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W12804

7-ELEVEN IN TAIWAN: ADAPTATION OF CONVENIENCE STORES TO NEW MARKET ENVIRONMENTS

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In early February 2011, a group of Taiwanese businesspeople were on holiday in the United States to celebrate the lunar New Year. They took a shuttle bus from Los Angeles International Airport to their hotel in the city. As they drove past a 7-Eleven store, the group erupted into applause: A Taiwanese store in the United States! The collective acclaim showed how completely Taiwanese consumers had identified with the American convenience store chain and its logo.

7-ELEVEN WORLDWIDE

7-Eleven Inc. was the world's largest operator, franchisor and licensor of convenience stores, with annual sales of more than \$62 billion.[1] The company had pioneered the concept of convenience stores in the United States, where it had 7,200 stores. This concept was also extended to several countries in North America, Europe and Asia, including more than 36,400 franchises outside the United States, the largest of which were located in Asia. Beyond the borders of the United States, Japan had the single largest number of stores in the 7-Eleven chain, followed by Thailand, Taiwan and South Korea (see Exhibit 1: 7-Eleven Franchises Worldwide – January 2011).

Founding in the United States

7-Eleven was founded in 1927 as the Southland Ice Company in Dallas, Texas. It started by selling ice blocks that were used to refrigerate food in homes. The first stores were known as Tote'm stores because customers "toted" away the ice blocks.

[1] *7-Eleven Stores Pty. Ltd., "Why 7-Eleven," http://7elevenfranchise.com.au/why-7-eleven, accessed November 20, 2011. All dollar amounts shown in U.S. dollars unless otherwise indicated.*

An enterprising employee at one of the stores began offering milk, bread and eggs on Sundays, when the regular grocery stores were closed for the weekend. Customers found the service very convenient. The store picked up on the cue and opened for extended hours during weekdays. It was thus that the business of convenience stores originated in the United States, pioneered by Tote'm.

Tote'm changed its name to 7-Eleven in 1946, when the stores were open from 7 a.m. to 11 p.m. daily. During the 1950s, 7-Eleven started moving beyond the Dallas market into other regions of Texas and also into Florida and Washington, DC.

The move to stay open 24 hours started by accident in 1962, at a store in Austin, Texas, located close to the university campus. On a Saturday night after a football game, the store was so busy that its employees lost track of time and did not bring down the shutters. As an experiment, the store manager opened the store 24 hours a day, seven days a week. It worked and soon caught on with the rest of the 7-Eleven stores in the United States; the extended hours remained unchanged, as a defining characteristic of 7-Eleven.

7-Eleven's new store hours (24/7) were popular for several reasons. More than 10 million people in the United States were awake at 3 a.m., 7 million of whom were gainfully employed in some kind of work.[2] In fact, the American work routine was changing. Late-night or early morning schedules were becoming common, and factories were running three full shifts, leading to several categories of American workers who were staying up later, getting up earlier, and needing a convenient place to shop.

Concept of Convenience Stores

7-Eleven had articulated its mission as: "Meeting the needs of convenience-oriented customers by providing a broad selection of fresh, high-quality products and services at everyday fair prices, speedy transactions and a clean, friendly shopping environment."[3]

The concept of convenience stores, developed by 7-Eleven, was shaping the way Americans shopped; in turn, American buying behaviour and the American landscape were both shaping the identity of convenience stores. As a matter of habit, American shopped at big-box stores and supermarkets for all their weekly or monthly supplies. Convenience stores served as sources for supplementary shopping, for picking up daily-use items that had run out. Convenience stores were thus stuck in a warp. They could not gain top-of-mind recall among American consumers; they seemed destined to stay on the fringes.

Standardization of Business Format

The evolution of 7-Eleven Inc. was based on three distinctive features of the American landscape.

First, the stores in the 7-Eleven chain were separated from one another by long distances because the United States was geographically the third largest country in the world, spread across 9.83 million square kilometres. Second, areas where people congregated, such as street corners, became the natural sites for 7-Eleven locations, which, for similar reasons, veered toward gas stations in the United States. 7-Eleven was, in fact, known as a gas station retailer. Third, the 7-Eleven stores were largely located in U.S. rural areas, where population density was low. As a result, customers invariably drove to a store. Almost every 7-

[2] 7-Eleven Inc., "About Us," http://corp.7-eleven.com/, accessed August 6, 2011.
[3] 7-Eleven Stores Pty. Ltd., "Why 7-Eleven," http://7elevenfranchise.com.au/why-7-eleven, accessed September 12, 2011.

