7-Eleven Is Reinventing Its $17B Food Business to Be More Japanese | WSJ The Economics Of

youtube

Rice balls. Look at that. Michelin-type of ramen.
Collaborations with famous restaurants like Santouka. Milk tea.

This is 7-Eleven *in Japan*.
But *in the US*, the company is *more* known for Slurpees and hot dogs (than -).
It's just not *as* appealing (as 7-Eleven in Japan).
My perception is people go in there when they need to.
↑(that) ↑?
The world's largest convenience store chain has over 13,000 locations *in North America* alone
and made over $72 billion *in sales* / *last year*.

But *now*, it's working to bring more Japanese inspiration to its American stores.
Convenience stores have historically **made their money** (by) selling tobacco and gas.

But *now*, as cigarette sales continue to decline and many expect gas sales to slow,
many are racing to find other sources of revenue and **doubling down** on **food**.
But **shifting** a business this massive is **a major undertaking**.
↑(that is)
This is the economics of 7-Eleven.
7-Eleven started as an American company,
but it went bankrupt, twice.
Once *in 1932 during the Great Depression*, and again *in 1990* as it struggled with debts.

7-Eleven is *now* owned by a Japanese company, Seven & I Holdings.
A majority stake was bought by Ito Yokado, a Japanese supermarket chain that had been operating 7-Eleven stores *in Japan* /*for more than a decade*.

From the beginning, the Japanese owners said (that) American 7-Eleven, both its central operations and its franchises, had a lot of catching up to do.

The Japanese model was a lot more **data driven**.
They would pour over / what sold well *at what time of day*,
break it down by gender and age,
and use that to inform their next order decisions.

The American system just wasn't as sophisticated as that.

There were some major differences *between US and Japanese 7-Elevens*.
The US stores were typically larger
and attached to gas stations.

The Japanese stores didn't sell gas,
but had a much wider array of **fresh food**.

Japanese stores only stocked items that would sell quickly.
They had a proprietary distribution system that made multiple shipments to stores *every day*.
Orders were customized by store based on sales data, demographic trends, and local weather forecasts.

American 7-Eleven stores were getting two deliveries *per week*,
and some items were never being purchased.
When American operators began counting items in their stores, some found that 40% of their products were selling less than one unit *per month*.

Now American 7-Eleven has its own distribution system where franchises place orders *every day* based on company recommendations of what's selling nationally and regionally and their own store **data**.

They're making decisions *every single day* on what they're going to order based on what (they understand) the customer wants to purchase, what new items are going to be made available.

?↑

(they will make what new items available → what new items will be made available by them)

One of the most interesting lessons that we learned from 7-Eleven Japan is their approach to operations and to retailing, which they call tanpin kanri.

(One is their approach / they call it **tanpin kanri**

One is their approach, which they call tanpin kanri)

And tanpin kanri is basically this idea that we **localize** our assortment to the **needs** of customers.

(The idea is that you sit *here*, put your legs *under*, and there's also an heater going *here* so that your feet get nice and warm.)

We actually help our stores (to) localize their assortment
so that they have the right balance of a consistent assortment of products that consumers and customers would expect to see nationally, as well as items in the assortment that are perfectly appropriate for a given store's location.

This is especially **important** *when it comes to **food***.
Seven Eleven Japan is known for its wide array of meal options.
You're not gonna believe the choice of **food** *in a convenience store*.

American 7-Eleven also has a big food and beverage business.
In total, it sold over $17 billion of food *last year*, about 24% of its overall sales.
That included 315 million cups of coffee, 153 million Slurpees, and 99 million slices of pizza.

But *next year*, it hopes to make one third of its sales from store brand goods, including food up from less than one quarter *in 2022*.
That's particularly important, given **shifts** *in the convenience store industry*.

So if you think about what convenient stores sell, there's fuel, there's tobacco products, and there's food and snacks.

Gas is already a low margin business
and it's at risk *long-term* if electric vehicle adoption increases *over time*. (adapt / adopt)
Tobacco (is) very profitable,
but people are smoking less.

Food, though, is a category where demand just isn't going away.
So for convenience stores, it makes sense that they would wanna **double down** *on **that***.
7-Eleven, it currently has 17 so-called Commissaries *around the country* that make food for all of its US locations.
Now it's working on upgrading them.

It's partnering with Warabeya, a supplier for Seven Eleven Japan, to spearhead the effort.
Warabeya's new factories *in Hawaii, Texas, and Virginia* can make a wider and more localized range of **food** than 7-Eleven has been able to stock *in the past*.

Things like being able to cook rice en masse, new protein capabilities, all which helps 7-Eleven (to) introduce new types of products *in the **food** area* to our customers.

We recently launched a product that's a spicy miso ramen soup, not something (that) you would typically think about being sold *at a 7-Eleven*.

It's adding a lot of items to its menu.
The main question is how many customers will buy them.
And this is (the place) where **data** comes into the question.

When customers come *into our stores*, they're *in an immediate consumption mindset*.
Capitalizing *on this* is a key priority for the company, and it plans to use its massive data operation to do it.

American 7-Elevens monitor daily sales,
and for loyalty members, they collect demographic information on who's buying what.
The company's loyalty program has 95 million members.

Building on that, the company's investing *in targeted advertising /on screens and TVs /throughout stores*.
That's to spur impulse buys.

It helps not only 7-Eleven, but also our advertisers, our vendors, to target our customers *at the point of purchase*.

So for example, *in the morning*, we may target our customers with a message around a hot cup of coffee and a donut.
Whereas *later in the day*, we may target our customers with an advertisement that's around a snack and a beverage from our cold vault.

And for potential customers who aren't *at the store*, there's **delivery**, (which is) the fastest growing part of the company's business.
It's highly profitable for the company since delivery orders tend to be for about double the amount of in-store purchases.

How the brand's grown *for nearly a hundred years* starts with what's the customer want, *where* ~~do~~ we think they're going, and how ~~do~~ we meet them *where they're going*.

A big question is whether American customers will match the **enthusiasm** (that) 7-Eleven sees *in some of its other markets*.

In Asia, I think there is so much **excitement** *around convenience stores* and *the types* of food and snacks (that) they offer. So if they can bring even a little bit of that **excitement** to the US,