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Tanpin Kanri: Retail Practice at Seven-Eleven Japan

In 2003, convenience store chain 7-Eleven, Inc. in the United States was popularly thought of as "a pit stop for cigarettes, beer, gasoline, and lottery tickets," as well as a hangout for teenagers sipping Big Gulp fountain drinks and Slurpee iced beverages after school.[1] Over half of the total merchandise revenues at its 6,361 outlets were derived from sales of tobacco and non-alcoholic beverages.

By contrast, Seven-Eleven Japan's 10,826 stores in February 2005 served as convenient food centers to busy professionals. In 2004, Seven-Eleven Japan stores counted 3.6 billion total store visits, or an average of 986 visits per store per day. Sixty-four percent of its customers were males, and 55% lived within five minutes of a Seven-Eleven Japan location. Sixty-three percent of customers visited a Seven-Eleven Japan location at least twice per week, while 18% visited every day. The company estimated that in 2004, 34% of store visits were intentional visits directly from home and back, while 48% of visits were made on the way to or from home. In 2005, Seven-Eleven Japan customers aged 0-29, 30-49, and 50+ accounted for 42%, 36% and 23% of customers, respectively, while in 1989, the distribution was 65%, 25% and 10%, respectively. This customer shift was mirrored in the age profile of the Japanese population, where in 2004, 32%, 27% and 41% of people fell into 0-29, 30-49, and 50+ age brackets, respectively.

Seven-Eleven Japan stores typically featured 150 square-meter purchase floors displaying about 2,500 items, and employed 20 full-time and part-time workers. Average daily sales per store was ¥639,000—about 31% higher than the average of competitors Lawson, Family Mart and C&S—and sales per square meter was ¥2,402,000.

Seven-Eleven Japan derived over 73% of total sales from food items, and over 40% of total sales from an array of inexpensive, high-quality breakfast, lunch, snack, and dinner options, which were delivered thrice daily to each of its brightly-lit, clean, and sometimes even marble-floored stores.[2] Many of these fresh food items were original products available exclusively at Seven-Eleven Japan, which was known not only for its continuous stream of new prepared food products, but also some original nonfood items like cosmetics as well. The flow of original product enabled Seven-Eleven

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Japan to turn over its stock-keeping units (SKU) at a rate reaching as high as 70% per year, and delivered 52% of sales in 2003 (**Exhibits 1a-1d**).[3]

Toshifumi Suzuki, Chairman and CEO of Seven and I Holdings Co., was widely credited as the mastermind behind Seven-Eleven Japan's rise. While Seven-Eleven Japan began as a small licensee of 7-Eleven, Inc. (then Southland Corp.) in 1974, it grew to become not only the highest grossing retailer in Japan, eclipsing its then-parent Ito-Yokado's sales, but, by 2005, it also owned a controlling stake in 7-Eleven, Inc. In April 2005, Suzuki announced the formation of Seven & I, a holding company which would become the new parent of both Ito-Yokado and Seven-Eleven Japan, among other business units previously held by Ito-Yokado.

Over the years, Suzuki's emphasis on fresh merchandise, innovative inventory management techniques, and numerous technological improvements guided Seven-Eleven Japan's rapid growth. At the core of these lay *Tanpin Kanri*, Suzuki's signature management framework.

Seller's market to buyer's market

> Japan was a seller's market until the 1970s, but as profits stagnated and declined in the late 1980s, a buyer's market began, necessitating reform in the retail industry. The reason for this shift was that ownership of objects was very high among Japanese consumers.
>
> — Toshifumi Suzuki, Chairman and CEO of Seven & I Holdings Co.

In a developing economy—in which growth is strong and basic needs have yet to be fulfilled— "shelf warmers" and "dead inventory" are rare occurrences in retail. Buyers (consumers) need many things, so for sellers, the risk of unsold goods is low. Demand exceeds supply. This is a classic seller's market, which prevailed in Japan throughout the 1950s and 1960s.

In the 1970s, however, recalled Suzuki, who was then a young managing director at Ito-Yokado, retailers began to notice a change in their inventory position. Many items sold well without discounts or product marketing. But other items they stocked began to move much more slowly than they had in years past. Even with discounts and promotional advertisement, some of these items failed to sell. Born was a class of unmarketable goods called "shelf warmers," or "dead inventory," which retailers could not sell at any price.[4]

Shelf warmers and dead inventory signaled a shift in demand that began to favor the buyer's preferences over the seller's inventory. After years of purchasing items of necessity, for product functionality, consumers had fulfilled their basic needs. They could be more discriminating in their tastes, and therefore, choosier in how they spent their money (**Exhibits 2** and **3**). Instead of asking a store worker for "beer," for example, they might request an Asahi—or maybe even an Asahi Super Dry.[5]

This shift in demand exposed a key weakness in the supply system that had formed in the long seller's market. Wholesalers and manufacturers ultimately determined supply and variety of stock, not the customer-facing retailer. If the retailer ordered a product from a supplier, and the supplier

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had no such product to distribute, a similar good was delivered instead. Moreover, deliveries arrived on the supplier's schedule, not necessarily when ordered. But as customer preferences, often influenced by marketing, became more prominent in purchase decisions, substitute goods were rejected. As competitors grew, goods that were unable to be procured through one retailer were purchased at another. These substitutes and missed sales opportunities ultimately became shelf warmers, or dead inventory.

For the first time in postwar Japan, sellers faced the reality that more inventory did not produce more sales. In a seller's market, whatever had been stocked was eventually sold. However, in the dawn of a buyer's market, only the *right* inventory would produce growing sales. Moreover, only when demand was accurately read and forecasted could 'right' inventory be stocked at all (**Table A**).

