

# Alternative Futures for Convenience Store Management in Asia: An E-Business Perspective

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## Abstract

*Technological progress promotes economic growth and hence increases mobility. Our primary emphasis is to demonstrate alternative futures for convenience store (mobility issue) in Asia (economic growth issue) from an e-business perspective (technological progress issue). These three issues are related, but they are not the same. The Internet changes the shopping habit of the consumer; accordingly, derives an impact on an organization's management modes. We present two case studies on 7-Eleven in Japan and Taiwan to show the development of integrating in-store and on-line activities as their new business model. The findings of the case study support the argument that market environment and resource of enterprise are crucial to determine the success of transforming to a new business model. By comparing the two modes, this paper provides alternative futures for conventional retailers in Asia to develop their own e-commerce structure.*

## Introduction

Dykema (2000) presents several statistics that on-line retail sales are projected to grow from \$45 billion in 2000, or 1.5% of total retail sales, to \$269 billion in 2005, or 7.8% of total retail sales for that year. Besides

this substantial growth in on-line sales, consumers increasingly rely on information collected on-line to research a lot of purchases that are concluded over traditional "bricks and mortar" channels. The rapid growth in on-line sales produces a growing need to understand two related issues: the Internet changes the shopping

habit of the consumer, and it in turn derives an impact on an organization's operation modes.

As pointed out by Cornish (2004), technological progress is the first supertrend that can be used as a powerful tool for anticipating future changes.<sup>1</sup> In particular, technological progress can be recognized as the growing capability of humans to achieve their purposes. Technological progress promotes economic growth, supertrend two in Cornish's argument, because people are eager to use their know-how to produce goods and services, both for their own use and to sell to others. Furthermore, both technological progress and economic growth cause an increasing mobility, supertrend four in Cornish's argument, since information and goods move from place to place faster and in greater quantity than ever before.

By projecting the above three supertrends forward in time, technological progress driven by the Internet, economic growth in Asia, and increasing mobility shown by convenience store operation, our primary emphasis is to alternative futures for convenience store in Asia from an e-business perspective. We note that our paper is not definitely thought of a forecast, but rather of a simple description about what may happen in the future e-business of the convenience store management in Asia.

Tapscott (2001) points out that the Internet is an unprecedented global communication media, and evolves in a way beyond people's imagination. Porter (2001) argues that the Internet can be recognized as a competitive advantage; yet, there is no such thing as the "Business Model" for the enterprises, regardless to say, the "New" business model, what exists, is a crucial enterprise strategy to achieve its particular purpose in the future. Porter further states that successful enterprises are not those who intentionally segment the new Internet business and the existing business; instead, are those who make good use of the Internet to draw on the strength and offset the weakness. While the Internet fever has cooled down, many of the enterprises are phased out, yet, there are few enterprises survived. This phenomenon brings out the question of how to

find out the best balance for the enterprise to put its weight on the e-commerce management. Under the circumstances, the new information technology utilization is recognized as a crucial issue in the age of changing Internet. Under the supertrend of technological progress in since of Cornish (2004) an enterprise should furthermore think about how to create the trend.

In the global trend of the e-commerce, the "clicks and mortar" has been considered to be the most potential one among the electronic retailing operation modes (Reda 2001). As for the reason, conventional retailers who also adopt the "clicks-and mortar" do not get lost in the trend triggered by the Internet. Instead, they carefully think about their own competitive advantage, from the marketing-oriented view, they try to understand the e-shopper's needs, then to create a new core competitive advantage that will satisfy the consumers. According to the survey with the electronic retailers by STORES in 2000, among the Top 20 electronic retailers, nearly half of them operated by traditional ones. Also, with more and more large retailers (e.g. Wal-Mart, Sears, Kmart, ToysRus) entering the e-commerce market with their existing competitive advantage, this trend will be more and more popular.