Eleven store, therefore, had sufficient space for parking. Drive-ins were normal, even among 7-Eleven stores located in metropolitan cities such as New York.

Other core elements of the basic business format related not only to the store logo and store location but also to each store's product offerings and merchandising. These core elements, such as the floor plan, were uniform across the 7-Eleven chain (see Exhibit 2: Standard Floor Plan of the U.S. 7-Eleven Stores).

In the United States, new 7-Eleven franchisees commonly constructed a store on a free-standing space. The process of putting the physical structure together from scratch ensured conformity with the guidebook norms the U.S. head office provided to a new franchisee. One norm was that the total store area should be between 2,400 and 3,000 square metres. The franchisee could, however, choose from among several standard formats (e.g., 40 × 60 metres, 80 × 30 metres; 55 × 45 metres, and so on). Another norm pertaining to the floor plan stated the positioning of each of the store's physical components (e.g., retail shelves, refrigerators, microwave ovens and the cash counter).

Franchisees also received general instructions on which categories and sub-categories of products, as defined by the head office, should be stocked in the store. The definitions were part of the Product Maintenance Agreement (PMA) that the head office entered into with large vendors for stocking its own-managed stores. Since the PMAs were usually with loss leaders (which guaranteed footfalls at the store and ensured sales of products with higher margins), they were equally applicable to franchised stores. The head office would also suggest the names of local suppliers from whom the franchised stores could source products covered by a PMA.

The chain's Operation Field Consultants (OFCs) visited the various franchised stores under their watch to ensure, on an ongoing basis, the uniformity of 7-Eleven stores' layout, floor plan and merchandising. The OFCs generally played a mentoring roles, including suggesting how franchisees could incorporate best practices from other stores.

International Expansion

The concept of convenience stores had evolved in countries outside the United States along the same lines as it had evolved in the United States. Convenience stores served as a source of supplementary purchases of essential items that could be readily consumed by shoppers. The format established in the United States could be replicated in any part of the world.

In 1969, 7-Eleven opened its first store outside the United States, in Canada. It soon entered a new country every two to three years, by using the franchising route, even outside the United States. In an industry in which domestic players prevailed and proliferated in every country, 7-Eleven was making progress wherever it opened stores. It seemed to have understood the pulse of the customer in every foreign market better than the homegrown convenience stores.

7-Eleven Inc. sought, from its franchisees worldwide, consistency in the colour separations of its signage, the presentation of the corporate logo and the arrangement of the store interiors, while leaving to the franchisee the choice of the location. 7-Eleven Inc. was usually guarded, however, about enforcing any directives on the product range for three reasons: customers in a convenience store were largely from the local community, their needs would be largely local and the products they were buying would also likely be largely local. It was in the product offerings that local nuances came into play.

The global expansion of 7-Eleven was progressing so rapidly that the number of stores outside the United States was soon nearly four times the number of stores within the United States. The chain had begun its foray into the Asian region by entering Japan in 1974. In 1980, it opened the first store in Taiwan, through a franchise deal with President Chain Store Corp. (PCSC), the distribution arm of a Taiwanese foods conglomerate, Uni-President Enterprises Corporation Group (UPEC).

CONVENIENCE STORES INDUSTRY IN TAIWAN

Taiwan, an island nation in East Asia, had, at 616 persons per square kilometre, the second highest population density in the world, surpassed only by Bangladesh. The capital city, Taipei, was Taiwan's most crowded metropolis with 9,737 persons per square kilometre.[4]

The country had evolved, for over half a century, as both a democracy and a capitalist economy. It was known as one of Asia's economic tigers (see Exhibit 3: Comparison of United States and Taiwan). Traditionally, 70 per cent of the growth in Taiwanese GDP came from exports, particularly of electronics and machinery. Until about 2000, Taiwan was a low-cost, offshore destination for manufacturers in North America and Europe.

