

STANFORD

GRADUATE SCHOOL OF BUSINESS

CASE: GS-18

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SEVEN-ELEVEN JAPAN

COMPANY BACKGROUND¹

Seven-Eleven, Inc., founded in 1927 in Dallas, Texas, is the world's largest operator, franchisor, and licensor of convenience stores. As of March 2010, it had approximately 38,000 stores in 16 countries, serving 35 million customers a day.² Of these, 12,753 stores were located in Japan, franchised (some operated) by Seven-Eleven Japan Co., Ltd. (SEJ).³ Most of the remaining stores were located in North America, Taiwan and Thailand.

SEJ was established in November 1973 under an area licensing agreement between Ito-Yokado Co., Ltd., Japan's leading supermarket chain, and The Southland Corporation, which operated Seven-Eleven in the United States. Under the strong leadership of Toshifumi Suzuki, chairman and CEO of SEJ, the company had maintained the top position in convenience stores in Japan since it opened its first unit in downtown Tokyo in May 1974.

In 2009, SEJ's total sales including franchise stores reached ¥2.78 trillion, with net profits of ¥92.4 billion, making it the largest and most profitable retail chain store in Japan (see **Exhibit 1** for the income statement). SEJ also had the highest average sales per store per day among the

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¹ All information in this case was provided by Seven & i Holdings and Nomura Research Institute unless otherwise indicated.

² "Fun Facts," 7-Eleven, <http://corp.7-eleven.com/AboutUs/FunFacts/tabid/77/Default.aspx> (May 13, 2010).

³ "International Licensing," 7-Eleven, <http://corp.7-eleven.com/AboutUs/InternationalLicensing/tabid/115/Default.aspx> (May 13, 2010).

three leading convenience store chains (i.e., SEJ, Lawson, and Family-Mart). SEJ's stock price (after adjusting free share distribution and splits) started at ¥100 in 1980, reached ¥2,300 in 1987, and was around ¥9,410 in 2004. In 2005, SEJ became part of Seven & i Holdings Co., a listed company in the Tokyo Stock Exchange. As of May 2010, Seven & i Holdings was the largest retail company in Japan. SEJ's leading market position and performance had been largely due to its pioneering innovation in rationalizing Japan's convenience retail industry.

The Southland Corporation

The Southland Corporation initially brought the convenience store concept to Japan, providing SEJ with the necessary know-how to get started. However, SEJ's innovation in supply chain management soon placed it far ahead of Southland in both profitability and business process technology.

In 1991, Southland was on the verge of bankruptcy when IYG Holding Company, a wholly owned subsidiary of Ito-Yokado and SEJ, purchased a 64.3 percent interest in Southland to save the company. It changed its name to 7-Eleven, Inc. in 1999 and became a wholly owned subsidiary of Seven & i Holdings on November 9, 2005. Ironically enough, since then, SEJ had transferred its operating, product development, and logistics systems to its former parent company.

RETAIL STRATEGY: FRESHNESS JOB #1

Sixty-seven percent of all SEJ's customers lived within 10 minutes' walk from a store. Most customers (56 percent) visited an SEJ store at least twice a week. Customers were largely male (66 percent), single (50 percent), and between the ages of 20 and 39 (49 percent). An average customer spent 5 to 6 minutes buying an average ¥601's worth of goods per visit. SEJ's retail strategy emphasized freshness and its information system was designed to support "freshness"—not only the quality of perishable products, but also the provision of a "fresh" set of merchandise to keep up with the changing preferences of customers.

Bento, traditional Japanese boxed lunch, was an example of the special attention SEJ paid to the freshness of its product. Since many Japanese workers and students bought bento for lunch, SEJ saw Bento as its most important strategic product. Not only did Bento generate large revenues, but it also created customer loyalty and a brand image—people went to SEJ for Bento. Bento boxes were delivered to the store three times a day and were color-coded by the shelf life (red and green labels). In general, SEJ kept perishables for about half the period that regular stores did. They used Scanner Terminal (ST) to check the freshness of products by just scanning the barcode on the label. Of all the perishables handled at SEJ, coffee had the shortest shelf life—just one hour. After that, it was thrown away.

SEJ's freshness focus was extended to incorporate the timely accommodation of the changing needs and tastes of customers. To make sure customers did not get bored with the same offerings, old items (even non-consumables) were constantly retired, giving shelf space over to new items. Of 2,500 SKUs (Stock Keeping Units, or *items* in this context) carried by each store, about half of them were replaced every year. SEJ tended to retire items soon after employees

detected a decline in sales, generally earlier than other stores stopped stocking them. SEJ's freshness strategy was supported by the company's information systems.