However, the core benefit of the Internet is "convenience", including the time and space. The convenience of space breaks the limit of the geographical boundary, whether domestic or international (Troy 2002). This advantage of convenience (time and space) is the direction for the growing and the development of the convenience store, since they share the same core competitiveness. So given the current state of e-commerce, what should conventional retailer concentrate on?

Thus, the objective of this paper is in the following: First, our goal is simply to identify that under the authorization of the same 7-Eleven U.S. system, 7-Eleven in Japan and Taiwan have developed the websites based on their own resources and competitive advantages to provide the consumers more convenient differentiated services. Second, this paper compares the differences of e-commerce strate-

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gies and performances between 7-Eleven in Japan and Taiwan, and considers that the activity to the future of e-commerce should fit the resources of the conventional retailer.

### Literature Review

The economic logic of a business model helps to explain how we can deliver value to customers at an appropriate cost. From strategic viewpoint a business can be as a strategic fit among many activities and highly sensitive to the environment. The Internet has brought about a revolution in retailing environment. Levy and Weitz (2001) found, purchasing via the Internet is one of the most rapidly growing forms of shopping, with sales growth rates that outpace buying through traditional retailing. E-commerce can be a true extension of shopping in the physical world, but not all stores are currently in a position to take advantage of it. In the virtual world as in the physical world, people want a broad selection of goods when they go shopping (Carr 2000). Producers of goods and services would use their Web sites to connect directly with customers (Carr 2000). The advent and proliferation of on-line shopping have motivated many conventional retailers to provide on-line service. Some Internet-based retailer also transform into "clicks and mortar" retailers-establishing warehouses and physical stores to give customers faster access to inventory and to handle returns and service issues conveniently and personally is not an admission that the Internet-retailing model doesn't work (Christensen and Tedlow 2000). But the product they sale is no different as those in the physical store. How to get the whole sales of on-line shopping is still many, many shades of gray.

Two types of intermediaries, however, can gain a share of profits in e-commerce (Carr 2000). One type is based on the niche such as specialized content site and the other is big e-tailer serve as gateways to purchase, gaining a share of all sales, like American Online. Meanwhile, Rangan (1999) suggests that the sources of on-line competitive advantage come from the delivery of product, service and the trust of customer. In the words, the terms of

competition is changed. The scarcely resource are no capital, labor or technology but the knowledge and trust from customers. No matter what, intermediaries should be customer-orientated to provide qualified value for e-loyalty. Price does not rule the web; trust does (Reichheld and Schedter 2000).

Clicks as transactions over the web, with each transaction, a company must become more knowledgeable about the customer and hence better able anticipate and fulfill that customer's needs. That knowledge can be used to tailor, in real time, the customizing the options presented to the buyer and guiding the evolution of entire product assortments and to spot new growth opportunities at their earliest stages (Slywotzky 2000).

Christensen and Tedlow (2000) consider the Internet negates the importance of location. However, we just agree their option partially. The Internet hasn't changed priorities. The main concern of management is shifting to how to utilize the opportunity of Internet-based marketing to enhance competitiveness in harmony with existing marketing channel (Turban et al. 1999). As Rangan (1999) suggests the delivery of product, service and the trust of customer are very important to the e-retailer. The importance of location of Convenience store is same as retail brand in the physical and virtual worlds. Many conventional retailers are highly predictable in the way they face the dilemma of how much to bet their futures on e-commerce and how much to concentrate on traditional retailing. They leverage the physical stores and reputations. These existing location and brand characteristics can offer relative advantage complements and greatly reinforced.

Retailer can tailor a e-business model to its own particular market and competitive situation, dramatically increasing the odds of e-business success (Gulati and Garino 2000). The electronic shopping mall (or e-mall), including electronic distributor and electronic brokers (e-broker), is one kind of popular e-business model. Turban et al. (1999) defines the electronic distributor takes responsibility for order fulfillment – for example, JCPenney Online, in contrast e-broker only help the search process – for exam-

ple, Choice Mall. But e-service model combines the features of electronic distributor and electronic brokers, limited by the resources and related knowledge.