Over a long period of time, the rates of inflation were low in Taiwan, coupled with high growth rates. The government's steady liberalization of the economy had increased local competition, which, in turn, had helped to hold down prices. Food prices comprised a large proportion of the consumer price index basket in Taiwan, and trends in international and domestic food prices had a considerable impact on the overall rate of inflation.

Retail trade in Taiwan was valued at $116.85 billion in 2010 and formed about 14 per cent of the country's GDP.[5] Almost every major global retailer had its presence in Taiwan, including hypermarket chain Carrefour, restaurant chain Pizza Hut and coffee chain Starbucks. Retail sales were an important metric of private consumption, which the government was tracking monthly.

Taiwan's high population density was a natural platform for the growth of not only retailing but also the convenience store industry. The concept of convenience stores had been pioneered by PCSC, a few years before it launched the first franchised store under the 7-Eleven logo in Taiwan in 1980. PCSC had first entered into the business of convenience stores in May 1979, when it launched 14 President Chain stores island-wide.

Some characteristics of Taiwanese society were central to the evolution of the convenience store industry in Taiwan. In the United States and Canada, property zoning was horizontal, marked by a clear segregation of offices, residential buildings, commercial centres and shopping malls across geographical spaces known as blocks. In Taiwan, the zoning was vertical, characterized by individual high-rise buildings that accommodated offices, apartments, stores, service centres, convenience stores and even workshops. In one building, the first floor housed a storefront bank, the second floor was a beauty salon and the floors above were residential apartments. In another building, the first floor was a car dealer, and the second floor housed a clinic plus a pharmacy centre and the rest of the building comprised offices and service centres.

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[4] Taiwan Government Information Office, "People: Taiwan's Population Distribution," http://www.gio.gov.tw/taiwan-website/5-gp/yearbook/2002/chpt02-1.htm, accessed November 25, 2011.
[5] "Taiwan Retail Sales Forecast to Hit Record High This Year," Taipei Times, December 26, 2010, http://www.taipeitimes.com/News/biz/archives/2010/12/26/2003491871, accessed November 25, 2011.

In some buildings, the basement would accommodate a restaurant or a supermarket, in addition to a parking lot. Explained James Hsieh, chief operating officer, PCSC:

> The advantage of vertical zoning is that there would always be people entering or exiting the high-rise. For a retailing business, footfalls are crucial. They are opportunities for making a profit. Consider a place like Manhattan in New York. Outside office hours, the place is deserted. You won't see a vacuum of such a kind in Taiwan. There is a flow of potential customers 24/7.

Some unique Taiwanese traits were conducive to the growth of the convenience stores industry. Taiwanese consumers had an obsession with immediacy; they did not like to wait, as evidenced by the way they sailed through the traffic in Taipei. Convenience stores were thus aligned with this need for instant gratification. Taiwanese entrepreneurs were drawn intuitively toward business models around franchising, which gave them freedom to manage their own destiny. They were also quite friendly and greeting a customer came naturally to a store owner in Taiwan.

Taiwan had many street vendors serving low-cost, tasty but not entirely hygienic food. These family-managed businesses had succeeded because they were nimble, focused and carried no frills. They had thrived because of the high density of footfalls in the streets of Taiwan. This situation was an ideal opportunity for a convenience store seeking a niche as a provider of low-cost, tasty and hygienic food.

By May 2010, Taiwan had a total of 9,410 convenience stores, giving it the highest density of convenience stores in the world. The stores were each a six-minute walk apart, and each served a community of approximately 2,500 people. Of the total number of stores, 14.3 per cent were company-owned, while franchise stores accounted for 85.7 per cent of the total.[6]

7-Eleven had the largest number of convenience stores in Taiwan at 4,750 (see Exhibit 4: Convenience Stores in Taiwan). Family Mart, which had its origins in Japan, owned the second largest number of convenience stores at 2,576. Family Mart made its first acquisition in the Taiwanese convenience store industry in 1997, when it took over 157 Nikomart stores, a competitor at the time. Hi-Life, the third largest chain with 1,247 stores, had opened its first store in 1988.

7-ELEVEN IN TAIWAN

UPEC, the parent company of PCSC, was a homegrown business enterprise founded in 1967 by Wu Hsiu-Chi, a Taiwanese entrepreneur, in Tainan, a city in southern Taiwan. After beginning with the manufacture of flour and animal feeds on a capital investment of about NT$16 million (roughly US$400,000 at that time), the start-up company later diversified into making pork noodles and rice noodles. UPEC had several production plants that covered six major business areas: Provisions, Dairy and Beverages, Instant Foods, General Foods, Consumer Health and Logistics.

