introduce the original barbecue bento, 7-Eleven has spent three years study charcoal to create an authentic automatic charcoal grill. However, all the convenience stores in the past mostly imported

charcoal meat from China through frozen technology. In 2013, 7-Eleven even invented their own coffee machine. The beans they use are certified by professional tasters. 7-Eleven invited the design industry's most famous creative directors, Koshi Sato to be responsible for the appearance and logo design of the special coffee machine. His design purpose was to make the coffee-enjoying time more elegant and quality. With its high-quality and convenient coffee, Seven Coffee's cumulative sales in the first month of its launch easily exceeded 100 million cups, which provide 7-Eleven with an increasing yoy (year over year growth rate). From 2013 to 2017, 7-Eleven's own merchandise reaches 68% (showing in Fig 4), and 7-Eleven's net profits increased about 323.89 billion of dollars (showing in Fig 5).

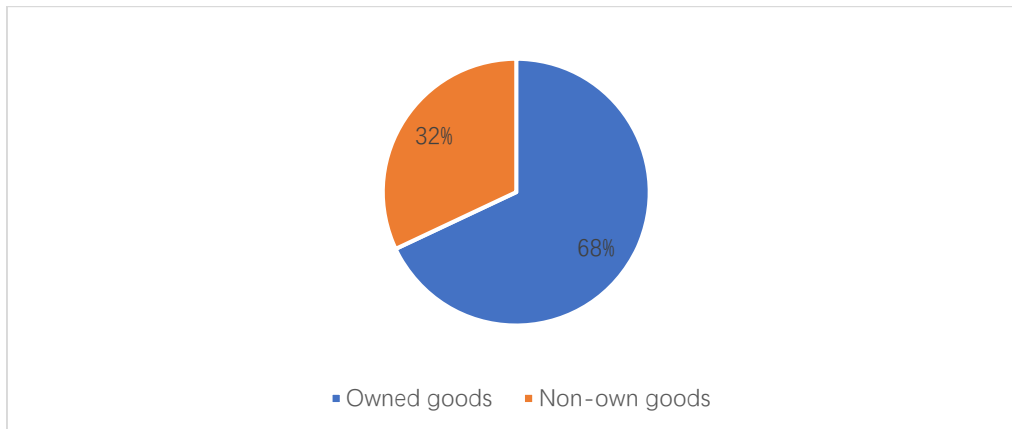


Fig. 4 Percentage of 7-Eleven's merchandise source

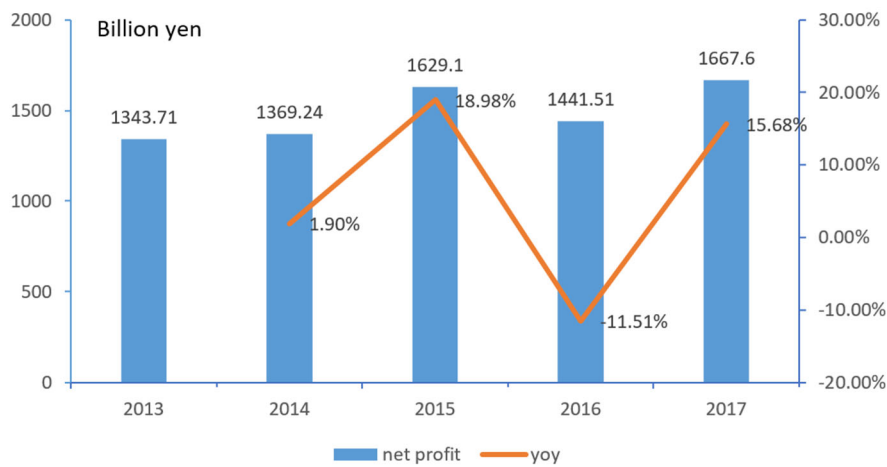


Fig. 5 7-Eleven's net profits and yoy (year over year growth rate)

4. Conclusion and Implication

7-Eleven's success is due to its active response to social change. 7-Eleven made changes to the location of the supermarket, the date of purchase, the delivery system and the goods themselves. That's what makes the 7-Eleven stand out among convenience stores. From the example of 7-Eleven, it can be seen that in order to succeed in the rapid development of modern society, it is necessary to constantly actively respond to various changes and keep innovating.

As a pioneer in convenience stores, 7-Eleven exemplifies the qualities of a good retailer: perseverance and keeping pace with the Times. In densely populated cities, 7-Eleven's centralized location strategy is very practical. But in less densely populated suburbs, this strategy doesn't work. Similarly, like 7-Eleven, all retail companies should continue to innovate in their products and methods of distribution to adapt to people's changing needs and tastes. But to dissect the wisdom of a retailer, it takes more than just a convenience store. In order to study the sales strategy of retailers

more comprehensively, the research direction will be oriented to more excellent convenient stores cases.

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