INFORMATION SYSTEMS

While large supermarkets often carried more than 100,000 SKUs, SEJ's typical stores carried only 2,500 SKUs due to shelf space constraints. SEJ's average store size was 1,200 square feet. Thus, it was extremely important to decide which items should be placed on shelves, when they should be placed there, and how many of each item should be ordered to prevent stockouts and overstocking. In order to optimize profits given the shelf space constraints, SEJ focused on obtaining high-volume products and discontinuing poor sellers. Such efforts led to an impressive inventory performance: for example, SEJ's average inventory turns were 39 per year in 2009 (compared to 8.9 turns per year at Wal-Mart⁴).

SEJ viewed information systems as critical to managing all of its SKUs, given the limited shelf space at stores. Even though the systems were expensive to establish and maintain, every stage of SEJ's supply chain—from its point of sale (POS) system to new product development—was implemented within the overall information system. The system differentiated SEJ from other convenience store chains and retailers throughout the industry.

Evolution of SEJ's Information Systems

In 1979, SEJ introduced an on-line ordering system, which allowed store managers to place orders using in-store terminals that were later connected to the headquarter's host computer. The system enabled SEJ to streamline its ordering process, but was not enough to act as a market differentiator. As the next step, SEJ introduced its point of sale (POS) system in 1982, which revolutionized management of each SKU. Yet, the communication was only one way—up-links without a down-link. Interactive two-way communication was achieved with the use of an Integrated Service Digital Network (ISDN) in 1991. Two-way communication enabled franchisees to directly access the host computer and the central database containing the POS data and analyses. In early 1998 SEJ introduced the fifth-generation information system using the Internet/Intranet and satellite communications by investing a total of \$522 million. In 2006 the sixth-generation POS system was deployed at the cost of \$475 million. Two key features were: (i) the fiber-optic network between stores and SEJ's Central Data Center, plus in-store wireless network, and (ii) the "location/trade area (LTA)" database that enabled stores to analyze the sales pattern based on the store's characteristics (e.g., near school).

SEJ's Information Systems Configuration

The centerpiece of the store information system is the wireless local area network that connects the store computer (SC), the POS register, Graphic Order Terminal (GOT), scanner terminals (ST), automatic teller machine (ATM) and multi-function copier (see **Exhibit 2**). Each store has two or more registers. The POS register can accept cash and electric money such as 7&I-branded "Nanaco" and other cards. The GOT serves as an information terminal by displaying a variety of

⁴ "Wal-Mart Stores, Inc.," Forbes.com, quarter ending July, 2010, <http://finapps.forbes.com/finapps/jsp/finance/compinfo/Ratios.jsp?tkr=wmt>.

aggregate information such as order/sales data and merchandising information in the form of graphics, charts, and pictures. The multi-function copier serves as a copy machine, printer and an online ticket reservation terminal. Each store is also connected to the SEJ's Central Data Center (HQ) by the optical fiber network.

Information Collection and Feedback Loop

Information about product sales captured at the register is passed on to SEJ's HQ via the fiber-optic network. In addition, the clerk keys in the customer's gender and estimated age on a separate keypad to supplement sales data. On average, 1,019 customers go to each store every day, resulting in more than 13 million customer data points per day. The POS data collected at each store is processed by the SC system. The SC enables the store manager and SEJ's HQ to update and analyze POS data simultaneously. Store managers can obtain real-time information through the GOT on site, thus allowing the manager to analyze the following data:

- *Hourly sales trend for individual items.* This information can be reviewed hourly, daily, or weekly, allowing the manager to optimize delivery schedules and minimize scrap levels. For example, suppose that the POS data showed that 10 cheese sandwiches delivered at 7:00 a.m. were sold out by 10:00 a.m. Because the next delivery truck would not arrive until noon, the store would lose all potential cheese sandwich sales until noon. The store manager could, however, choose to increase the future order quantity delivered at 7:00 a.m. to avoid a similar situation the next day. Another example involves a more sophisticated analysis of customer sales data. The POS data show that plum onigiri (rice balls) began to sell only after tuna onigiri delivered at the same time were sold out. From this information, the store manager could see that plum onigiri were being sold as a substitute for tuna onigiri. Next time, the store manager might increase the order quantity of tuna onigiri and decrease that of plum onigiri.
- *Scrap trend analysis.* Scrap trend analysis of individual items is important not just because of the associated scrap costs, but also because of the opportunity cost of the shelf space. By monitoring how long each item stays on the shelf, the store manager can better stock the store with fast-moving products.
- *Stockout ranking by individual items.* This information is especially important to manage fast food items that require freshness and timely delivery.
- *Sales trends for new products.* This information builds the basis for decisions in merchandising and new product development.
- *Hourly sales trends by customer profile.* This information is most useful to manufacturers for marketing purposes and is passed upstream for analysis.