Table A Characteristics of a seller's market versus a buyer's market

Seller's market		**Buyer's market**
Product functionality	**Main criterion of product value:**	Buyer preference (Moderated by marketing)
Product is made, at manufacturer level, upstream in product flow	**Value created for buyer when:**	Buyer selects product from pool, at retailer level
Distribution and retail costs are minimized	**Value for seller (gross margin) increased when:**	Demand is satisfied
Cost center	**Distribution regarded as a:**	Profit center

Source: Created by casewriter based on: Tomoyuki Ogata (Ed. Daniel Costello). *Grasping Customer Demand with Tanpin Kanri.* Tokyo: Office 2020 Publishing, 2002. 15.

Competing in a buyer's market

In a buyer's market, where product value is couched in the consumer's mind rather than in the product itself, product popularity can rise and fall dramatically—sometimes bringing down even the retailer. In the early 1980s, for example, having ice cream at the new Haagen-Dazs in the Roppongi district of Tokyo became extremely hip. However, as a new ice cream store called Hobson's made its entry into the market, Haagen-Dazs began to lose business, and ultimately closed its doors.[6] The problem was not that the Haagen-Dazs store experience deteriorated, nor that the quality of the ice cream went down. Consumers had simply changed their minds about the value of Haagen-Dazs.

As the Hobson's entry into Roppongi suggests, 'newness' is often deemed to be retailers' best response to a buyer's market—as "competition against the customer's sense of boredom."[7] New stores that enter a market can pique consumers' interest by offering new shopping experiences. New products can be rolled out. Even older stores can don a coat of newness by renovating their layouts and image.

Beyond newness, building and sustaining store loyalty is a factor important to retailers in a buyer's market. If customers consistently have positive experiences at a store—as measured by image, trustworthiness, reliability, friendliness, and fulfillment of a satisfying shopping experience—

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they are more likely to purchase the same product at one store, rather than another. The effect of store loyalty is especially evident in the sales of national brands across retailers.[8]

While loyalty may support higher sales of equal product at one store versus another, poor merchandising decisions—such as those leading to dead inventory and stock outs—can erode store loyalty. As product shelf life becomes increasingly compressed and as perishablility rises, retailers must tightly manage their inventory to keep customers from becoming bored with or disappointed by store offerings. At Seven-Eleven Japan, Suzuki developed an item-by-item store-level inventory analysis framework called *Tanpin Kanri*, which has yielded merchandising decisions that has decreased inventory levels, while increasing margins and daily store sales (**Exhibit 4**).[9]

Tanpin Kanri defined

Literally, "tanpin kanri" means "management by stock-keeping unit." However, the literal definition belies the complexity of the process. *Tanpin Kanri* is:

> A retail management practice focused on satisfying customer demand through a store-by-store approach to shelf management that employs store-level human knowledge and information sharing about products, for the purpose of better understanding how certain conditions affect demand on a product-by-product basis, and then pursuing a cycle of product procurement, production, development and delivery that suits the demand.[10]

In contrast to supply-chain management, the normative merchandising practice that often feeds point-of-sale data (POS) into an automatic replenishment system to reorder items that have sold, the demand-chain management system of *Tanpin Kanri* requires that store-based employees use POS data to identify which items are selling and which items are shelf-warmers. Then, by incorporating factors likely to influence demand, employees form hypotheses about which items are likely to sell. These store-level employees then place orders for those items that *they believe* will sell well in the future, in the amounts that *they believe* will sell, rather than ordering items that have sold well in the past—as in the supply-chain management practice of replenishment.

Under the *Tanpin Kanri* system, slow-moving merchandise is quickly phased out, and fast-moving merchandise volume is increased to levels supported by the employees' hypotheses about their local markets. New merchandise is brought into the cycle to replace the items lost, and total SKU count is maintained at roughly 2,800.[11]

Reading demand in a buyer's market

Tanpin Kanri requires retail store employees to have a keen understanding of the factors that influence demand. While it is well known that advertising and in-store product merchandising (placement), moderate consumer purchase behavior, Suzuki's inventory management system calls on Seven-Eleven Japan employees to personally observe customer activities within and beyond the store,

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hypothesize the psychology or pattern driving the activity, then customize the store layout, merchandising, and merchandise accordingly.

For example, Seven-Eleven Japan employees may observe that customers often enter the store without a clear concept of what they will purchase, and look for ideas while browsing throughout the store. Hence the store becomes a place where the customer gathers information about potential purchases. There are at least four major ways store employees can convey helpful information about products, to encourage purchase:[12]

Using attributes of the products themselves Placing a stylish clothing item in a store window prompts customers to consider the style and evaluate how they may look wearing the item. The aroma of a tasty food item stimulates customers' taste buds and may make them hungry for the item. Amplifying natural product attributes like look and smell delivers key information about the items to customers, and implicitly requests purchase consideration.

Constructing helpful product mixes/assortments Japanese mothers with school-aged children daily face the challenge of packing their lunches. Since it may be difficult to find a variety of nutritious meals that travel well, a supermarket may create a section called a "Box Lunch Corner" where store employees display novel menu ideas and gather associated ingredients. Appealing ideas will likely result in increased sales of the suggested items.

Recommending and demonstrating products Charismatic and knowledgeable salespeople can be extremely effective in persuading customers to try new products. Product demos introduce items to customers and communicate value, convenience, taste, and other informative attributes that commonly influence purchase decisions.

