

SEJ's SWOT Analysis and Innovations of the Lean Supply Chain

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Abstract— Seven-Eleven Japan (SEJ), which is a member of the Seven & Ito-Yokado Group, is the largest and most profitable convenience store chain in Japan, with a total number of 19,970 stores in Japan since November, 2017. SEJ has owned a number of global stores exceeding 63,745 since September, 2017. This paper attempts to explore the lean supply chain management and success factors with a SWOT analysis for SEJ.

Index Terms—Innovation, Lean Supply Chain, SEJ, SWOT

I. INTRODUCTION

Seven-Eleven Japan (SEJ) has had great success in the retailing field in recent decades. In order to compete with SEJ, many competitors imitate and research SEJ's supply chain management. To some extent, SEJ has become a benchmark for the Japanese retailing industry. More and more competitors flock to learn SEJ's experiences and business model. To maintain its current status, SEJ has to implement a set of innovative projects (Matsuo & Ogawa, 2007). On November 20, 1973, SEJ was established and became a member of the Seven & I Group. SEJ opened its first convenience store in Koto-ku, Tokyo in May 1974. In the 1990s, Japan suffered economic depression, but the convenience store field was one of few areas that continued to grow in that period of time. SEJ achieved significant growth between 1985 and 2007. During this period of time, SEJ's stores rose from 2,299 to 12,034 and the annual sales increased from 386 to 2,574 billion yen. The net income increased from 9 to 91.5 billion yen. In 2004, SEJ became Japan's largest retailer in terms of operating income and number of stores (Corporate Profile, 2017).

In the Japanese retailing market, there is a prevalent trend that powerful players merge with weaker players. In 2004, Japan's convenience store area was dominated by 10 top convenience store chains because they accounted for roughly 90 percent of market share. As those powerful players improved their supply chain's responsiveness and efficiency, they could achieve economies of scale. This is an outstanding advantage for powerful players, so it's hard for

the weaker players to compete with them (Chopra and Meindl, 2012).

By February, 2016, SEJ's capital was 17,200 million yen with 8,054 employees, and its net income was 162,910 million yen, with 18,572 stores in Japan, comprising more than 30% of the entire world's total number of stores. As of September, 2017, SEJ owns more than 63,745 stores in the world. At the same time, SEJ has an advanced and effective supply chain in the world. It helps SEJ achieve a competitive edge in the retail industry. In Japan, SEJ currently owns about 19,970 stores. In the United States, there are about 8,408 stores. Moreover, SEJ entered China's market since 2004, and more than 2,484 stores were established by September, 2017 (Corporate Profile, 2017). SEJ has been consistently ranked in Entrepreneur's Franchise 500, being ranked No.1 in 2017. In addition, SEJ was ranked No. 6 in Entrepreneur's 2017 Fastest Growing Franchises. SEJ has maintained the top position in convenience stores in Japan since 1974.

II. SEJ'S SWOT ANALYSIS AND INNOVATIONS

A. Strengths

According to MarketLine's data (2014), SEJ has three strengths. First, its huge network of subsidiaries across major retail markets. Currently, SEJ has operations in 16 countries and regions with 63,745 stores. The company has run 19,970 retail stores across Japan as of November, 2017. Most of the stores were located in the Tokyo region with 2,580 stores and in the Kanagawa region with 1,392 stores. In the US, SEJ operated about 8,408 stores as of September, 2017, and in China, SEJ operated about 2,484 stores. Its huge geographic network across major markets helps SEJ decrease economic risks of foreign exchange. Moreover, SEJ is establishing a big global consumer base to enhance its business profit.

Second, its consistent and rapid business growth. SEJ has been experiencing rapid business growth on a consistent basis both in terms of number of stores as well as business revenues. For example, the total number of stores in Japan increased from 12,298 in 2009 to 19,970 in 2017. Its unique business model aims at providing greater convenience to customers in terms of location and its huge store network formed a competitive advantage. Moreover, even in shrinking markets, SEJ experienced rapid growth of store sales. SEJ's store sales increased from 2,784.9 billion yen in 2009 to 4,515.6 billion yen in 2016. In the fiscal year of 2013, SEJ

reported a total operating revenue of 617,559 million yen, an increase of 7.2% over that of 2012. Such a consistent and rapid revenue growth has enabled SEJ to keep profitability in the current economic slowdown by managing its supply chain efficiently. For example, SEJ reported an operating income of 186,763 million yen in 2013, an increase of 2% over that of 2012.

Third, its lean multi-channel retailing. SEJ sells its commodities and services through multi channels. The company not only owns its stores, but also franchises its stores. SEJ also conducts E-business on the internet, and sells its products through online channels. By this lean multi-channel approach, the same product and service line can be offered to many customers, and this approach can also meet different customers' needs and enhance SEJ's profits.

