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QANT 610 – OPERATIONS MANAGEMENT

A2: SEVEN ELEVEN JAPAN CO – SUPPLY CHAIN MANAGMENET

CASE STUDY

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**1. Abstract**

In today’s competitive world in the consumer goods, the manufacturers strive for their products to reach final customers before they turn their heads to the rival’s ones. This research attempts to understand and investigate how 7-Eleven company manages its supply chain activities, distribution network and applying information technology to achieve competitive advantages.

The purpose of case study is to analyze the various strategies adopted by Seven Eleven and the way Seven Eleven manages and operates its retail convenience business focusing on several aspects which support 7-Eleven’s activities especially distribution networks, strategic outlook and information system and how they contribute to competitive advantages. The case also addresses the various challenges encountered by seven eleven and their innovative business model to be a successful and more competitive in retail industry.

**2. Introduction to Seven Eleven**

Japan’s largest convenience store chain, was established in 1973 by Masatoshi Ito. Seven Eleven has been a strongly recognized brand in the industry due to a number of contributing factors. Its strategy was to differentiate his company in the areas of distribution and information systems. Having an effective and efficient way of utilizing these systems is what allowed the company to grow and become a major player in the market. Following a market-dominance strategy, Seven Eleven developed a franchise system in which responsibilities were divided between the company and third parties. This enabled a rapid growth rate and a high dominance in the market, which consequently increased distribution efficiency, and also created a high barrier of entry into the market.

Along with this success, the company inevitably faced a number of challenges and complications. In expanding to new regions, they faced the challenge of having to cater specifically to each local market they operate in. This required a broad understanding and examination of the market’s demands.

Seven Eleven later expanded the variety of services they offer in their stores; the goal was to make it a one-stop shop. These services included ATM installation, as well as enabling customers to pay their bills in the store. In the year 2000, Seven-Eleven set-up an e-commerce company, 7dream.com.

The company has been consistently adapting and utilizing change to their advantage.

**3. Seven Eleven Supply chain Strategy**

Seven-Eleven Japan is adapting the Keiretsu network strategy to manage its supply chain. The approach being used is the market-dominance strategy in their supply chain which focuses more on micro-matching the demand where Seven-Eleven Japan already exist. The clustering concept in the market-dominance strategy in Seven-Eleven Japan allowed the company to achieve six advantages that are:

1- Boosted distribution efficiency

2- Improved brand awareness

3- Increased system efficiency

4- Enhanced efficiency of franchise support

5- Improved advertising effectiveness

6- Prevented competitors’ entrance into the dominant area

**4. Supplier Managment**

Following Keiretsu networking in their supply-chain, Seven-Eleven Japan was managing its franchise system through a strict acceptance procedure as well as a set of shared responsibilities that involved training the shop owner, paying for system operations and utility costs. On the other hand, Seven-Eleven Japan is expecting the franchise owner to operate and manage the store, hire and pay staff, order supplies and provide customer service.

In addition to that, 7-eleven Japan also controlled the stores in both area and layout ensuring each store will have sufficient stocks to cater for local demands.

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**5. Information Management System**

Creating a solid infrastructure is what enabled the company to gain competitive advantage in terms of supply chain management. Firstly, all supply chain members are linked through the company’s total information system. Second, having all inventories at one place can be beneficial when sorting out deliveries. The distribution center divides the inventory based on temperature, and allocates it to the suitable temperature-controlled truck. This helped cut transportation costs since it decreased the number of trucks required daily. This is referred to as the Combined Delivery System. The area dominance strategy makes it easier for an aggregation of deliveries that can be delivered in one trip to multiple stores. “Since Japan’s geographic regions are heterogeneous in weather, events, economic situations, demographics and industrial composition, collecting a small sample of POS data from each region would not reveal meaningful demand patterns. By contrast, the Dominant Opening Strategy allows SEJ to extract enough data from each small homogenous area to detect significant demand patterns, and finally develop a consistent plan applicable to all stores in the area.” (Terry P. Harrison, 2006)

Integrating product sourcing, sorting and distribution is an essential factor in making this system gain economies of scale in logistics.

