

## Reviews

# Seven-Eleven Japan: Innovation in business-to-consumer (B2C) e-tailing

**JAPAN HAS MANY LARGE organisations whose names have become synonymous with economic success in the global marketplace. Firms such as Sony, Toyota, Toshiba, Komatsu and NEC are all examples of organisations that have been at the forefront of growth in new business ideas.**

**Dr Yoko Ishikura, Professor of Marketing at the Graduate School of International Corporate Strategy, Hitotsubashi University, Tokyo, Japan, explains how she uses this Seven-Eleven Japan case study to analyse consumer buyer behaviour and to explore how e-commerce might contribute additional market opportunities for Japanese companies.**

**S**even-Eleven Japan: Venturing into e-Tailing fits neatly into my marketing course on the MBA degree in international business strategy. It follows on from an earlier 1997 case study on Seven-Eleven Japan that describes, in detail, the company's logistics and information systems and how they support its retail strategy. I was looking to build on this earlier case study and had all but decided that I would need to write one, when I found the new case study while searching COLIS on the ECCH website. This was a real bonus as I can also use the same case study in an elective course 'Management of International Business', which I teach at the Darden School of Business, University of Virginia.



Dr Yoko Ishikura

Every day nine million people visit the 8,000 plus convenience stores of Seven-Eleven Japan and, in 2000, this helped to generate annual sales of 1.963 trillion yen (at 31 March 2001, one US dollar equalled approximately 110 yen). Each store, or konbini as they are known in Japanese, is a focal point for the local community and has an average of 100 square metres of floor area. This avoids the stricter government controls on large supermarkets, which must close by 8.00pm. By contrast, konbini can, and often do, stay open all night in some locations.

Customers can pay utilities bills, purchase a wide range of sandwiches, rice bowls, frozen and non-frozen ready-to-eat packaged foods, ice cream, magazines, fashion accessories, cosmetics, toiletries and drinks. Schoolchildren call in, both going to and coming from school, young people meet there to socialise, housewives and businessmen often collect their evening meals on the way home from work and old people see the local konbini almost as a social centre.

## **P**roposal of an e-commerce joint venture to boost sales

For Seven-Eleven Japan this is a wide range of customers to analyse, identify and satisfy. One major problem was that annual sales per store in the period 1997 to 2000 levelled off, suggesting that maximum sell-

ing capacity had been reached. To boost sales and take advantage of optimistic forecasts for e-commerce, Seven-Eleven Japan proposes to establish a joint venture called 7dream.com, which would include such powerful partners as Sony Corp, Mitsui, NEC and Nomura.

Students are asked to consider two questions which, together with suggested readings, are posted on our Intranet.

- From your own experience, is Seven-Eleven Japan successful? Why/Why not?
- What would you recommend to Mr Toshifumi Suzuki, the Chairman and CEO, regarding 7dream.com?

We have a mix of 34 MBA students, usually one third Japanese and the rest from countries including Thailand, Korea, Taiwan, Australia and the United States. During discussions I can capitalise on group diversity and personal experience. I note the nationality of respondents together with their answers and thus build up a multinational analysis on the board.

## **C**onsumer buyer behaviour patterns examined closely

There are many different views on Seven-Eleven Japan, which is ideal for case teaching. We explore how national background, the cultural and political environment, value systems, psychological and psychographic make-up and the competitive nature of each market influences consumer behaviour and the effectiveness of Seven-Eleven Japan's marketing strategy. For instance, Japan is a cash-based society – "The Japanese would rather pick up their goods and pay for them at a konbini". Many streets have convenience stores selling daily necessities for the Japanese consumers. Off-line shopping is popular and

there is a long history of catalogue and mail order purchasing paid for by cash-on-delivery, or bank transfers. This is also the preferred method of payment for on-line purchases. Credit card usage is low because many Japanese do not like to reveal their personal card details on the Internet.

### Why e-tailing is not growing dramatically in Japan

Given the differences and similarities that emerge, I then get the group to consider how the growth of e-commerce and the Internet will affect Japanese consumers. We identify the drivers for change, explore why the Internet and e-tailing is growing dramatically elsewhere but not in Japan. We also focus on what obstacles Seven-Eleven Japan and other Japanese companies have to overcome to generate increased growth of e-tailing.