Displaying inventively While even uninspired products could sell themselves in a seller's market, even innovative new items must be smartly displayed to catch the attention of customers in a buyer's market. Inventive displays may convey attributes that constitute unique product value—for instance by depicting the helpful ways an item can function in a customer's life, instead of simply displaying the item on a visible shelf or gondola.

The *Tanpin Kanri* management practice encourages employees to master not only the aspects of customer psychology and patterns of behavior that influence in-store purchase decisions, but also three classes of greater factors that influence demand:

Time Weekday and weekend shopping patterns and products purchased differ. Holiday shopping differs still. Local events like sports games will also influence demand for stores like Seven-Eleven Japan. Different times of day bring customers with distinct preferences. Store employees, and especially store merchandise, must be prepared to meet and exceed the shifting schedule of customers, by day and time. For example, at Seven-Eleven Japan, employees realize that Japanese workers are typically paid once a month. Hence the days leading up to payday are leaner than the days leading away from payday. Based on this knowledge, some stores lower the prices of their boxed lunches on days leading up to payday, adjusting back to normal on payday. Doing so increases lunchtime patronage on the days before payday, and enhances store loyalty.[13]

Retail context Particularly in markets where retail concepts like supermarkets, department stores, specialty stores, and convenience stores have matured, customers expect distinct experiences and merchandising across channels, creating differentiated lanes of demand. A supermarket, for

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example, will not easily be able to sell a clothing line—no matter how popular the designs or brand—because customers do not expect to purchase clothing from a supermarket. For the same reason, nor can one format import key selling techniques or in-store merchandising ideas from other formats. Moreover, even within a format, longstanding competitors are profiled in customers' minds as projecting a certain image, selling a certain class of products, and offering a certain shopping experience. Hence, customers may reject purchasing an item at one store, yet feel compelled to purchase it at another. A product like melon bread, for example, may sell well at Seven-Eleven Japan, but may not sell at one of its competing convenience store chains. The difference may be that Seven-Eleven Japan has the right store personality to be a melon bread retailer, while a competitor may not. Finally, there are local market considerations like competition, consumer niches, regional tastes, and other factors that influence local demand. Seven-Eleven Japan stores, for one, stock a different mix of lunch boxes customized to the local preferences of each location.

Weather Climate and seasonal temperature averages influence purchase patterns in a broad sense, but day-to-day weather and temperature fluctuations have a more immediate effect on daily sales. For example, in a known rainy season, people are likely to have remembered to carry their umbrellas as they left home. Also, if it rained all night, and is raining in the morning, people will have their umbrellas with them. But if the morning was clear and sunny, people are more likely to be unprepared for an afternoon thunderstorm. Moreover, if a store carrying umbrellas is located in a busy city center as opposed to a suburban area, it is more likely to catch the unprepared, hurrying in from business in the city to purchase an umbrella. Using such observations and hypotheses, coupled with sales reports and up-to-date weather forecasts as guides, Seven-Eleven Japan employees will stock and display umbrellas as deemed necessary.[14]

In another example: People generally want chilled foods like ice cream and crisp salads in the summer. But inevitably, some summer days are unseasonably cool. A store operating under the 'summer' model will continue to stock only chilled foods the entire season. At Seven-Eleven Japan, which operates under the 'daily temperature' model, cool summer days will bring hot prepared foods, like Chinese steamed meat buns, and hot coffee and tea. As the temperature changes, Seven-Eleven Japan store employees have found, customers seek changes in their diet as well, putting even 'wintry' foods in high demand during the summer months.[15]

POS data and *Tanpin Kanri*

When Suzuki began formulating *Tanpin Kanri* at Seven-Eleven Japan in the 1970s, he realized that, in a buyer's market, retailers would not only have to read customer demand accurately, but also negotiate with suppliers to adjust their production by customer demand. While in 2005, nearly 100% of Seven-Eleven Japan orders were fulfilled as ordered, on schedule, in the 1970s, deliveries were rarely made as ordered, and rarely on time. Items could be missing, replaced with substitutes, or in the wrong quantities, and deliveries were made on the supplier's schedule, rather than by retailers'

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[14] Ogata 28-29. *Tanpin Kanri* relies heavily on accurate and reliable flow of data—particularly weather and temperature data—to make predictions about item sales. At stores, each person with ordering duties uses a cutting-edge tablet PC to place orders. The tablet's full-color screen provides real-time access to previous sales, local events, chain-wide promotions, and weekly weather reports, among other data. Some orders, especially for prepared foods, are sent directly to local suppliers, who ship goods directly to each store. Some orders are routed to central management, which can consolidate orders to achieve savings by scale. Central management provides each franchisee with operations field counselors, who help stores assess merchandising

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inventory needs. Suzuki envisioned store employees as retail scientists, researching customer needs and preferences, and bringing this information back to suppliers upstream, so that supply chain practices could be brought in line with shifting customer demand, rather than running by supplier production schedules or wholesaler supply on hand.

The first step in *Tanpin Kanri* was to identify and eliminate shelf warmers, and to do this, Suzuki used POS data. While many businesses embraced POS systems in the 1970s, 1980s, and even the 1990s, most viewed them as tools to identify merchandise that was selling well, and eventually used POS data to restock their inventory, often through automatic replenishment systems.[16] Suzuki, however, was firm in his regard that POS was a tool to identify shelf warmers, rather than merchandise that was selling well.[17] According to Suzuki, using POS data to replenish had several limitations, including:

Old news POS data reported on past sales, and was limited to one store. Especially in a buyer's market, in which demand could shift very quickly, it was not a useful predictor of future sales. Moreover, it could not compare sales of like items across formats and stores, to give retailers a sense of their store's productivity relative to their competitors.