POS and order data are sent to the corporate HQ through an optical-fiber-based private network on a real-time basis. HQ processes the POS data and forwards order information to manufacturers, wholesalers, and distribution. The processed POS data are then fed back to manufacturers and to over 1,700 Operation Field Counselors (OFC), who have the responsibility of counseling each store (see below for details). Hence, the SEJ's supply chain forms a real-time feedback loop—information flows from stores to HQ and manufacturers, and material flows from manufacturers to stores.

CONVERTING DATA TO INFORMATION

Every other Monday, Toshifumi Suzuki, chairman and CEO of SEJ, presided over a bi-weekly business meeting attended by 180 corporate managers. In the morning they reviewed store performance for the previous week while in the afternoon they developed strategies for the next week. For example, on a particular Monday, the focus was the lackluster store performance experienced during a long holiday weekend, September 10 through 12. In spite of good weather, sales results were below expectations. Analysis revealed that more middle-aged customers went out on a picnic during the fall holidays while younger customers tended to go on summer picnics. SEJ concluded that different types of foods, such as apricot and salmon rice balls, should have been stocked for the September holiday. The information was recorded for the fall holiday of the following year.

The conclusions of the meetings were communicated the following day, Tuesday, to the OFCs. The OFCs flew to corporate HQ in Tokyo for a national meeting and regional meetings. Regional tactics were developed at the meetings. Local factors such as weather, temperature, effectiveness of TV commercials, local events (e.g., school sports and road construction), and consumer taste trends were captured in the analysis and tactics development. OFCs flew back to their regions Tuesday night.

Operation Field Counselors

The OFCs played a critical role as links in SEJ's information feedback loop. In charge of seven or eight stores each, OFCs visited their stores at least twice a week (spending two hours per visit) to deliver the messages developed at corporate HQ and help implement the tactics recommended for the week. The OFC also collected information at the stores and prepared a weekly report for the district manager, who then shared it at the Tuesday managers' meeting. A district manager had about 10 OFCs reporting to him/her, and 7 or 8 district managers reported to a zone manager. There were 15 zone managers.

SEJ considered using teleconferencing technology for OFC meetings instead of flying the OFCs to Tokyo every week,⁵ but ultimately decided against it since SEJ could not afford to lose the subtleties and richness of face-to-face meetings. SEJ believed that the existing status of IT limited information transfer to the processing of generic types of information. The bandwidth of IT available was insufficient to handle the enormous information flows within SEJ. Since 2007, however, SEJ held OFC meetings only every other week. This change was accompanied by the launch of the sixth-generation POS system that delegated a large share of data analysis to store managers. Decisions

The information feedback loop formed the basis of various decisions for SEJ's corporate and store managers. Decisions included: daily ordering, store layout, merchandising, new product development, and new store opening.

⁵ Until 2007.

Daily Ordering

POS data were central to the ordering process. However, what differentiated SEJ from other retailers was its accumulated know-how in making the best use of POS data. Each store manager placed orders based on many factors, including weather conditions, events at neighboring schools and offices, and the opening of new apartments or businesses. For example, if the following day's weather forecast changed from cloudy to hot and humid, the store manager could increase the day's order quantities of cold noodles and unagi (eel) bento.

SEJ adopted a Graphic Order Terminal (GOT) to speed up the ordering process. The GOT was a battery-powered 917-gram handheld computer. The store manager walked along the gondolas⁶ and input product numbers to order items. The manager checked stock levels and sales trends on the same screen while placing orders. Then s/he connected the GOT to the Store Computer (SC) and transferred the data. The entire ordering process usually took one and a half to two hours. The orders were subsequently transferred to HQ through the fiber optic network, and aggregated and processed by the host computer. Order data processed at the HQ were then transferred to the manufacturers, wholesalers, and distribution centers for use in planning and logistics. Orders were placed once a day, but fast food and fresh food items were delivered three times a day, magazines once a day, and processed food items three times a week. In the case of bento, the order would reach the vendor in half an hour with data reorganized into order bills, delivery routes, and production amounts.

When products were delivered to the stores, they were scanned by Scanner Terminals (ST) connected to the SC. Inventory was jointly controlled by the HQ and store managers. SEJ used the POS data and its accumulated know-how to decide which items to include in its recommendations. Store managers then picked 2,500 items from this list of about 4,000 items and ordered through the HQ.

Store Layout

The layout of the store was predetermined up to the category level. Each gondola was dedicated to a specific category or categories. For example, instant noodles and soft drinks were always at the farthest gondola from the entrance. The product mix on the gondola was, however, frequently changed. In addition, store managers were likely to make observations such as:

- ◆ Between 7:00 and 8:30 a.m., 350ml packages of milk were bought by people on their way to work (30 percent).
- ◆ Between 11:30 a.m. and 1:00 p.m., 500ml packages of milk were bought by high school students along with sandwiches (45 percent).
- ◆ During evening hours, one-liter milk packages were bought by housewives (15 percent).