UPEC was driven by the vision of being "No. 1 in Taiwan, Top around the Globe." It was founded on the principles of what, in local lingo, was referred to as "Three Goods plus One Fairness": good quality, good credibility, good service plus fair price.

In April 1978, UPEC set up PCSC to serve, initially, its captive needs of distribution. Over the next decade, PCSC acquired skills in managing the supply chain for various business divisions of the group.

[6] *http://www.taipeitimes.com/News/biz/archives/2009/07/10/2003448311, accessed August 06, 2011.*

Setting up its own President Chain stores in May 1979 was a logical extension of the competencies it had built up in distribution. In less than six months after launching President Chain stores, PCSC had begun talks with the 7-Eleven's U.S. office, which culminated in the launch of 7-Eleven stores in Taiwan.

The first 7-Eleven store opened in Taipei in February 1980. The bright, neat and well-lit environment of the store made an impact because of its sharp contrast to local stores, which were cramped, musty and dark. It was so clean that several customers assumed they had to take their shoes off before entering the store!

According to Hsieh, the growth of 7-Eleven in Taiwan since 1980 could be divided into three distinct phases of about a decade each: imitation, localization and innovation. Each stage summed up the managerial focus at PCSC at the time. All three stages connected seamlessly with one another.

Phase One: Imitation

As PCSC was the sole franchisor for the whole of Taiwan, it was keen on falling in line with the 7-Eleven mould, rather than breaking away from it. At this imitation stage, its immediate priority was to establish a good working relationship with the American partner. The first decade, 1980 to 1990, was thus characterized by PCSC's conformity with the tried and tested U.S. model.

Taiwan's scarcity of freestanding sites in cities limited the opportunities to build new stores from the ground up. As a result, it was difficult to conform to the U.S. model of stores of standard size, format and floor plan. The average store area of the Taiwanese 7-Eleven stores was also smaller, at 700 square metres, one-quarter of the area of a U.S. store (see Exhibit 5: 7-Eleven's Irregular Store Layout in Taiwan).

During this phase, PCSC had retained the 7-Eleven stores under its control. It had not taken the franchising route to the next level by opening these locations up to other Taiwanese franchisees. The captive model had helped reinforce the spirit of conformity within the group.

This period, however, witnessed three minor "mistakes" on the part of PCSC in setting up the franchise, as recalled by Hsieh.

First, it had opened 7-Eleven stores mainly in the residential communities, within city centres, which meant the target consumers were housewives; however, price was a main concern for these women and 7-Eleven was positioned in Taiwan as a chain of high-end convenience stores. Second, stores had opened simultaneously across Taiwan, particularly in the north, the central area and in the south, which had spread the group resources thin. Third, rather than renting space, PCSC was buying premises, which had led to high upfront costs.

Given these initial issues, 7-Eleven's expansion into Taiwan was smooth without major setbacks. By December 1990, PCSC had become the largest retailer in Taiwan with revenues of NT$10.8 billion (approximately US$366 million).

Phase Two: Localization

The second decade marked the beginnings of the realization that the "mistakes" of the first decade needed to be undone. PCSC started to loosen up some of the established systems and structures, principally those that pertained to ownership, location and merchandise.

PCSC had owned its stores for the first 10 years. It was now no longer buying stores' properties but was instead renting the premises from various landlords. The company was also franchising its stores in addition to opening its own stores. This approach meant less capital outflow, less managerial time spent in monitoring operations, more rapid growth and greater flexibility in the choice of sites and store locations. This approach also led to greater decentralization in operations because of the leeway given to the franchisees in making decisions at the store level.

The new franchisees were setting up stores not in residential communities but in city centres in high-density locations, such as railway stations. PCSC itself was moving its owned stores in cities such as Taipei to corner sites (see Exhibit 6: 7-Eleven Stores at City Centres and Street Corners in Taipei). The move into city centres also meant that the stores no longer needed to appeal to price-sensitive housewives but now needed to appeal to a different demographic group, young urban professionals. PCSC appealed to the younger generation by promoting American products such as the Slurpy, backed by advertising in the local media. The margins from a single Slurpy was higher than the margin from a dozen infant formulas.

