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A study on analysis of 7-Eleven's competition structure and competitiveness using Porter's 5 Force model

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Abstract

Objective: The purpose of this study is to examine the competitive environment of 7-Eleven using Porter's 5 Force model to analyze the specific competitiveness of 7-Eleven that has maintained continuous growth as a competitive company. **Methods:** This study is a case study of 7-Eleven. **Results:** As a result of the analysis, 7-Eleven has reinforced its competitiveness with existing competitors by raising entry barriers by expanding domestic stores and developing overseas convenience store business, focusing on North America, based on economy of scale. In addition, 7-Eleven seeks to differentiate itself from other convenience stores by developing a "private brand" and strengthens its bargaining power with suppliers through the development of new products by gathering information and know-how of experts in product development based on customer needs. The bargaining power with customers has been strengthened by building loyalty and trust in the brand by allowing consumers to purchase the same products at the same price no matter which store they visit. As a threat to potential competitors, 7-Eleven has secured a competition advantage by raising the barrier to entry by concentrating stores in specific areas through a dominant franchise development strategy and increasing awareness of 7-Eleven among consumers. In the case of threats from substitute products, it was confirmed that 7-Eleven has overcome the threat from substitute products by opening 24 hours a day and providing various services such as ATMs and copiers.

Keywords: 7-Eleven, 5 Force Model, Competition Structure, Competition Advantage Strategy

1. INTRODUCTION

Convenience stores ("CVS") in Japan have maintained a close relationship with consumers' daily lives to the extent that they are part of the Japanese lifestyle. Most stores are open 24 hours a day, 365 days a year, giving customers the great advantage of completing daily shopping, ATM, utility bill payment, and delivery services at one store. Due to this convenience, CVS has continued to grow independently through product development and franchise system operation that meets consumer needs until 2019 since introduced in the United States in the 1970s [1-2].

However, sales began to decline in April 2020 due to the impact of COVID-19 pandemic. Due to the impact of COVID-19, there is a change in consumer behavior, such as the spread of working from home and refraining from going out. As a result, CVS's performance decreased significantly due to decreased users due to COVID-19 infection, including reduced in-store sales in office and residential areas [3].

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As of April 2020, store sales in the CVS industry fell 10.6% compared to that of the last year, resulting in the most significant recession since 2005, such that CVS business model is in a transitional period. Meanwhile, Japan's three representative CVS companies, including 7-Eleven, Family Mart, and Lawson, occupies nearly 90% of total CVS sales and number of stores, and each company is establishing various competitive strategies to respond to the COVID-19 incident and is using an effort to improve performance. Under these circumstances, 7-Eleven's strong performance stands out among the three representative CVS companies. This company has grown by generating unprecedentedly high profits compared to other companies for over 50 years since it began operations in 1974 and is attracting attention as an excellent company representing Japanese CVS companies [4-5].

According to the Japan Franchise Chain Association, the total CVS market size in fiscal 2022 (January to December 2022) is 11.1775 trillion yen, an increase of 3.7% compared to the previous year, continuing to grow following 2021 and is recovering the market exceeding sales (11,160.8 billion yen) in 2019 before COVID-19. In particular, according to 7-Eleven's 2023 financial statements, 7-Eleven's store sales in Japan increased by 4.0% compared to the same month last year, reaching 5.1487 trillion yen (Family Mart 2.9575 trillion yen, Lawson 2.2995 trillion yen), ranking first in the industry [6-8].

Therefore, based on the information presented above, this paper aims to analyze the specific competitiveness that enabled 7-Eleven to grow into a competitive company despite the difficulties of COVID-19. First, considering the competitive environment of the convenience store industry, the 5 Force model was used to analyze the company's return rate and industrial attractiveness. Next, based on this, this paper examined 7-Eleven's specific competition advantage strategy, which enabled it to grow into a competitive company.

2. LITERATURE REVIEW

2.1 7-Eleven's management policy and its characteristics

Japan went through a process of rapid economic growth after World War II and established an affluent society in the mid-1970s. Meanwhile, retail business also achieved significant growth. Additionally, in order to respond to changes in the market environment, retail companies were able to achieve customer satisfaction by segmenting the market, identifying consumer needs, and providing the products and services demanded by consumers [9]. 7-Eleven, which is covered in this paper, established itself in the convenience store industry with “rapid response to change” as its management policy according to the background of Japanese society and economic conditions. In addition, the company has established a system that allows it to demonstrate its core capabilities by maintaining good inter-organizational relationships between headquarters, franchises, and vendors.