B. Weaknesses

SEJ has two weaknesses: First, its business restrictive policy may be detrimental to the franchisee growth. As SEJ's business restrictive policy violated Japanese anti-monopoly law, the Japan Fair Trade Commission issued a notice to SEJ to cease the policy, for SEJ had issued a notice to its franchisees that if they resorted to discounting of the food products, the franchise contracts would be terminated. After investigations, the Japanese Fair Trade Commission issued a cease and desist order to SEJ. The order indicated that SEJ should, with immediate effect, terminate such a policy, although SEJ claimed that it had to use the policy to protect its stores from price wars. This resulted in heavy losses for the franchisees as they couldn't sell food products beyond a certain point, forcing them to incur losses. Such a policy was bad for SEJ's reputation. It might affect the number of managers seeking franchisees and discourage prospective franchisees as well.

Second, its private ownership status may limit the company's financing options. Although it has achieved great achievements as a private firm, SEJ could meet problems in funding its growth because of its ownership status. SEJ is in a disadvantageous position as compared to publicly-owned companies in terms of raising capital. The publicly-owned firms possess a greater financial flexibility in funding organic and inorganic initiatives. The publicly-owned firms with better access to capital markets can fund acquisitions through stock transactions, while SEJ's private ownership restricts its financing options.

C. Opportunities

SEJ has two opportunities: First, the promising prospect of the retail market in China. It is known that China has been developing its economy rapidly since 1978 and has maintained a steady development in the retail sector. According to the National Bureau of Statistics of China's figures, by June 2017, the Chinese total retail sales of consumer goods broke 2,980.8 billion RMB Yuan (about US\$ 451.6 billion), up by 11.0% over 2016. From January

2017 to June, 2017, the total retail sales of consumer goods reached 17 trillion Yuan (about US\$ 2.5 trillion), a yearly increase of 10.4%. It was estimated that China's retail sales would increase from 33.23 trillion Yuan (about US\$ 5.1 trillion) in 2016 to 40.20 trillion Yuan (about US\$6.1 trillion) in 2018, which means an increase of approximately 10.1%. The rapid urbanization that is leading to higher disposable income, and the increase in the number of middle class families, are the main factors contributing to the steady increase in the Chinese retail sector. Moreover, SEJ has developed rapidly in China, with a total store number of 2,484 as of September, 2017. As the Japanese market is now a mature market, SEJ should expand its chain stores further in China.

Second, the aging Japanese population can help SEJ's growth in home delivery services. According to a United Nations' report of World Population Aging, Japan was ranked number one in the world by percentage of population aged 65 or over, for it had the fastest aging population with median age of 45. In 2010, more than half of the Japanese population was older than 45, and its median age is estimated to rise to 53 in 2050. By 2050, the Japanese old-age dependency ratio will be 72, which is the highest level of old-age dependency in the world. In view of this fact, it will be hard for the elderly to carry heavy shopping bags and travel a long distance for shopping. So SEJ has provided its customers with home-delivery services like Seven AnshinOtodokebin and Seven RakurakuOtodokebin. They are mobile retail businesses which use specially designed vehicles that carry commodities to various communities in Japan, and deliver purchased goods to the customer's home and/ or offices using environmental-friendly super-compact electric vehicles. Therefore, the Japanese aging population's demand for the home delivery services could push SEJ's business growth (MarkeLine, 2014).

D. Threats to SEJ

1) Competition From Foreign Retailers

SEJ's market share and profit margins may be influenced when international companies enter into the Japanese retail market. As online shopping is very popular in recent years, it provides a business opportunity for foreign companies such as Wal-Mart and IKEA to increase their market shares. For instance, Wal-Mart sells discount clothing and food, and it's very attractive for many Japanese families. IKEA provides low cost furniture and plans to build its sixth store in Japan. Accompanying the growth of foreign retailers, competition has become intensive in recent years in the Japanese retail market. Undoubtedly, SEJ will be affected by this trend as well (Canadean Company Reports, 2014).

2) Labor Shortage In Japan

Based on a survey by the International Labor Organization, the working age population in Japan that ranges from 15 to 64 years old has declined from 87 million in 1995 to 81 million in 2010, and is estimated to reach 57 million by 2050. This means that for every 10 working age people in Japan, there will be seven people of retirement age in 2050, decreasing from one in 1950 and three in 2008. Aging population has become an issue for Japan's companies. When the availability of labor is so low that some companies cannot recruit enough workers, it may pose a challenge to SEJ as well (Canadean Company Reports, 2014).

3) Increase In Counterfeit Products

SEJ's sales may be affected due to the huge influx of counterfeit products from foreign countries. These counterfeit products could lower SEJ's market performance and profit margins. SEJ's sales of branded and genuine products are also impacted by the low price offerings and imitated goods. So SEJ will have to respond to this challenge to keep its market share and profits as well (Canadean Company Reports, 2014).