Since each component this chain is connected and closely knit, elements tend to be reliant on one another. While integration has been proven to work successfully for the company, it can also become a setback in some cases. If one component fails, this will create a domino effect and cause the entire network to collapse. Therefore, while keeping in mind the advantages this system has t offer it also has its downsides. Also, cooperation between members is vital in data-rich supply chain management.

The POS system is helpful in creating an analysis that can be referred back to by store managers while making orders. This system generates constructive feedback for continuous improvement.

All components mentioned above aim in creating the closest match between the company’s demand and supply.

**6. Analysis of Business Issues**

*A convenient store chain attempts to be responsive and provide customers what they need, when they need it, where they need it. What are some different ways that a convenient store supply chain can be responsive? What are some risks in each case?*

Looking at the attempt to be responsive, Seven-Eleven is a good example of that being able to do so by their variety of products and the intensive distribution of their stores which are equipment which best in class IT system cater for replenishing their stocks (SKU’s). However, the associated risk to that is basically to do with having all of these operations exist as long as the consumer is available. If a bulky demand i.e. a company leaves the area, then an operation or two in Seven-Eleven ideally will find it difficult to overcome the gap.

*Seven Eleven’s supply chain strategy in Japan can be described as attempting to micro-match supply and demand using Rapid replenishment. What are some risks associated with this choice?*

I believe this micro-matching approach is to avoid any stock-out issue caused in the occasion of having up-normal purchases of let’s say one item by irregular consumers in which will impact the regular consumers to lack this item. Seven-Eleven assumes this will affect negatively their customer service quality. Another reason could be to avoid last minute surprises i.e. delay in arriving stocks caused by transportation getting jammed in traffic.

*What has seven eleven done in its choice of facility location, inventory management, transportation, and information infrastructure to develop capabilities that support its supply chain strategy in Japan?*

Following the area dominance strategy, stores are densely located in specific areas, which are a great advantage in terms cutting on transportation costs; it also contributes to rapid replenishment. Having a distribution center creates a centralized structure in order to facilitate an efficient distribution network.

The total information system is closely linked to the POS system; store managers use the graphic order terminal to place orders, and using previous POS analyses determine the demand level of a particular item. By doing that, the company avoids bearing costs of obsolete inventory. The company has created an infrastructure in which the elements are closely linked to create an efficient and well-functioning system.

*Seven Eleven does not allow direct store delivery in Japan, with all products following through its distribution center. What benefit does seven eleven derive from this policy? When is direct store delivery more appropriate?*

*Direct store delivery (DSD) would lower the utilization of the outbound trucks from the Seven-Eleven DC. It would also increase the receiving costs at the stores because of the increased deliveries. Thus, Seven-Eleven forces all suppliers to come in through the DC. DSD is most appropriate when stores are large and nearly-full truck load quantities are coming from a supplier to a store. This was the case, for example, in large U.S. Home Depot stores. For smaller stores it is almost always beneficial to have an intermediate aggregation point to lower the cost of freight. In fact, Home Depot itself is setting up these intermediate facilities for its new stores that are often smaller.*

*What do you think about the 7dream concept for seven eleven Japan? From a supply chain perspective is it likely to be more successful in Japan or the United States? Why?*

The 7dream concept is more suited for Japan than the United States. It is also a great way to maximize the benefit of the existing distribution network. Deliveries can be taken along with the usual deliveries to a specific store. Considering the frequency of customer visits in Seven-Eleven Japan, storage should not be an issue. Since the distribution structure and the store density in the United States is different, this concept might not function as well as it would in Japan. This is due to cultural and lifestyle differences in each economy.