No reasoning POS data provided no commentary on why certain inventory had been more productive than others. Factors such as weather, promotional discounts, advertising, local events, and other influencers of demand were not reflected in the numbers, and could only be determined by human analysis. Using POS data without analysis could result in items like umbrellas—which only sell in rainy weather—being categorized as a shelf warmer and retired from store inventory.

Cannot see inventory position While POS data could show what had sold (but not why), it held no record of current inventory positions—stock. Particularly because accurate and timely order fulfillment was a major issue in sourcing in the 1970s and 1980s, Suzuki could not determine whether an item had stopped selling because of stock-out, or whether customers had begrudgingly purchased an alternate product because it was the only alternative available to a stock-out.

No new inputs Using POS data to find productive merchandise assumed that a store had strong selling merchandise to begin with. POS focused on the preexisting inventory selection within a store and could compare relative productivity of items within the store, but it could not incorporate productivity of items outside of the store inventory—items which could potentially be far more productive than existing merchandise.

Armed with this understanding of POS, Suzuki determined the following:

Send POS and demand analysis upstream Suzuki pioneered and continually upgraded an informational technology system to share POS data and demand analysis with suppliers, giving wholesalers and manufacturers concrete reasons to realign their business according to customer demand (**Exhibit 5**). The system supported *Tanpin Kanri*, ultimately providing the necessary information to help narrow gaps in time between order and delivery, in delivery distance, in vendors' and retailers' senses of market demand, and in vendors' and retailers' feelings about a product's potential for market success.

Use POS to cultivate new products in the inventory Suzuki felt that in order to keep inventory fresh, retailers must operate with the belief that there is always better merchandise 'out there.' Therefore, Seven-Eleven Japan employees used POS to measure the success of new products,

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continually examining, hypothesizing, and reexamining product performance against demand analysis, and testing innovative ways to market items in stores. Successful products, according to Suzuki, were carefully "nurtured" in the market: As long as store employees had clear reasons in keeping a weak product in the inventory, they should, since today's underproductive product could be tomorrow's hit.

Human resources: The crucial link

> Compared to retail, other industries benefit more from a systemic change in technology. Retailing continually relies on people, so we must continually educate them. I consider the retail industry to be an education industry.
>
> —Toshifumi Suzuki

Inventory management systems such as perpetual inventory and vendor-managed inventory treat products as commodities, as items that can be replenished to meet future demand. The fundamental premise of such systems is that since a product has sold well in the past, it will sell well in the future.

Tanpin Kanri takes the opposite approach to inventory management. As Suzuki stated, "We don't place an order because a product has sold well; we place the order because we believe the product will sell well." Hence *Tanpin Kanri* assumes a market with shifting and evolving demand for virtually all products, requiring customized orders to meet rises and falls in demand.

Rather than regarding products as trickle down results from producers, as with supply chain management practices, *Tanpin Kanri* regards products as items produced for the market by demand: "demand chain management."[18] As a result, Suzuki has rejected the trends toward automation and supply chain efficiency favored by many retailers, who often view automated ordering as a way to achieve cost savings. Instead, he maintains that only people can generate crucial knowledge about demand and changes in demand that will lead to accurate ordering, which underlies demand chain efficiency.

It was not easy to train workers to fully embrace *Tanpin Kanri*, and to develop accurate subjective insights into customer behavior that would lead to more precise order placement. At Seven-Eleven Japan stores, where even part-time employees had ordering duties, everyone needed to be taught how to use the Seven-Eleven Japan custom ordering technology, as well as how to formulate hypotheses on sales and use POS data to verify or refine their hypotheses. Whether department manager, store manager, or part-time worker, Suzuki often emphasized, individuals needed to develop expertise appropriate to their responsibilities.

Over the years, Suzuki's investments in educating Seven-Eleven Japan workers to effectively practice the examination, hypothesis formation, and verification cycle of *Tanpin Kanri* has been extremely successful. In 2003, Seven-Eleven Japan hit ¥2.3 trillion in sales—the highest grossing retailer in Japan—marking 29 straight years of growth.

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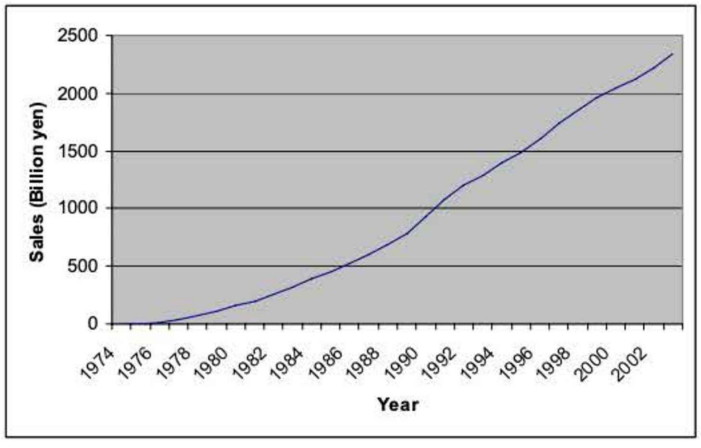
Exhibit 1a Seven-Eleven Japan Financials 1993-2004