One major factor is the high cost of telephone calls and Internet connection charges. For instance, according to a survey by the MITI (Ministry of International Trade and Industry), in 1998 e-commerce only accounted for 0.02 per cent of all business-to-consumer transactions and the Economist ranked Japan as 21st out of 60 nations in term of readiness for e-commerce. Conversely, Andersen Consulting forecast that between 1999 (widely regarded as the first year of e-commerce in Japan) and 2003 B2C e-commerce would grow from 248 billion to 3.5 trillion yen.

### The human side of knowledge management is revealed

After we discuss the role of information and the Internet in traditional retail business, we turn our attention to how Seven-Eleven Japan handles and manages information. We examine how the company interacts with its customers and the contribution of sales assistants and stores clerks. This allows me to focus on the softer side of knowledge management, explore how staff are motivated (a field counsellor covers seven stores and best practice is shared between staff and stores) and how the harder, technology-based information systems depend on this human interaction.

To meet consumer needs the company operates a highly sophisticated information gathering network and delivery system. In

1999, a Fifth-Generation Total Information System linking all stores via satellites and ISDN telephone lines was completed. Students note a major strength in the large volume of consumer data the company can process and transmit. This reduces missed sales opportunities, avoids stock-outs and reduces inventory levels. However, it also places immense responsibility on sales clerks where even stock re-ordering is delegated to sales staff, many of whom will be part-time, high school students.

Students see attention to detail, constant (small but consecutive) innovation and an efficient delivery system as important to success. For example, staff are reminded, based on local weather forecasts, to re-position umbrellas by the counter and the location of Haagen-Dazs ice cream is changed depending upon the time of the day. Sandwiches, perishables and packaged and frozen foods are delivered to stores up to four times per day. Not only is this information gathered, but also it is shared among all the clerks and specific action is taken. Students conclude that communication between customers and staff is vital and explains why the company emphasises staff motivation and information systems.

### The virtual shop – the 7dream.com proposal

To take advantage of the projected growth in e-commerce, the Chairman and CEO, Mr Toshifumi Suzuki, proposed to use Seven-Eleven stores as payment and delivery stations for eight major on-line shop operators, with 1,200 virtual shops. Customers select their purchase on-line, make payment at a Seven-Eleven store and return later to collect their purchase. This service was launched in November 1999 and was followed by the proposal for 7dream.com, a website based on the products of Seven-Eleven Japan and its partners. It was intended that 7dream would offer services in eight areas:

- travel
- music
- photography
- merchandise
- tickets
- books
- gifts and mobiles phones
- car-related items and information

All products chosen complemented Seven-Eleven Japan's current range, were easy to

handle and not normally available in konbinis. They could be incorporated into Seven-Eleven Japan's delivery system and the target market was young people in the 18-30 plus age bracket.

I ask students to consider whether this strategy can be successful and how it might affect Seven-Eleven Japan's current structure? What additional resources might be needed? How will staff cope? Has the correct target market been identified? How should 7dream be marketed? Some students do not consider the proposal practical and believe it will overload the organisation, while others see immense opportunities to be first to the market with an innovative approach that overcomes many consumer concerns about on-line shopping. However, the strategy tends to get responses that are more negative because students feel that the service does not have an identifiable uniqueness. They also feel the Japanese consumer is not yet ready for such an innovative approach to B2C e-commerce.

### Behind the scenes insight reinforces teaching objective

To conclude I sometimes invite a director of Seven-Eleven Japan to sit in on the discussion. Students enjoy the ensuing question and answer session. I also have access to a video of a staff conference that shows discussions on motivation, customer contact and best practice. Most students will have visited Seven-Eleven stores but they will not be aware of what goes on behind the scenes. The video shows this aspect quite well.

Both these approaches enrich student analysis of the case and reinforce my teaching objectives. Students respond enthusiastically to this case and feedback is very positive. Seven-Eleven Japan is the most successful and profitable of Japan's convenience stores. I enjoy teaching the case and use it to focus on identifying target markets, consumer buyer behaviour, the importance of information sharing, the human element in information systems and marketing strategy implementation.

### The reviewer

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