*Seven Eleven is attempting to duplicate their successful Japanese supply chain structure in the United States with the introduction of CDCS. What are the pros and cons of this approach? Keep in mind that stores are also replenished by wholesalers and DSD by manufacturers.*

Seven Eleven stores in U.S. is much lower density when compared to Japan and also it is compounded by the fact that seven eleven stores are getting both direct store deliveries as well as wholesaler deliveries to its stores and thus setting up its own DCs doesn’t allow seven eleven to get the same level of transportation aggregation as it gets in Japan. Its own distribution system would help more if all wholesaler deliveries and direct store deliveries were stopped and routed through the DC. Even then, having its own distribution system would add much less value than in Japan given the lower density of stores and larger distance between stores*.* Pros:  Ensure Fresh supply of items and Operational efficiency Cons: Wholesalers may have issues because of these distribution centers  Manufacturers may prefer direct store delivery as they have more control here

*The United States has food service distributors like Mclane that also replenish convenient stores. What are the pros and cons to having a distributor replenish convenience stores versus a company like Seven eleven managing its own distribution function?*

One can contend that a distributor brings much more value to the table in the United States relative to Japan. Given the lower density of stores, a distributor is able to aggregate deliveries across many competing stores. This allows a distributor to reach levels of aggregation that cannot be achieved by a single chain such as Seven-Eleven. The big disadvantage to having all deliveries done through a distributor is that Seven-Eleven is unable to exploit having a large number of stores. In fact, it may be argued that going through the distributor has Seven-Eleven subsidize deliveries to competing smaller chains that may also be using the same distributor*.*