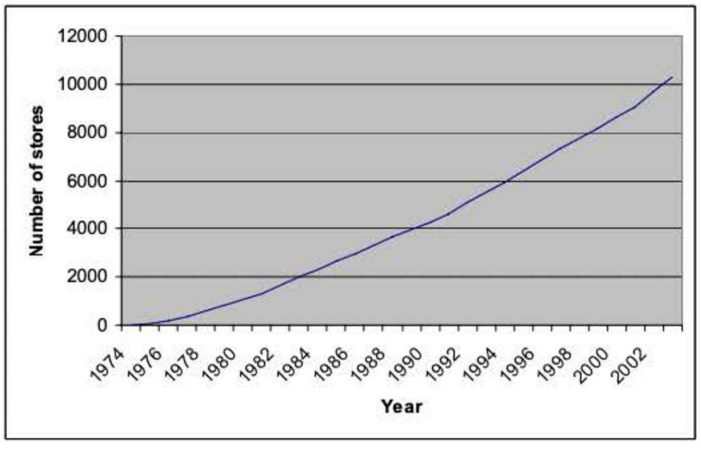
Nonconsolidated Summary

For the fiscal years ended February 28/29	1993	1994	1995	1996	1997	1998
Total store sales (¥ millions)	1,194,913	1,281,931	1,392,312	1,477,126	1,609,007	1,740,960
Revenue from operations (¥ millions)	181,962	195,667	214,560	231,226	254,617	277,185
Operating income (¥ millions)	78,265	82,996	90,115	95,508	103,657	109,351
Ordinary income (¥ millions)	85,160	88,110	93,381	98,121	105,151	112,086
Net income (¥ millions)	45,020	46,555	49,525	52,562	55,317	58,254
Net income per share (¥)	54.0	55.8	59.4	63.1	66.4	69.9

For the fiscal years ended February 28/29	1999	2000	2001	2002	2003	2004
Total store sales (¥ millions)	1,848,147	1,963,972	2,046,640	2,114,013	2,213,298	2,343,177
Revenue from operations (¥ millions)	297,992	327,014	346,916	365,943	400,664	445,413
Operating income (¥ millions)	114,842	137,477	145,516	151,832	157,942	166,899
Ordinary income (¥ millions)	117,239	140,150	147,157	153,789	159,639	168,892
Net income (¥ millions)	61,576	68,234	78,374	83,209	86,547	91,475
Net income per share (¥)	73.9	81.9	94.0	100.1	105.2	113.6

Notes: 1. Consolidated financial statements have been prepared since February 1996.
2. Number of stores includes those in Hawaii.
3. Consolidated and nonconsolidated net income per share is adjusted to reflect stock splits and free share distributions.
4. Sales of stores in Hawaii are excluded from total store sales.
5. Figures are truncated.





Source: Seven-Eleven Japan Co., Ltd., *Corporate Outline* 2004.
Charts created by casewriter based on company reports.

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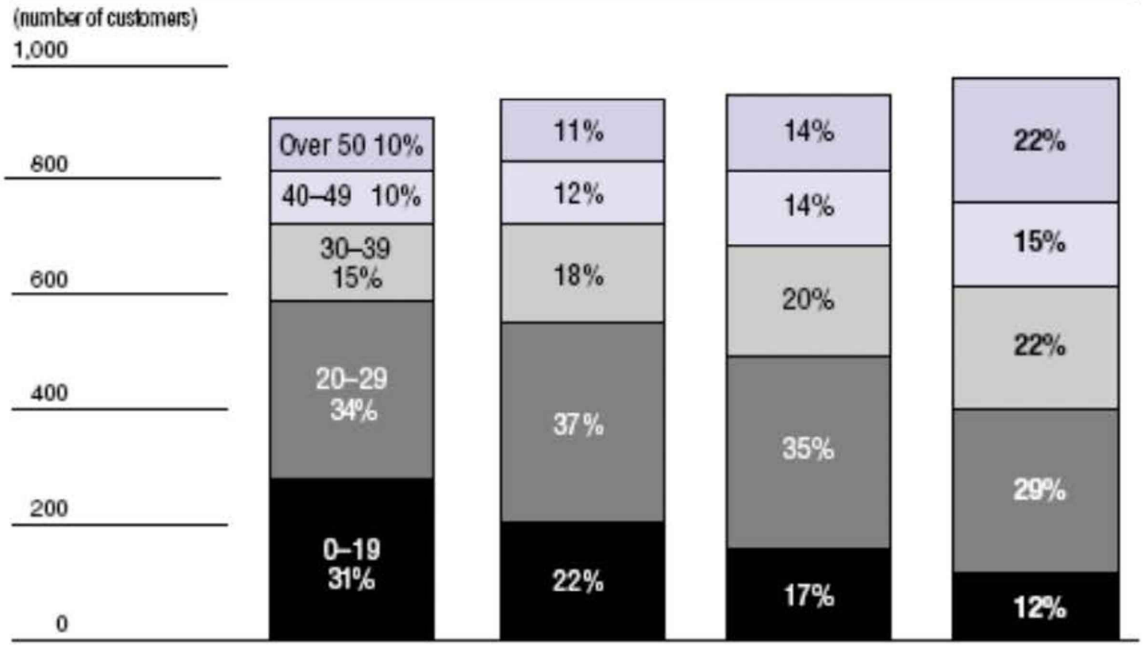
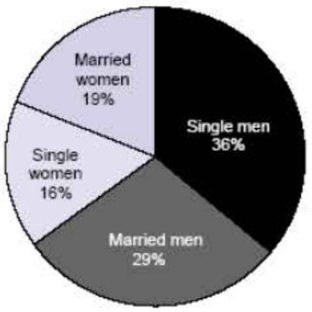
Exhibit 1b Seven-Eleven Japan Customer Profile