The case of convenience stores characteristic around our life, the location advantage to delivery the product, and their brands are so famous to get the trust from the customer, bridge well the store and Internet activities. 7-Eleven in Japan builds 7dream.com as electronic distributor (e-distributor), but Taiwan 7-Eleven integrates network of business to 7eshop.com based on e-service concept. We next demonstrate the history of 7dream.com and 7eshop.com.

### Case Study: E-Distributor and E-Service Business Model

#### The business model for 7-Eleven in Japan

According to the survey by the E-commerce Promotion Council of the Ministry of Economy, Trade, and Industry of Japan, in 2001, the B2C scale of the electronic market has reached at 1.484 trillion Yen, when compared with year 2000, it has a growth rate of 80%. Japan is by far the most successful country in terms of the mobile business. According to the estimation by the Mobile Office Promotion Association Japan in 2001, the mobile business market in Japan, while in 2002, 22,132 hundred million yen and 9,690 stores. Currently, the Japanese government is undergoing the Gigabit network appliances and the legislation for the e-commerce market.

The 7-Eleven in Japan was founded in 1973, and have been long taking the slogan of "Adapting to Change" as the operation belief with innovation for the enterprise to maintain the competitive advantage. The 7-Eleven in Japan develops electronic distributor mode by investing the virtual websites. 7-Eleven in Japan, they sought the cooperation partner, to build up an independent e-commerce company. In February 2000, invested 50 hundred million yen, in association with NEC, NRI (Nomura Research Institute.), SONY, SONY MARKETING,

Mitsui and Co., LTD, JTB (Japan Travel Bureau,) and Kinotrope, built up an online shop called 7dream.com. Companies that joint ventured to set up the 7dream are all industry leaders in there own fields. They all have the rich resources required in that industry and the technology to develop new products. The 7dream.com, after integrated the information on consumer purchase habit in the e-commerce, as well as the other specialized resources in the allied companies, had developed 8 categories of the service contents to provide, which includes travel, music, photo, merchandise selling, bills, book, car related service, and mobile phone.

At the same time, 7-Eleven Japan announced that, it, together with its parent company Ito-Yokado, they want to invest on setting up the IY Bank. Also, with the Ito-Yokado Supermarket and the 7-Eleven Convenience Stores, to provide the consumer banking services such as the ATM and so on. This strategic investment not only increased the number of the customers visited and enhanced the customer loyalty, but also, it can use the strategic differentiation of the merchandises and services to lift up the loyalty of the franchisees toward the company. Besides, in order to expand its target markets with the operation of the e-commerce, they have set up the 7meal service website. With the aging phenomenon and the market structural change in the Japan society, it can provide the health foods, personal care products, as well as the accessories and services related. It attracts the vast senior citizens market, and makes them the new customers of 7-Eleven Japan.

#### The business model for 7-Eleven in Taiwan

The 7-Eleven Taiwan was established by the President Enterprise Group in 1978, until now, it has approximately 3,800 stores all over Taiwan (as of May 2004). The 7-Eleven Taiwan, in February 2000, chose the end logistics operation as the entry point in the operation of the e-commerce. At first, it had cooperated in the form of "strategic alliance" with the virtual online retailer live.net.tw. With the increasing

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number of the enterprises cooperated, as well as the experiences of the e-commerce operation, the 7-Eleven Taiwan has, invested the books.com.tw (50.52% share). However, in order to provide a direct communication route with the consumer, 7-Eleven Taiwan had set up an independent website 7eshop.com.com.tw (the original website service was under www.7-11.com.tw). It plays the role of agent and logistics of the online shopping portal website and cooperates with 52 enterprises.