Acting on this information, the store manager re-arranged milk products in the refrigerator several times a day so that customers could easily pick up their favorite choice. Some items would be moved near the door at certain times during the day. The sales performance of old products and the introduction of new ones formed the basis for merchandise replacement and new product development decisions.

⁶ Individual columns of shelves used to display goods.

Merchandising

As a result of its ability to manage the inventory for maximal freshness, SEJ dominated in fast food sales—rice (sushi, bento, rice ball), fried chicken, cooked potatoes, oden (fish sausage), frankfurters, coffee, ice cream, and milk shakes. Sales (as of 2009) were classified as follows:

- (1) processed foods such as drinks, noodles, bread, and snacks (28.3 percent)
- (2) fast foods such as onigiri (rice ball), bento (box lunch), and hamburgers (27.0 percent)
- (3) fresh foods such as milk and dairy products (12.1 percent)
- (4) non-food items such as magazines, ladies' stockings, and stationery (32.6 percent).

SEJ kept track of sales trends for each item and decided whether to keep selling or drop the product. A typical new product reached its sales peak in one to two weeks and then declined. When per-store sales declined to a certain level, the product was deleted from the recommendation list. The life span of products was shrinking over time, and new products were introduced and deleted at a faster rate. This applied to bento, and following trends at the time, even to beer. A director at SEJ commented that the younger generation was more impatient and easily bored.

A similar freshness concept applied to magazines—another highly perishable yet high-margin (27 percent) product line. By controlling inflows and outflows carefully, SEJ enjoyed a 10 percent share of magazine sales in Japan. SEJ was the market leader in fast food sales, outselling McDonald's Japan, and second place in paperback sales.

New Product Development

SEJ developed considerable expertise in analyzing POS data to assist manufacturers in new product development. This included the ability to forecast future trends and demand data to project future consumer needs. Many manufacturers relied on SEJ for information on new product development and worked with SEJ before the launch of a product. SEJ also provided proposals for new products to manufacturers, based on its POS data. For example, in the early 1990s, half-prepared fresh noodles sales were going up at the expense of dry ramen (thin, coiled noodle). Catching the trend of fresh noodles early, SEJ developed a new category of fresh noodles jointly with Nisshin, a manufacturer. SEJ viewed the joint development of such "original" products with manufacturers as a key differentiator in the competitive retail market in Japan. Original products (including various fast foods) represented about 59 percent of total sales in 2009, and SEJ stores steadily increased their gross margin from 25 percent in 1980 to 28 percent in 1990, and to 30.3 percent in 2009.

New Store Opening

SEJ tried to maintain steady growth by limiting the number of new store openings per year. There was always a backlog of stores waiting to be opened. SEJ's corporate managers developed a set of guidelines for making new store decisions. They reviewed a list of 135 relevant factors in multiple categories including location (e.g., car traffic and people traffic), market (e.g., number of households and number of offices) and population (e.g., demographics by age and population density). One metric SEJ used to measure performance in successful store opening and ramp-up was the average daily sales at new stores in the first fiscal year. The metric

was ¥465,000 in 1992 and reached ¥525,000 in 2009, despite stiffer competition and economic recession.

LOCATION/TRADE AREA (LTA) ANALYSIS

As part of the sixth generation information system, SEJ introduced an additional store database to facilitate the analysis of sales trends (see **Exhibit 3**). The existing way of classifying stores was by the physical location, like North Osaka. While stores in the same class shared similar sales patterns, there still remained significant variations among them that could not be explained. Based on this observation, SEJ added another classification scheme that divided all stores into five location/trade area classes. The five classes were: Office/Shopping Area, Business, Residential, Roadside, and Compound Location. In addition, the database captured the presence of 20 types of “influential” facilities in the neighborhood such as railway stations, hospitals, factory, city office, college, etc. The database helped answer the following questions:

- ◆ Which are the top 10 stores in terms of panty hose sales?
- ◆ Why do certain stores have their highest sales during the weekend, while their neighboring stores have the lowest at that time?
- ◆ Why do some stores in the same neighborhood experience such different responses to the same TV commercial?

Using the new data set, HQ could develop new products for targeted LTAs, while the stores could fine-tune the product assortment by LTA.

LOGISTICS – EXECUTION ON DEMAND

SEJ’s logistics system was designed to support the decisions made by corporate and store managers in a timely and cost-effective manner. SEJ introduced a variety of innovations in logistics, some of which ran counter to the tradition of Japanese logistics practice.