Average Number of Customer Visits per Store per Day



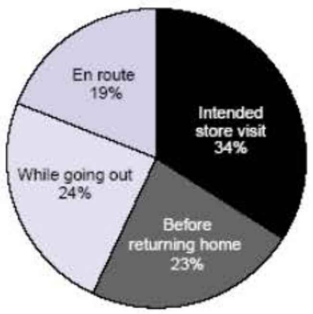
Period ended	89.2	94.2	99.2	04.2
Number of customers	905	936	949	985

Gender and Marital Status



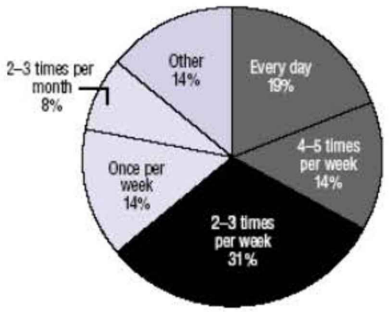
65% of customers are males.

Customer Activities When Visiting Stores



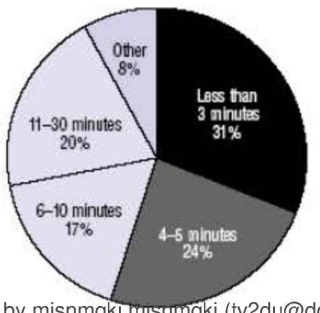
7-Eleven stores are used on a variety of occasions.

Frequency of Store Visits



64% of customers visit 7-Eleven stores

Time It Takes Customers to Reach a 7-Eleven Store



55% of customers come to 7-Eleven stores

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Exhibit 1c Seven-Eleven Japan Original Products

Rice-Based Items
Number sold: 1,660 million

Delicatessen Items
Number sold: 650 million

Sandwiches
Number sold: 360 million

Oven-Fresh Bread
Number sold: 780 million

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Source: Seven-Eleven Japan Co., Ltd., *Corporate Outline* 2004.

Exhibit 1d Leading Convenience Store Retailers in Japan: Sales, Operating Income, Stores, Average Daily Sales per Store, Gross Margin 1999-2004

All years FY ending 28 or 29 February		1999	2000	2001	2002	2003	2004
Sales (¥ billion)	Seven-Eleven Japan	1,848	1,964	2,047	2,114	2,213	2,343
	Lawson	1,157	1,221	1,275	1,282	1,291	1,285
	Family Mart	758	783	843	899	932	954
	C & S *	717	734	814	860	892	884
Concolidated operating income (¥ billion)	Seven-Eleven Japan	115	137	144	150	156	166
	Lawson	34	40	41	36	34	38
	Family Mart	27	28	24	24	28	29
	C & S *	22	24	24	25	24	22
Store count	Seven-Eleven Japan	7,732	8,153	8,602	9,060	9,690	10,303
	Lawson	7,016	7,378	7,683	7,734	7,625	7,821
	Family Mart	5,286	5,546	5,812	5,856	6,013	6,199
	C & S *	4,844	5,181	5,519	5,894	6,241	6,152
Average daily sales per store (¥ thousand)	Seven-Eleven Japan	678	681	675	661	656	647
	Lawson	482	483	486	489	489	484
	Family Mart	484	481	478	471	474	464
	Sunkus *	516	512	516	518	511	500
	Circle K *	505	504	509	508	503	488
Gross margin (%)	Seven-Eleven Japan	30.0	30.3	30.3	30.4	30.5	30.6
	Lawson	30.0	30.3	30.3	30.3	30.3	30.7
	Family Mart	29.3	28.9	28.4	28.5	28.3	28.5
	Sunkus *	28.7	28.9	28.6	28.9	28.8	29.2
	Circle K *	27.7	27.8	27.8	28.2	28.0	28.7

Source: Seven-Eleven Japan Co., Ltd., *Corporate Outline* 2004.

* Prior to FY2002, C & S Co., Ltd. was Sunkus & Associates Inc. and Circle K Japan Co., Ltd.