7-Eleven, an industry leader acquired the large American convenience store “Speed Way” for approximately 2.3 trillion yen in May 2021 and is increasing sales by strengthening fresh food and PB products through differentiation. The number of 7-Eleven stores in North America has been increased to 13,221 (as of the end of June 2023). In addition, it entered India and Israel in October 2021, Laos in September 2023, and acquired Australia's Seven in November in the same year. In addition, 14,265 stores were opened in Korea, 13,838 in Thailand, and 6,631 in Taiwan (as of the end of December 2022). In addition, the company has expanded the business into 19 countries and regions around the world, including China, Malaysia, and the Philippines, and is also focusing on business development in Vietnam. It is rushing to expand overseas business with the goal of opening more than 50,000 stores in 30 countries and regions by 2030 excluding Korea and North America by 2025 [10].

Furthermore, 7-Eleven was the first to respond to the demand for staying at home due to the COVID-19 disaster, stocking alcoholic beverages and preservable frozen foods and other food products that can be used for ready-to-eat or at-home meals in CVS. Additionally, because customers can order CVS products with their smartphones, stores can deliver products to customers simply by handing them to the delivery vehicle after receiving the order. In addition, an experiment is being conducted to deliver products ordered from the '7-Eleven Net CVS' by drone to people living on remote islands. The service is being tested in some areas

such as Hokkaido, Tokyo, and Hiroshima. As a result of these efforts, the company has overcome the business difficulties due to COVID-19 and maintained the industry lead in the number of convenience stores and sales.

2.2 7-Eleven's CVS system development

In addition, when 7-Eleven introduced the CVS system from the United States, it can be considered that 7-Eleven developed the CVS system to suit the Japanese situation and continued creative research as presented below, which became the basis for 7-Eleven's competition advantage today. First, regarding the store opening strategy, there is a dominant method called the regionally focused store opening method. The dominant strategy refers to a store operation strategy aiming to gain local recognition or market share by concentrating on opening stores in specific commercial areas. From the beginning of its business, 7-Eleven developed a dominant strategy, enabling it to pursue economies of scale and standardization, promoting sales and increasing cost efficiency. In logistics management, innovation in the logistics system has enabled high-frequency delivery based on small delivery using advanced information technology. As a result, improvements have been made so that products classified by temperature zone can be delivered to each store through delivery by time zone. In product development, the chain headquarters explores consumers' market demands and requests product development based on these, and consumer demands obtained through active management participation of each franchise or face-to-face sales by store owners and employees are actively reflected in product policies. In addition, it is considered more important to rely on the will and judgment of the franchisees, and a system to support this from the headquarters is being developed throughout the company. In addition, an essential point in a franchise operating system is how much the franchisee's motivation can be aroused and promoted. In other words, when each store owner (franchisee) seeks individualization as an individual business, competitiveness among franchisees arises that cannot be imitated by other franchisees. To realize this to a high degree, 7-Eleven has been guiding the store owners and employees to increase their motivation while also introducing the latest business management techniques, such as single product management, logistics innovation, and information systems, making continuous improvements to ensure that this becomes established to train the store owners and employees.

3. ANALYSIS ON THE COMPETITION STRUCTURE OF THE CVS INDUSTRY AND 7-ELEVEN'S COMPETITION ADVANTAGE STRATEGY USING PORTER'S MODEL

3.1 Analysis on the competition structure of the Japanese CVS industry using Porter's model

According to Porter's 5 Force model, considering the industry's competitive environment, 5 factors including ① competition among existing companies, ② bargaining power with buyers, ③ bargaining power with suppliers, ④ threat of new entry by potential entrants, ⑤ substitute products are classified as competitive factors. Porter also argues that these factors influence each other and determine a company's return rate.