**7. Analysis of Opportunities and Impact on Management Strategy**

Information system played vital role for Seven eleven employees to collect and analyze data with intelligent tools in order to measure the local store performance and to facilitate the business strategies across all location, store managers uses digital capabilities to enhance the existing roles & responsibilities.

Managers and employees at individual stores are requested to monitor customer behavior, uncover trends in historical sales data, and even assess weather forecasts for possible insight in order to use these data to drive inventory management utilizing Retail Information System (RIS) and managers receive regular feedback concerning the outcome of his or her respective decision-making.The process helps to reinforce store managers’ decision-making abilities and, at times, can lead to one-on-one counseling for a greater understanding of inventory strategies.

The technologies like POS (Point of Sale), touch screen system has improved collaboration between leadership and store managers in allowing employees to analyze customer activity instead of facilitating backroom tasks and provided greater insight on the popularity of products and to determine product ran out of stock ahead of time.

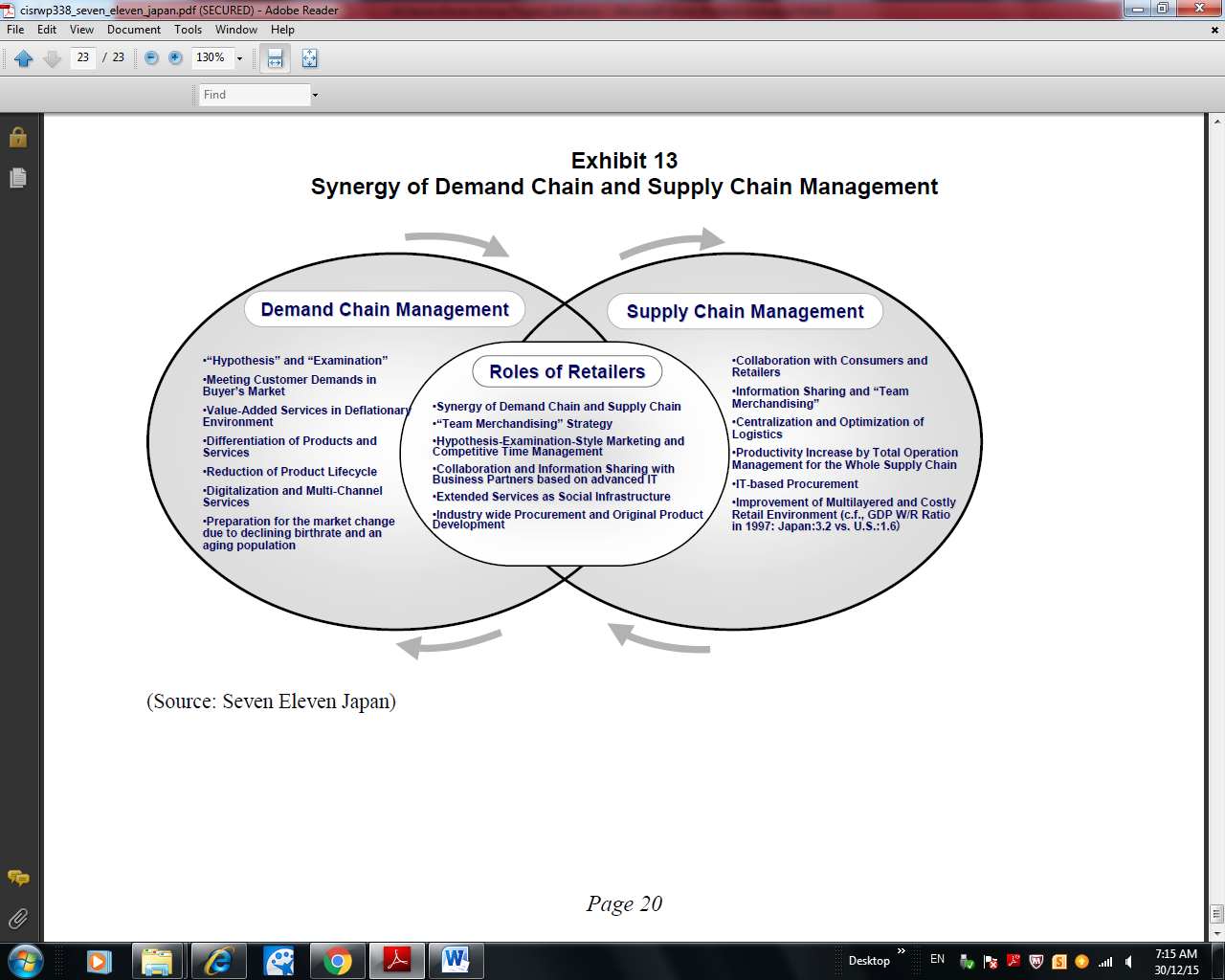
Seven eleven is emphasizing on the doctrines of “Forecasting, not ordering” by involving their employees and managers with the help of field consultants to forecast the needs of customer requirement based on current conditions and also it shares the shopping cart level data with suppliers and distributors to determine what to stock and supply to local Seven Eleven stores by the distributors.