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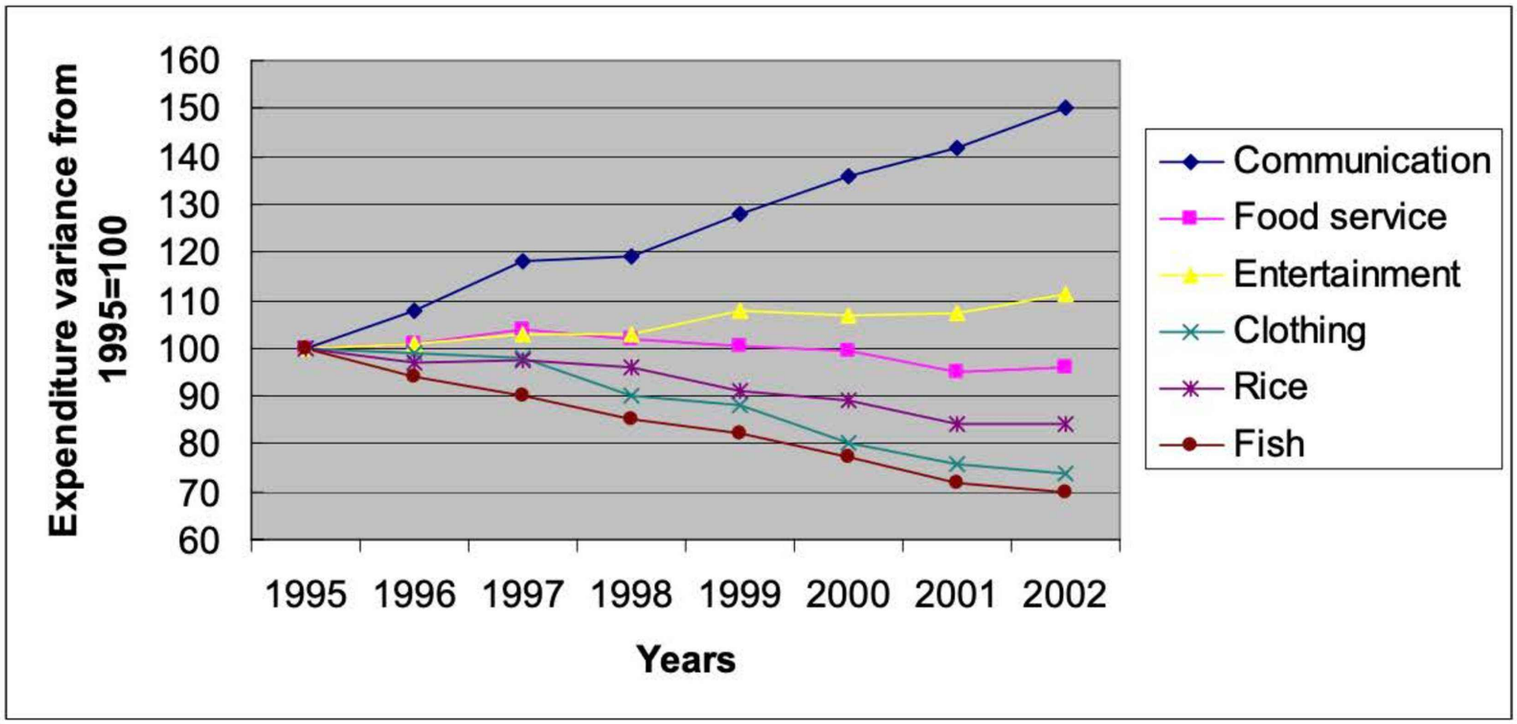
Exhibit 3 Japanese Household Change in Expenditure by Category 1995–2002



Source: Adapted by casewriter based on company reports.

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Exhibit 2 Japanese Household Income and Expenditure Data 1968–2003 (nominal ¥)

	Quintile Income Range (¥ thousand)		Persons per Household	Average Income (¥ thousand)	Food Expenditure per Year	Clothing Expenditure per Year
1963	0	316	3.64	226	10,187	2,263
	316	447	4.09	383	12,966	3,438
	447	580	4.3	511	14,961	4,550
	580	804	4.54	678	17,252	5,765
	804	>804	4.92	1,277	21,555	8,575
	Average		4.3	614	15,386	4,936
1968	0	575	3.48	429	15,797	3,557
	575	764	3.82	670	19,542	5,039
	764	968	4.08	862	22,179	6,393
	968	1,291	4.27	1,108	24,422	8,091
	1,291	>1,291	4.67	1,849	29,489	11,561
	Average		4.06	984	22,286	6,928
1973	0	1,137	3.36	879	26,590	6,675
	1,137	1,486	3.76	1,314	32,235	9,889
	1,486	1,870	3.96	1,667	35,571	11,673
	1,870	2,500	4.13	2,150	39,009	14,422
	2,500	>2,500	4.35	2,587	45,333	21,002
	Average		3.91	1,919	35,748	12,732
1978	0	2,210	3.31	1,659	46,172	3,344
	2,210	2,910	3.74	2,566	55,682	4,757
	2,910	3,650	3.9	3,264	61,088	5,730
	3,650	4,900	3.98	4,194	66,617	7,213
	4,900	>4,900	4.2	7,028	74,919	10,703
	Average		3.83	3,742	60,896	6,349
1983	0	2,950	3.22	2,170	54,966	3,458
	2,950	3,960	3.69	3,460	65,634	5,150
	3,960	5,010	3.83	4,470	72,205	6,575
	5,010	6,590	3.96	5,730	78,882	7,628
	6,590	>6,590	4.09	9,240	89,178	12,855
	Average		3.76	5,010	72,173	7,133

	Quintile Groups	Persons per Household	Average Income (¥ ten thousand)	Food Expenditure per Year	Clothing Expenditure per Year
1988	I	3.03	256	54,439	3,803
	II	3.54	399	67,033	5,968
	III	3.79	525	74,739	7,597
	IV	3.88	684	81,822	9,358
	V	3.94	1,110	92,835	15,530
	Average	3.63	595	74,173	8,451
1993	I	2.79	304	61,054	4,051
	II	3.39	487	71,820	6,173
	III	3.63	644	81,933	8,046
	IV	3.76	841	90,502	10,481
	V	3.89	1,408	102,499	16,309
	Average	3.49	737	81,562	9,012
1998	I	2.64	305	58,375	3,006
	II	3.08	487	67,521	4,739
	III	3.47	653	77,642	6,433
	IV	3.65	863	87,692	7,980
	V	3.73	1,408	99,549	13,164
	Average	3.31	743	78,156	7,064
2003	I	2.6	284	53,138	2,589
	II	2.96	430	62,619	3,552
	III	3.32	575	68,513	4,679
	IV	3.54	764	76,843	6,411
	V	3.62	1,230	90,186	10,158
	Average	3.21	657	70,260	5,478

Source: Statistics Bureau, Ministry of Internal Affairs and Communication, Japanese Government.