Joint Delivery Program from Supplier Distribution Center

In a conventional Japanese distribution system, each manufacturer usually had its own designated wholesalers (sometimes a subsidiary) that exclusively distributed its products. This system had many drawbacks for SEJ. First, it required too many trucks coming to each store every day and too much time loading and unloading products. Second, each truck often came with less than a full load, thus reducing efficiency in the transportation system. Finally, each truck had to make deliveries to numerous stores on different routes, thus making the “on-time delivery” system unworkable.

Due to limited storage space at the store, SEJ required the delivery of small lot sizes (for example, 5 packs of tofu or 10 packs of milk). But Japanese manufacturers and wholesalers were accustomed to large deliveries. Thus, the traditional distribution chain needed to be changed in order to streamline SEJ delivery operations.

SEJ's first area delivery and joint delivery programs started with fast food items like bento and onigiri in 1976. SEJ began by designating one wholesaler⁷ to deliver a single product group to the specific geographic area, typically covering a 30-kilometer (19-mile) radius from the suppliers' distribution center (SDC). All manufacturers and wholesalers dealing in that product group delivered their products to the designated SDC. The products in that same group would then be delivered in a single truck. This system decreased the average number of deliveries to each store from 70 to 40 per day.

In the early 1980s, SEJ implemented a temperature-based joint delivery system. In this system, product groups that required the same temperature zone⁸ were handled by a single SDC in the specific area and distributed in a single truck. This system finally decreased the average number of deliveries to each store from 40 per day to 12 per day in 1990, and then to 9 per day in 2010. Delivery costs were down by two-thirds, and the payback period for the investment was six months.

Delivery Operations

SEJ and suppliers often used the service of third-party delivery companies. For example, a trucking company with 20 refrigerated trucks operated 24 hours a day in two shifts. The first shift operated with 10 trucks, each making deliveries to about 45 SEJ stores. The second shift made daytime deliveries to about 27 stores. Delivery during the daytime took longer due to heavier traffic. Daytime drivers reported at the trucking company at 8:40 a.m. After checking the bills, they went to the SDC at 9:30 a.m. There, they started sorting items. Empty boxes were set on the floor in the order of the trucks leaving the SDC. Each box had a tag showing the name of the destination store. Drivers and part-time workers together put the products into the boxes, while others double-checked the products inside the boxes. Finally, drivers placed the boxes on their trucks and left when their turn arrived.

Delivery was carefully scheduled as to which route was to be taken at what time. The timetable was strictly followed, with an allowable error margin of only 10 minutes. The average time a driver spent at one store was one minute and a half. Drivers left the store before the store manager checked the content of the boxes. The receipt was picked up by the next driver. This was possible because drivers rarely made delivery mistakes. "Following the timetable" meant arriving at the store neither later nor earlier than scheduled. If trucks arrived too early, they waited outside for the right time. The trucking company maintained radio communications with drivers. A log was kept of all delivery activities, including the time of arrival at the store, the numbers of boxes taken out and returned, delivery mistakes, and late deliveries. This performance report was submitted to SEJ's HQ.

When a delivery was late by more than 30 minutes, the trucking company paid the store a penalty equivalent to the gross margin of the product delivered. When such an emergency arose,

⁷ SEJ designated the existing wholesalers rather than establishing or using third-party logistics companies because wholesalers and distributors were so powerful in Japan.

⁸ Temperature zones were classified as follows: (1) frozen foods = -20°C or -4°F, (2) chilled foods (milk, dairy products, and ham) = 5°C or 41°F, (3) rice (bento and onigiri) = 20°C or 68°F, (4) processed foods (soft drinks and pasta) and non-food items = room temperature.

truck drivers, the store manager, and SEJ's HQ communicated with each other to arrange special measures.

Diversified Mode of Transportation

To handle the uncertainties of traffic in Japan, SEJ diversified its transportation fleet to include motorcycles, ships, and helicopters. This agility benefited many on the day of Kobe earthquake in 1995. On that day, SEJ delivered 64,000 rice balls to Kobe by 11:00 a.m., using seven helicopters and 125 motorcycles, while the average speed on the Kobe highway was only 2 miles per hour. The food delivered by SEJ was donated to earthquake victims. SEJ had no stores in the Kobe area.

DOMINANT OPENING STRATEGY

SEJ's method of selecting new stores was called the "Dominant Opening Strategy" (DOS). SEJ concentrated its stores in specific areas to create critical mass in those areas. The sales zone for each store was within a 500-meter (0.6 mile) radius of the store. SEJ's goal was to have sales zones fully cover a specific area with minimal overlap. The main purpose of the DOS was to maximize efficiency of distribution and minimize competition. Logistics were optimized by servicing multiple stores in a small geographic area with a single truck. This reduced both delivery time and the number of trucks needed to service a given set of stores. This policy also increased brand recognition in the focused area. As of early 2010, SEJ had presence in 38 out of 47 prefectures of Japan (plus Hawaii with 55 stores).