The 7-Eleven Taiwan had started to plan the related preparation works in the operation of the e-commerce within its own system group of internal development in the organization, did the organization transformation, and the operational direction were conducted by the marketing division. In February 2000, it builds up the finance flow and logistics flow platform of the e-commerce. Also, provided the e-Map system (the map of the stores' location all over Taiwan), to let the consumers have a more personalized online shopping environment.

However, in order to expand its business rapidly, it had established a shopping website, the 7eshop.com.com. Also, in cooperation with HiTRUST and Acer e-Enabling Data Center, they had built up the "online shop-opening mechanism." They provide a secure and economic option to those enterprises that want to operate in the e-commerce market. For those enterprises, they just pay as few as 1,200 hundred (NTD) for leasing the system, they can join the 7eshop.com, share the complete mechanism of the e-commerce, as well as the fullday network technical customer service line. Later on, in September 2001, they had completed the construction of the membership mechanism called the 7Passport. With the membership mechanism, 7-Eleven Taiwan can collect the complete customer information, enforce the one-to-one relationship marketing securely, and achieve the ultimate goal that is to satisfy the cus-

tomers' needs.

### Discussion

Convenience stores through the process of continuous learning and innovation, have built up the chance to develop a new business model. The convenience stores have advanced information system, complete logistics system, quite good enterprise images, as well as complete store networks. First, they provide better conveniences of the time and the place. Second, they provide the customers various types of delivery options at a low cost with the existing logistics system of B2C or C2C delivery. Third, they integrate the existing POS system to analyze the information more efficiently. Fourth, payment security is the most concerned by the customers, not only convenience stores can eliminate the safety concern with the various types of payment and delivery system, also they can allow the customers to complete the whole transaction procedure in the store. This can push the existing customers of the convenience stores become the frequent customers of the Internet market.

The "clicks and mortar" retailers have more fundamental resources than the "clicks-only" retailer. On the other hand, when compared with other "clicks and mortar" retailers, which have higher total sales amount, the fundamental resources that they have are apparently less than the convenience stores. Thus, the convenience stores have richer fundamental resources and better operation niche when it comes to the "clicks and mortar". 7-Eleven in Japan and Taiwan have the common strategic consideration depicted above, with the integration of the resources that they own as well as the societies and competitive environments they are in, they have chose different e-business model to fit environment and resource in Fig. 1.

Pursuing the continuous growth is the

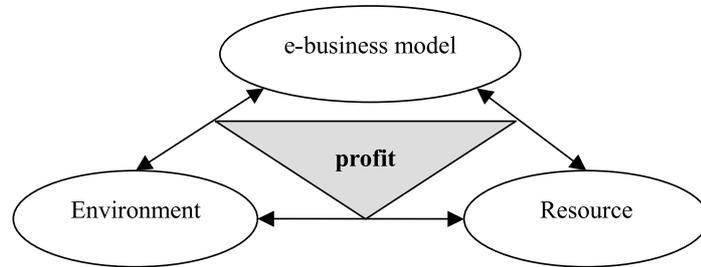


Fig. 1 A framework for e-business model

goal for all enterprises. 7-Eleven Taiwan as a e-service mode and the 7-Eleven Japan as e-distributor mode have sought the growing chance of the enterprises. As shown in table 2. E-distributor, 7dream.com in Japan, has purposes to the long-term growth opportunity and profitability. The main revenue comes from the sale net profits. E-service, 7eshop.com.com, integrated variously of experienced e-tailers on the web to provide customer-oriented service and distribution efficiencies. E-service is also one-stop shopping and can be the initial mode for retailer to future of e-commerce under the ongoing cash flow. Most physical businesses wouldn't be able to make money on penny transactions; but e-service integrates the sheer volume of activity and gathers millions of them, then e-service gets a business.

## Conclusion

In this paper, we have acquired some useful knowledge of the future management of convenience store because of the continuity between the past and the future. Given the growing role that e-commerce plays in the convenience store market, this paper focuses on how the Internet is affecting the market, and how the resulting e-business compares to its conventional market in terms of management modes.