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Exhibit 4 Seven-Eleven Japan Inventory, Gross Margin Rate, Daily Sales 1976-2000

	Average Total Inventory Value per Store per Month (¥1,000)	Average Gross Margin Rate	Average Daily Sales per Store (¥1,000)
1976	9,090	24.0	365
1977	8,730	24.3	366
1978	8,430	24.9	396
1979	7,740	25.0	419
1980	6,890	25.9	435
1981	6,260	26.4	463
1982	6,230	26.8	483
1983	5,940	26.9	482
1984	5,590	27.2	486
1985	5,470	27.4	502
1986	5,360	27.7	506
1987	5,240	28.0	508
1988	5,100	28.3	524
1989	4,950	28.6	545
1990	4,800	28.8	564
1991	4,800	29.0	629
1992	N/A	29.0	669
1993	N/A	29.3	682
1994	N/A	29.4	669
1995	N/A	29.6	676
1996	N/A	29.9	662
1997	N/A	29.9	669
1998	N/A	29.8	676
1999	N/A	30.0	678
2000	N/A	30.0	681

Source: Tomoyuki Ogata (Ed. Daniel Costello). *Grasping Customer Demand with Tanpin Kanri*. Tokyo: Office 2020 Publishing, 2002. 20.

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Exhibit 5 Seven-Eleven Japan IT systems 1974-2000

Suzuki piloted and developed a number of systemic changes that were key to Seven-Eleven Japan's phenomenal success between 1974 and 2000. Each tool enabled the company to more precisely gauge actual demand and more accurately determine appropriate supply.

1974: The slip system Inventory control was a major issue in the early SEJ. In 1974, the average store was producing just ¥300,000 in daily store sales out of an inventory of ¥11 million. The first round of changes, which Suzuki immediately instituted upon SEJ's formation, included Japanese retail's first planned order system (the "slip" system), and central distribution centers.

Prior to the slip system, reordering books had been organized by vendor, rather than by product or store organization, making for a tedious process of looking up which vendor carried an item, then looking up the item number and price in the vendor catalogue before placing a phone call to the vendor to submit the reorder. The slip system shifted inventory bookkeeping from organization by wholesaler to the way goods were organized at stores. It also eliminated the need for stores to call vendors directly for replenishment. The pages in the new order book featured perforated tabs, which allowed store workers to simply tear out the order sheets and hand them to a collection agent from the district office. The district office would then consolidate the orders and, on fulfillment, regroup all vendor deliveries by store from the new central distribution centers.

Central distribution helped streamline operations from about 70 daily deliveries per store in 1974, to roughly 10 in 2003. It also put pressure on franchisees to order according to the store's actual needs, rather than allowing inventory to balloon in order to keep up vendor relationships.

1978: Terminal 7 This computer-based system replaced the slip system, allowing SEJ's then-450 member stores to place orders online, which were transmitted via satellite to vendors—who leased terminals from SEJ and could now consolidate the orders themselves before delivering to SEJ distribution centers. By this time, SEJ headquarters had eliminated the use of vendor-based product catalogues, and had developed six different ordering cycles specific to each product category. Updated category-based product catalogues were sent to franchisees every four weeks. In addition, new merchandise catalogues containing up to 90 new products were sent to each store once a week, allowing all stores frequent opportunities to keep their offerings new and fresh. Descriptions included not only product and cost, but also how best to position the items in the "context of current consumer demand" and descriptions of the "customer groups most likely to benefit from the item."

1982: Total Information System In 1982, SEJ introduced a handheld electronic order book and launched a point-of-sale (POS) data collection system across its entire franchise network. The former, which was developed and introduced within just six months, allowed stores real-time access to item prices, margins, delivery frequency, minimum order quantities, and other information, from the convenience of the handheld's LCD screen. It enabled stores to easily identify dead inventory and slow-moving items, which were eliminated in favor of new products.

The latter captured not only which items were sold at a given point in time, but also who was buying the items: children, students, housewives, and others. POS data allowed SEJ headquarters to remotely monitor all sales trends at its franchisees, and SEJ stores to profile their unique clientele and track the products they bought. The cash register did not open unless the SEJ cashier pressed a customer category key at the point of sale.

Together, these innovations constituted the first generation of the Total Information System. The **second generation**, which featured store-based Graphic Display Computers that could analyze finer POS data such as gender and age group now captured by the new, custom-made POS terminals, was

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fully rolled out by 1986. Four years later, the **third generation** replaced the electronic order book with a powerful wireless tablet PC Graphic Order Terminal that partially replaced the Graphic Display Computer. The tablet PC facilitated complex data input and output, and enabled franchise employees to run customer demand analyses with a few touches of the screen. SEJ also rolled out an integrated digital network to handle the increased volume of data traveling between headquarters and the growing network of SEJ stores and suppliers. In 1998, the **fourth generation** brought multimedia communication capabilities to stores. Finally, the **fifth generation** Total Information System in 2000 enhanced the tablet PC with graphic order books that rendered obsolete SEJ's old paper catalogues. Moreover, users gained the ability to check weather, local events, and other factors that influence demand on the same screen from which they placed orders.

In conjunction with each technological change, SEJ instituted comprehensive training programs to teach franchisees how to use the new systems and analyze data output. Trainees were required to form hypotheses on quantity of demand by item, order accordingly, and then use POS data to verify or modify their understanding of demand. Operations Field Counselors from headquarters, numbering approximately 1,000 in 2004, were assigned to some 10,000 stores to assist franchisees in drawing effective conclusions from their data. Cutting-edge technological systems were important tools in a growing business, said Suzuki, but "a tool becomes either useful or useless depending on the skill of the person using it."

Source: Tomoyuki Ogata (Ed. Daniel Costello). *Grasping Customer Demand with Tanpin Kanri*. Tokyo: Office 2020 Publishing, 2002. 56-76.

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