Seven eleven depends on individual stores to analyze the preferences of customers and act on them by the theme of “what customers’ needs before they need it. This process is facilitated by managers and employees that understand the customers on a first person basis as well as technology that provide information that can only be gathered by workers placed in local convenience stores.

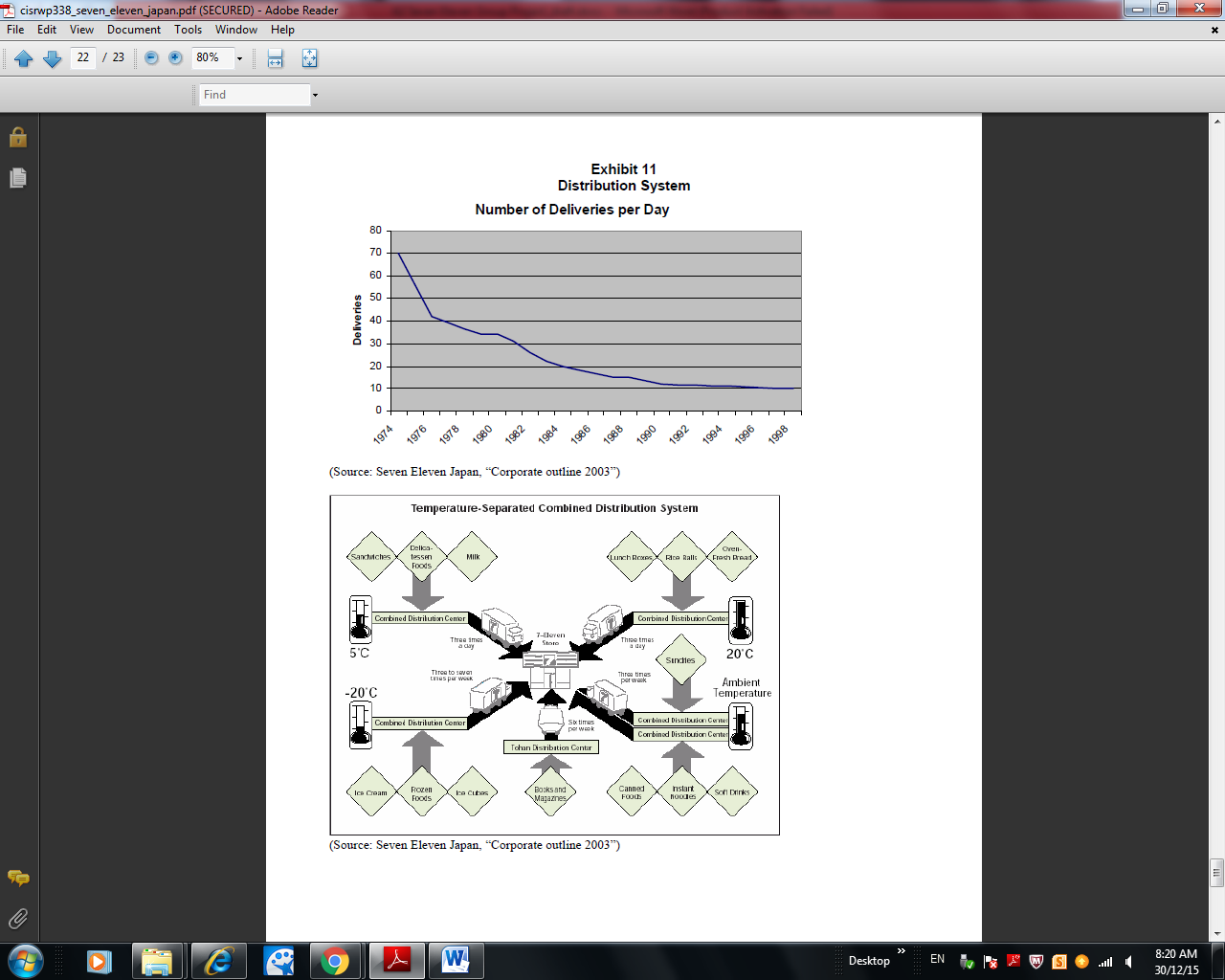
**8. Evaluation of SCM Principles**

The combination of demand chain and supply chain management with the common platform: while supply chain management (SCM) is based on the improvement of efficiency and productivity, demand chain management (DCM) is more proactive method to stimulate potential customer’s demands by offering differential products and services in the multi-channel mix. SEJ pursues the synergy of both chain managements to satisfy customer demands as well as achieve co-prosperity with suppliers, believing that the fundamental role of retailers is to link the demands of customers and suppliers by developing and providing reasonable and high quality products ( as stated below fig).

The distribution systems of Seven-Eleven were re-engineered and the Combined Distribution Centers have been introduced by the company to better manage the flow of products into the stores. There has been useful advantage of Seven-Eleven upon CDC and DSD as the centers allow smoothing of distribution operation to the stores and the provision of better quality and better information on supply and deliveries is available and there was control of the supply chain as achieved.



Since 1976, SEJ has been developing a streamlined distribution system to efficiently integrate product supplies. The company established the combined delivery system, whereby the same kind of products coming from different suppliers can be centralized in to 223 combined delivery centers (CDC’s). The combined distribution system allows products from different suppliers to be loaded on the same trucks for delivery to Seven Eleven stores. Combined distribution consolidates product shipment from manufacturers to store at similar optimum temperatures. In 22 years, SEJ has reduced the average number of vehicles visiting each store from 70 a day in 1975 to ten a day in 1998 (as stated below diagram). This effort contributes not only to the efficiency of delivery but also reduces truck emissions and traffic congestion.



**9. Conclusion**

This thesis aims to explore and describe how 7-Eleven managed and operated its retail convenience business in several aspects, strategic synergies, distribution network and Information Management system, which support the 7-Eleven’s activities and how they contribute the competitive advantages to the firm as mention in the purpose. The case study is employed to give an example of a retail convenience store business and its operation linkages, internally and externally.

The case study concluded that by applying the synchronized strategies between the supply chain network with manufactures / suppliers and innovative business model leads to supply chain benefits and competitive advantage for retail firm. The applications of information Management system and Distribution Centers enhance supply chain capabilities, reliability, and dependability which result in better service and market performance. They are also the keys that facilitate the operations of supply chain and retail store.

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