7DREAM.COM

In response to the Internet revolution, SEJ formed 7dream.com as a new company along with six Japanese companies—Nomura Research Institute (NRI), Sony, NEC, Mitsui, Japan Travel Bureau (JTB), and Kinotrope. The concept was created as an independent project between SEJ and NRI towards the end of 1997. The mission was to create an electronic commerce model to complement the convenience store business in Japan. 7dream.com was formed on February 1, 2000 and launched in October of 2000, based on a detailed execution plan.

The basic idea of 7dream's electronic commerce model was to integrate "clicks" and "mortar" by allowing customers to order from a large pool of products on the website of 7dream.com and pick up their orders at an SEJ store two or three days later. Since most Japanese commute by subway, they walk the last mile to their home. On their way home, they can easily stop by at a SEJ store and pick up their order. Not surprisingly, SEJ stores can be found near every subway station. 7dream.com enabled SEJ stores to sell millions of items without carrying any inventory. One example is books. In the past, SEJ carried magazines and paperbacks, but no hard cover books. After 7dream.com was formed, SEJ began to sell Japanese books using a click-and-mortar strategy. Shipping costs were low, since orders were aggregated with other products at one of SEJ's 149 Distribution Centers and then shipped to a store by truck.⁹

⁹ In addition, SEJ allowed time-conscious customers to order store items on the SEJ web site and simply stop by at the store to pick up a pre-packed basket.

Each of the seven founding partners of 7dream.com had a specific role to play in the joint venture. SEJ was the "host" of the venture in many ways—especially because 7dream was SEJ's foray into electronic commerce. NRI was the systems outsourcing partner as it was with SEJ. NRI developed the software and managed information system assets like computers and communications networks. Usually, SEJ defined business processes, specifications and systems requirements to support them. Sony was in charge of the entertainment business portion, e.g., handling copyright and distribution rights. NEC supplied most of the system hardware. Mitsui was SEJ's principal logistics partner, taking care of logistics requirements between suppliers and SEJ stores. That relationship was carried over to 7dream.com. JTB was responsible for all travel-related businesses. Kinotrope, a small web design shop, participated as a minor shareholder. SEJ owned 51 percent of 7dream, while the other partners held the remainder of the company.

EPILOGUE

SEJ was successful in developing and implementing rationalization throughout its supply chain. Its size and success gave it considerable influence with suppliers and distributors, and allowed it to minimize costs within the supply chain. Its POS and SC systems allowed significant improvements in inventory control, both at the store level and at the distribution level. All of this was accomplished while improving service efficiency and reducing stock-outs and opportunity costs. In 1987, SEJ moved into electronic transaction service businesses, such as the payment of utility, phone, and catalogue sales bills over the ISDN line. Seven & i Holdings Co., Ltd. created a bank called IYBank (renamed *The Seven Bank* in 2005) that installed ATMs at every SEJ store. The Bank developed partnerships and tie-ups with 560 financial institutions for various consumer financial services, including banks, securities, insurance, credit card and consumer loan.

Although SEJ had been successful, many of its supply chain management techniques were copied and matched by its main competitors. Moreover, general slowdown in economic activities in Japan since 1992 had drastically changed the social and economic environment of the Japanese retail industry. In particular, the number of small and medium-sized stores had been rapidly declining. Seven & i Holdings developed a corporate philosophy titled "Modernization and Revitalization of Existing Small and Medium-sized Stores and Co-existence and Co-prosperity," to respond to changing needs of their customers.¹⁰

In order to remain the premier convenience store chain, SEJ continued to innovate and improve its supply chain services, while finding new markets in China and Southeast Asia. However, SEJ had not yet enjoyed the same level of dramatic performance as a result of implementing its supply chain strategies in the U.S. This could have been due to geographical differences between the two countries or differences in consumer trends and distribution networks. This meant that globalization of SEJ's strategy would require new rounds of adaptation and innovations, as they had exercised in the past.

¹⁰ Chairman Toshifumi Suzuki in *Seven-Eleven 2009-2010 Corporate Profile*.

Exhibit 1
Non-Consolidated Statements of Income

Seven-Eleven Japan Co., Ltd.