4) SEJ's Competitors

In terms of sales, number of stores and net income, SEJ has become the largest convenience store chain in Japan. Its main competitors are Lawson, C&S, Family mart, and Ministop. The above-mentioned companies account for about 90% market share. SEJ's rivals also own their own supply chain, and they also increased their investments on E-commerce. For example, in 1997, Lawson started to install multimedia terminals in stores in order to obtain first mover advantages. This new initiative for E-commerce was achieved successfully with total billing at 40 billion yen. It was a big challenge for other competitors who had a decline in profitability (Nagayama and Weill, 2004). Therefore, in order to compete effectively, SEJ has to continue to make innovations in supply chain management to keep its business advantages.

E. SEJ'S Innovations

SEJ achieved great success in the Japanese market due to many factors. Although its rivals also realized a big growth such as Family Mart and Lawson, SEJ still kept some advantages over other retail chains. During the development of its supply chain, SEJ paid much attention to innovations in most areas. No matter the product items or distribution system, SEJ can find a better approach to meet the market needs.

Nowadays, more and more convenience store chains realized that developing their own goods is very important to compete with others. Through cooperating with some manufacturers, SEJ sells some items which can only be

bought at its stores. These kinds of items are called "original products". Meanwhile, the supply chain of products and sales process are innovated by SEJ. Moreover, SEJ works hard to reduce the Stock Keeping Units (SKUs) to increase the efficiency of the supply chain and decrease the complexity (Matsuo & Ogawa, 2007).

Based on the former analysis, SEJ replaces its items quickly to meet consumers' needs. In other words, consumers can obtain the latest items from SEJ's shelf. Because of this frequent replacement of items, the consumers may ignore that SEJ's store has reduced SKUs. This approach enables SEJ to increase its sales effectively because hot items can be sold more quickly and slow-moving goods will be replaced by new items.

1) Example of sales innovation in SEJ

Coca-Cola (Japan) Co. Ltd. dominated the Japanese beverage market, with a market share of about 35% since 1990 to 2002. By contrast, Ito En was a relatively new entrant for the beverage area. Its market share grew from 1% in 1990 to 9% in 2002. This company's main product was named Ooi-ocha and was a kind of green tea in a plastic bottle. Ooi-ocha has many variations called "Ooi-ocha something." In other words, there are many versions of Ooi-ocha. Although it is not SEJ's original product, it is sold in a lot of convenience stores and supermarkets due to its various versions (Matsuo & Ogawa, 2007).

To meet contemporary customers' needs, SEJ has been continuously developing its original products, and its original products have become magnets for SEJ. Now, SEJ's original product line-up has been expanded. By collaborating with Japan's leading national brand manufacturers, SEJ has been developing a stream of unique products (Corporate Profile, 2017).

III. CONCLUSIONS

There are many factors that contributed to the success of SEJ. Its experiences and supply chain management had a great influence on the whole retail industry. Furthermore, SEJ's suppliers and distributors were affected significantly under SEJ's supply chain management. To some extent, SEJ's partners also obtained much benefit from SEJ's supply chain. Through the constant improvements on the management and ongoing innovations, SEJ established its own distribution, logistics and information system. This is why SEJ could obtain a competitive edge compared with its rivals. Moreover, SEJ's inventory control system and outsourcing policy helped SEJ reduce the operational cost significantly and increased the responsiveness and efficiency.

Through the dominance opening strategy, SEJ has obtained obvious competitive advantages in designated sales areas. The merit for this strategy is that SEJ could decrease operational cost and make profit rapidly. In addition, SEJ's franchise network helped SEJ beat many larger supermarkets

and department stores. This is the reason why SEJ ranked Number 1 in the Japanese retail industry.

Based on the specific market condition, SEJ took flexible business tactics that could cater to the native consumers effectively. This is another practice that deserves us to notice. Although many retailing companies emphasized that business tactics should be flexible, SEJ is the most outstanding for its flexible business and operational strategies. Nowadays, the retailing industry has entered into an information age, more and more consumers would like to go shopping online. In order to respond this prevailing trend, SEJ implemented a series of strategies to improve its logistics system. Depending on its huge network, SEJ obtained advantages in the online shopping area, for the consumers could order their commodities on SEJ's website, and then pay for their orders in any of SEJ's stores. As the convenience stores are a prevailing business model in Japan, no matter where you live, you can find a convenience store. Therefore, this business model is very convenient and practical for consumers in Japan.

Through the various innovations and reforms, SEJ realized great achievements in the retail industry especially in the Japanese market. Its advanced supply chain helped the company obtain a competitive edge compared with its rivals. During the development of SEJ, its distribution system with a combined delivery system enabled the company to reduce the lead time and transportation costs. Meanwhile, the efficiency was increased significantly. Moreover, through providing new items continuously, SEJ kept its items fresh for consumers, although this strategy was imitated by its competitors.

With the help of new information technology, SEJ provides an online shopping service for its consumers. But the service content is a little different from traditional ones. Since SEJ took the dominate strategy in the Japanese market, the consumers could pick up their items in nearby SEJ stores. It is very convenient for the local consumers due to the density of the stores. So SEJ utilized this advantage to build its own online shopping network. Admittedly, this approach reduced the operational costs and increased the efficiency.

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