Based on Porter's model, the structural factors of the competitive environment of the Japanese CVS industry are analyzed, as shown in the figure below(Figure 1). As shown in the figure, according to the competitive factors in the Japanese CVS industry, ① the degree of competition among existing companies is intensifying, as seen in the number of stores they have opened and their investments in informatization. ② the bargaining power with buyers must constantly respond to consumer needs by understanding consumer changes, convenience, satisfaction, and brand loyalty. ③ in addition, the suppliers are in a weak position in terms of bargaining power with CVS company due to the burden of the size and number of suppliers and product differentiation. ④ in the case of bargaining power over potential entrants, the threat from new entry

is relatively low because each CVS company has secured a competition advantage by raising entry barriers through economies of scale and product differentiation. ⑤ in the case of the threat of substitute products, considering the current competition with discount stores and supermarkets and the expected further intensified competition as the concept of convenience is reduced due to future deregulation, this is considered a medium competitive factor [11-15].

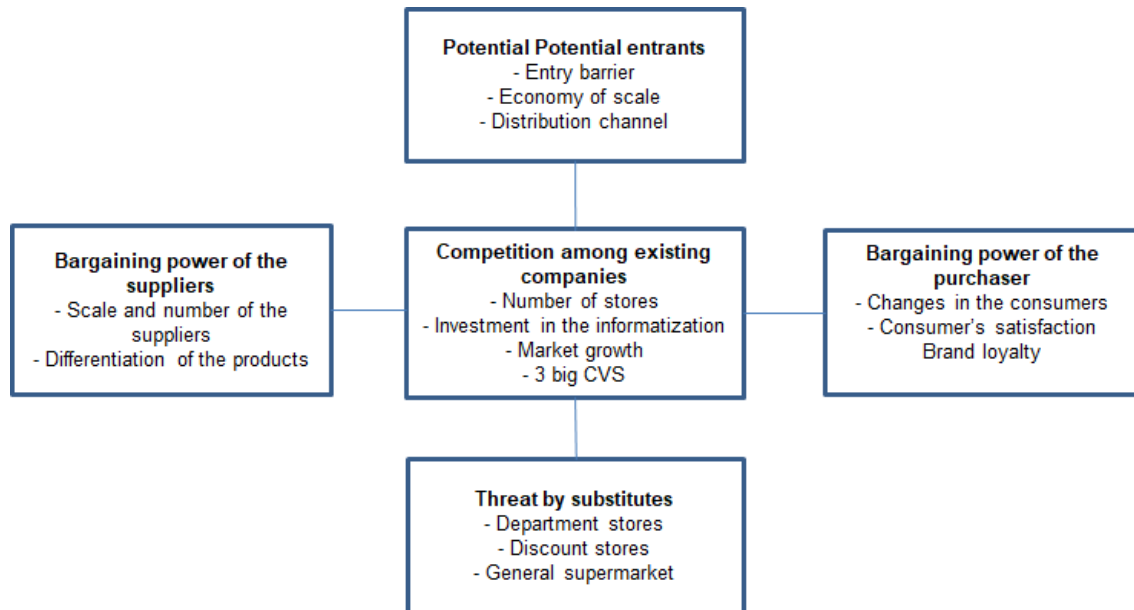


Figure 1. Structural analysis of the CVS industry using Porter's model

3.2 7-Eleven's competition structure and strategy using Porter's model

3.2.1 Competition within existing industries

Japan's CVS industry is almost an oligopoly, with 7-Eleven, Lawson, and Family Mart accounting for 90% of the total market. In particular, 7-Eleven has developed a dominant strategy and raised entry barriers by holding the industry's largest market share and the largest number of stores in Japan through economies of scale and standardization.

However, the CVS industry is already saturated and its further growth cannot be expected through new store openings while the population decreases making it difficult for CVS to grow using existing strategies. For this reason, convenient stores are significantly changing their strategies, such as expanding overseas or increasing sales at existing stores. In the case of 7-Eleven, as previously presented, the company has been expanding its store openings in Korea and developing its convenience store business overseas, focusing on North America, as a strategy to strengthen competitiveness among existing companies.

3.2.2 Bargaining power of the suppliers

7-Eleven offers a variety of products under its own brand called 'Seven Premium'. The company thoroughly manages costs by understanding the manufacturing price of its own products. Therefore, even when the company negotiates the purchase price, it does not purchase the products at the supplier's asking price because it can prepare substitute products at a lower price. In addition, as the product life cycle becomes shorter and shorter, customers' attention is focused on new products, so 7-Eleven builds teams with suppliers to develop new products by gathering information and know-how of experts on product development based on customer needs. By operating a merchandising team, the company is securing initiative in bargaining power with suppliers. Table 1 below summarizes the 7-Eleven's competition structure

and response strategy using Porter's model.