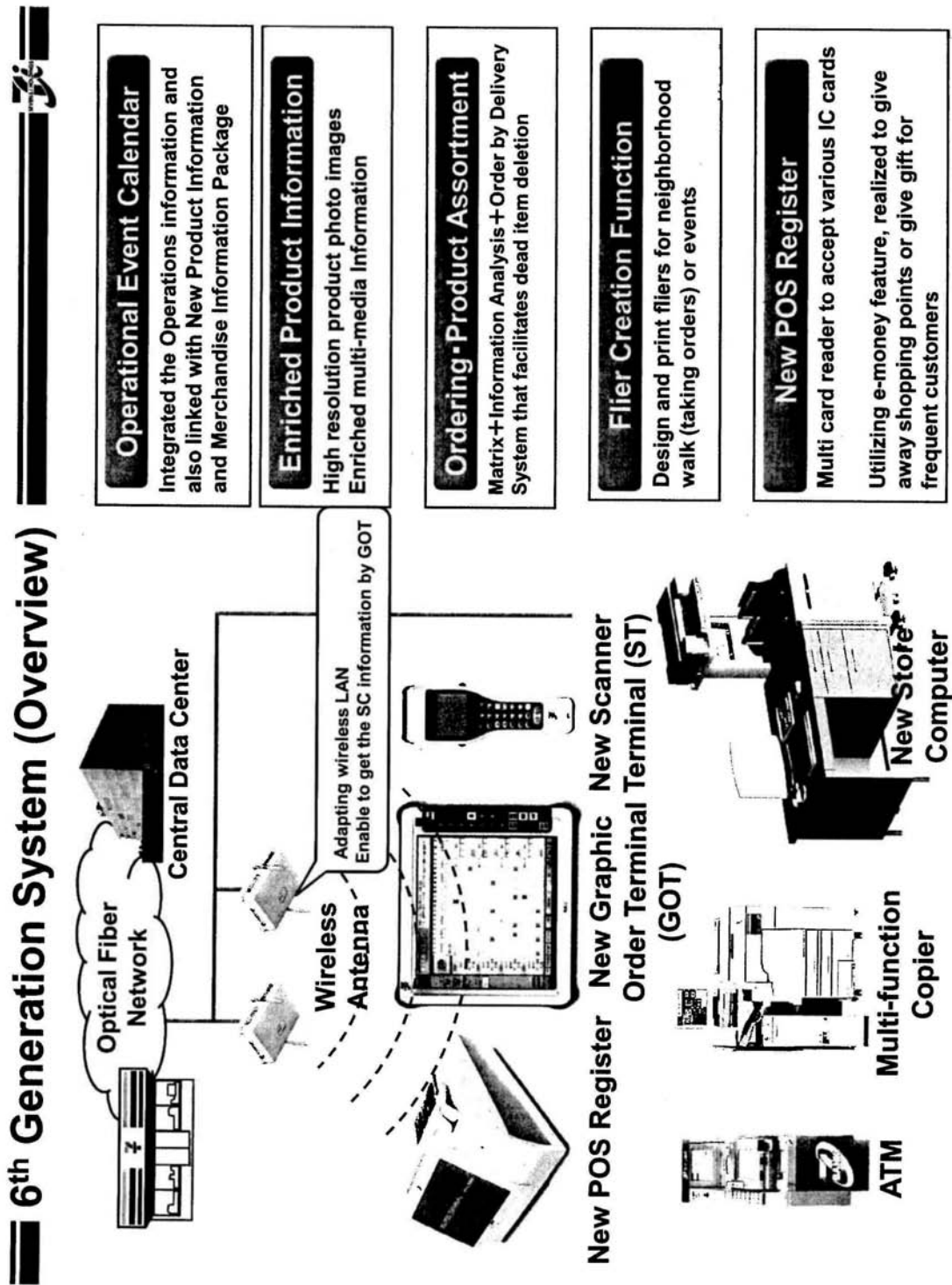
NONCONSOLIDATED STATEMENTS OF INCOME

(Millions of yen)

	Year ended February 28, 2009	Year ended February 28, 2010
	Amount	Amount
Operating income and expenses		
Revenues from operations	540,773	535,018
Franchise commission from franchised stores	394,863	402,107
Net sales reported by franchised stores		
Year ended February 28, 2009: 2,621,567		
Year ended February 28, 2010: 2,657,774		
Total net sales (including net sales of corporate stores)		
Year ended February 28, 2009: 2,762,557		
Year ended February 28, 2010: 2,784,997		
Other operating revenues	4,919	5,687
Net sales of corporate stores	140,989	127,222
Cost of sales	103,155	92,941
Gross profit from operations	437,618	442,076
Selling, general and administrative expenses	259,558	285,856
Land and building rent	64,260	72,117
Salaries and wages	35,554	35,454
Utility expenses	31,736	30,449
Depreciation and amortization	24,405	26,693
Advertising expenses	19,328	26,279
Other	84,274	94,862
Operating income	178,060	156,220
Non-operating income	11,284	8,529
Interest income	4,963	4,573
Interest on securities	1,914	1,423
Dividends income	2,141	1,950
Other	2,265	582
Non-operating expenses	1,346	303
Interest expenses	-	54
Provision for doubtful accounts	1,271	-
Provision for loss on guarantee	-	100
Other	75	148
Ordinary income	187,997	164,445
Special gains	341	379
Gain on sales of property and equipment	239	246
Reversal of allowance for doubtful accounts	-	67
Receipt of stock option income	102	66
Special losses	8,211	9,829
Loss on sales of property and equipment	154	170
Loss on disposals of property and equipment	1,202	1,029
Impairment loss	6,754	7,407
Store-closing cost	-	1,113
Other	100	108
Income before income taxes	180,127	154,995
Income taxes - current	74,374	63,652
Income taxes - deferred	(1,436)	(1,095)
Net income	107,189	92,439

Source: Seven & i Holdings. Reprinted with permission.