There are many differences on the societies and the competitive environments between Japan and Taiwan. The rich resources and the cutting-edge information technology that 7-Eleven Japan has built up its ability

to cultivate in the e-commerce deeply. As for 7-Eleven Taiwan, from the "second to best" philosophy on its way of growth in the past, until now on its way of active innovation, at first, it is done through internal development with the new division. Later on, when there were enough experiences and resources accumulated, it operates in the form of the subsidiary. Thus, currently, it seeks no transfer of the main core competitiveness, however, on the other hand, to strengthen its core competitiveness. This kind of strategic choice achieves the goal of the differentiation and the growth of the enterprises as well.

The high-density store network provided by the convenience store release time and space restricts on the pay and pickup. In terms of the logistics flow, the complete logistics system of normal temperature, frozen temperature as well as culture merchandises have contributed to the great competitive advantage on the "last mile" service quality in terms of the delivery of the items. In terms of the information flow, cutting-edge information appliances can lower down the cost on information processing in the e-commerce. With the operation of the e-commerce, it can strengthen the existing information appliances. When it comes to the payment issue, which is, what the consumers concerned most, the brand equity of the convenience store provides the most secure guarantee. All in all, they have built up the fundamental resources required for convenience stores to operate in the future e-commerce.

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### Notes

1. Cornish (2004, pp. 22-26) present six possible supertrends shaping our futures. There are supertrend one: technological progress, two: economic growth, three: improving health, four: increasing mobility, five: environmental decline, and six: increasing deculturation.

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Table 1 A comparison between e-distributor and e-service model e-model

e-model		7-Eleven Japan (e-distributor)	7-Eleven Taiwan (e-service)
Factors	Market Scale	The large domestic demand can support the large cost invested in the beginning of the operation	The Taiwan market can not yet support the high cost of the IT investment
	Social Environment	The consumers are apt to get connected on the internet by means of mobile phones. A market that combines the mobile business and electronic business has a bright, unlimited future. It is estimated that in the future, the market scale will be as big enough as to support a company as an independent one.	Although the e-commerce market is growing little by little, yet, the development of the mobile business market is not yet mature enough, thus not a big enough market.
M E N T	Competitive Environment	The Top 3 convenience store system in Japan (7-Eleven, Lawson, FamilyMart) have developed their online shopping company, stepped into the operation of the e-commerce market	The four convenience store systems in Taiwan (FamilyMart, Hi-Life, OK, and Niko Mart) have joint ventured to set up the CVS System in October 2000, to provide the Internet financing and logistics service, in order to compete with the 7eshop set up by 7-Eleven Taiwan.
	Capital	With the scale of more than 9,000 stores, it has more resources and capital.	Compared with 7-Eleven Japan, it has less resources and capital.
R E S O U R C E	Ability of Skill (Hardware)	With more than 9,000 stores, under the support of the large scale, it has advanced information appliances, as well as the manage skill, thus can manage the complicated transaction flow of the shopping website properly.	Although it already has the complete information appliances. However, further large amount of capital will be needed in order to apply them on the proper managing of the transaction flow on the shopping website.
	Ability of Operation and Management (Software)	It is earlier for 7-Eleven in Japan to have connection with the electronic business (It started its investment plan in August 1999.) It has richer know-how on the operation and management of the e-commerce.	Stepped into the e-commerce market until February 2000. It has not yet enough the understanding of the market, the skills of the operation and management is insufficient.

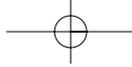
Source: Summary of the study.

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Table 2 Basic Goal Differences in E-distributor and E-service

Subject	E-distributor	E-service
Priority	Profitability	Value-added service
Time perspective	Long-term orientation	Short-term orientation
Form of earnings	Net profits	Percent of sales and service fee

Source: Summary of the study.



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