Table 1. 7-Eleven's competition structure and response strategy using Porter's model

	Competition structure	Response Strategy according to the competition structure
Classification	Competition within existing industries	Dominant strategy and development of overseas convenience store business through economies of scale
	Bargaining power of the supplier	Based on customer needs, 7-Eleven gathers information and know-how from experts on product development and operates a merchandising team to develop new products with suppliers.
	Bargaining power of the purchaser	7-Eleven strengthens its bargaining power by increasing customers' brand loyalty and building trust by offering the same prices no matter which store they visit.
	Threat of new entrants	Through the dominant franchise development strategy, competition advantage is secured by raising the barrier to entry by increasing awareness through concentration in a specific region.
	Threat of substitutes	7-Eleven is differentiated from supermarkets or pharmacies and is open 24 hours a day providing a variety of services.

Source: Writing based on company internal data

3.2.3 Bargaining power of the purchaser

7-Eleven's buyers are general individual consumers. Individual consumers are free to choose alternatives such as supermarkets or pharmacies. In terms of this perspective, it is difficult to say that the bargaining power of individual buyers is weak. However, considering the abundance of products in the CVS, the easy-to-visit location, and the convenience of opening 24 hours a day, it is difficult for the consumers to easily replace them with supermarkets or pharmacies. Therefore, considering the psychological situation of general consumers, 7-Eleven sells the products at the same price in all stores and does not negotiate discounts based on consumers' trust and loyalty to the brand. Therefore, because the bargaining power of the purchaser is weak, 7-Eleven is in an environment that is advantageous in bargaining power with the purchaser.

3.2.4 Threat of new entrants

Because the convenience store industry is in an oligopoly, the threat of new entrants is considered low. CVS changes its product lineup depending on region and location and carries its own brands, so it is not easy for new companies to enter the CVS market. In addition, since the 3 big convenience store companies have already secured a good location, it is difficult for new entrants to secure a good location. In the case of 7-Eleven, a dominant strategy has been implemented since the beginning of the business. Through its dominant franchise development strategy, 7-Eleven has secured a competition advantage against the threat of new entry by increasing awareness and raising entry barriers by concentration in specific regions.

3.2.5 Threats of substitutes

The threat from substitutes is considered low not only for 7-Eleven but also for other convenience stores. Alternatives to convenience stores are mainly supermarkets and pharmacies. However, convenience stores of other companies, including 7-Eleven, are differentiated from supermarkets or pharmacies and are open 24 hours a day and provide a variety of services. Specifically, CVS is equipped with ATMs, photocopiers, etc., so customers can do business multiple times at any time during the day, so it is quite difficult for substitutes to replace these functions. Table 1 summarizes the above.

4. DISCUSSION

Nevertheless, the limitations of this study are that, first, it analyzed 7-Eleven's competition environment using Porter's 5 Force model and presented a competition advantage strategy based on it, but by applying a simple model, the source of 7-Eleven's competition advantage that had been established for a long time was not sufficiently presented. Specifically, this study has the limitation that it didn't broadly apply Porter's model such as cost leadership strategy, differentiation strategy, and centralization strategy among the locating strategies presented by Porter along with the Force model.

In addition, since this study was based on analysis of disclosed published data presented by 7-Eleven, it is true that questions about objectivity can be raised and the researcher's subjective opinion was emphasized due to the nature of qualitative research. Therefore, more in-depth and systematic research is needed in the future considering these point.

5. CONCLUSION

As a result of the analysis, 7-Eleven has strengthened its competitiveness by raising entry barriers via expanding domestic stores based on economies of scale in competition with existing companies and expanding overseas CVS business, focusing on North America. In addition, the company has developed "PB (Private Brand)" to differentiate itself from other convenience stores and has strengthened its bargaining power with suppliers by developing new products that combine the information and know-how of experts in product development based on customer needs. In the case of bargaining power with purchasers, the company has strengthened its bargaining power by building customers' loyalty and trust in the brand by allowing consumers to purchase the same products at the same price no matter which store they visit. Regarding the threat of potential entrants, the company has secured a competition advantage by concentrating stores in specific areas through a dominant franchise development strategy and raising the barrier to entry by improving consumers' awareness of 7-Eleven. In the case of the threat of substitute products, the company has overcome the threat from substitute by opening 24 hours a day and providing various services such as ATMs and copiers.

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