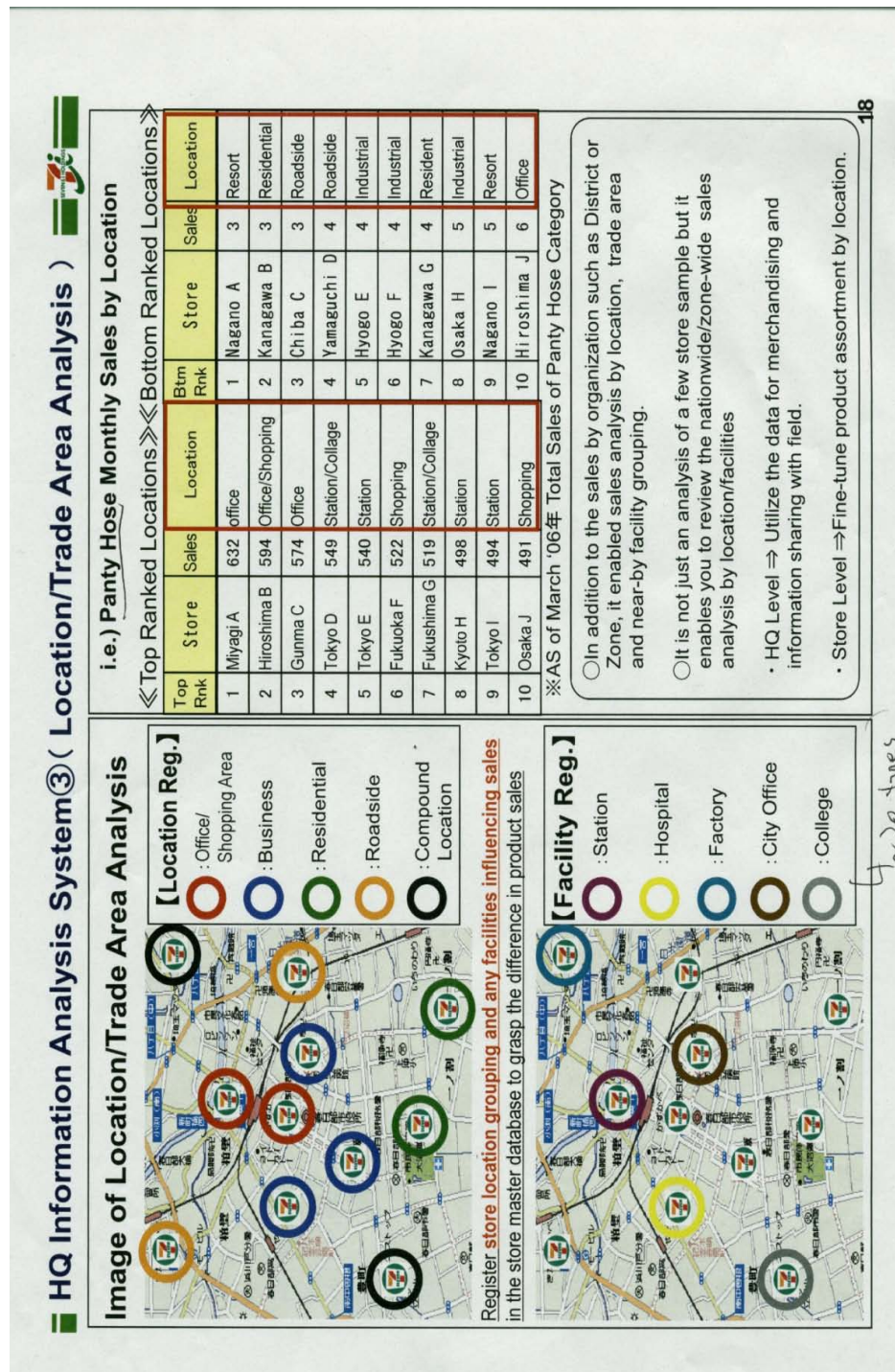
Exhibit 2
SEJ's 6th Generation Information System



Source: Seven & i Holdings. Reprinted with permission.

Exhibit 3

Location/Trade Area Analysis



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