Merchandise offered an opportunity both to conform and deviate. 7-Eleven Taiwan stores retained the U.S. model by selling fast foods, frozen foods, drinks, instant noodles, newspapers, magazines and cigarettes. These products were basic to modern living and were recurring purchases. The stores stopped stocking less frequent purchases such as pots, pans, plates, saucers and hardware. Instead, they served hot dogs, which were common in the United States and catching on in Taiwan.

Simultaneously, PCSC had begun taking steps to provide a local flavour in its stores. It started selling *tea egg*, a local breakfast dish prepared from spices, sauces, eggs and tea leaves. The new products were catching on with local customers. Recalled Hseih:

> The U.S. office had apprehensions about our selling tea egg, which has a certain fragrance. The Americans thought it was "smelly" and, thus, in their view, could cause allergies for customers. But tea egg is not only a local delicacy but a brisk selling product. When revenue considerations ultimately prevailed, we knew that we could begin to experiment at the ground level.

7-Eleven stores in Taiwan also offered *baozi* (breakfast buns cooked originally in large bamboo steamers), which could be warmed up at the point of sale; *luwei* (simmered vegetable potpourri), which could be cut and weighed to order at the store; and *fantuan* (glutinous rice, usually in triangle form, packed around meat, fish, or veggies, and then wrapped in seaweed leaf and packaged in plastic). Besides, the stores sold *biandang*, a hot, microwaved meal that customers could grab at any time of the day. This packaged offering was in direct competition to the traditional *biandang* sold by street vendors.

The success in marketing local foods led to the decision to extend the concept of customer convenience in two ways: moving beyond selling packaged foods to selling fresh foods, and selling products that could be consumed immediately rather than held for stock. PCSC changed the store profile and increased the convenience factor. All these decisions together helped undo the "mistakes" of the first decade.

By mid-1995, PCSC had opened its 1,000th store and had accomplished an island-wide network through store expansion into eastern Taiwan. In July 2000, PCSC signed a perpetual agreement with 7-Eleven Inc., which not only underscored the confidence of the American partner but also set the stage for a new decade of business transformation.

Phase Three: Innovations

The period beginning in 2000 saw PCSC reinforce the concept of customer convenience not only at the level of operations, as it had thus far, but also at the level of technology. The former involved thinking outside of the box to come up with untested but workable ideas around products and services offered at the store; the latter involved leveraging the existing resources of the UPEC group as a whole to improve the productivity of the 7-Eleven chain in Taiwan.

There was a limit to how far the concept of convenience stores could evolve in Taiwan on the basis of product offerings alone. PCSC was therefore looking for ways other than merchandise to find its basis of differentiation. It found a window of opportunity in the bourgeoning information technology (IT) sector. Soon, IT laid the foundations of a mindset, in which, as long as the basics — such as the store logo and the concept of customer convenience — remained intact, the chain would be open to any out-of-the-box thinking (see Exhibit 7: Service Innovations of the Taiwanese 7-Eleven Stores).

IT laid the foundation for i-Bon, an e-commerce kiosk connected to a cloud server (see Exhibit 8: 7-Eleven Taiwan – iBon). This IT platform enabled each 7-Eleven store to become a distribution channel of digitized services in its own right. The nature and number of transactions that customers could do on the i-Bon platform seemed endless.

For example, customers could walk into a 7-Eleven store in Taiwan to reserve tickets for domestic travel by air and high-speed rail, book tickets for movies and operas, pay credit card bills, and download documents from e-mails and print them (in colour, if required). The i-Bon kiosk also enabled payment of personal taxes, vehicle licence fees, driver's licence fees, parking tickets and speeding fines. Consumers could also pay their gas, electricity, water and phone bills at i-Bon, which served as an automated teller machine (ATM) to withdraw money.

The biggest advantage of i-Bon was that it increased footfalls (which could then generate collateral purchases). Licence renewal was an example of a category that increased footfalls. Taiwan had approximately 20 million scooters and 10 million cars. The driving licences were renewable every six years, amounting to an average of 5 million requests for licence renewals annually. Of those renewals 30 per cent, or approximately1.5 million, were processed at 7-Eleven stores. Thus, licence renewals alone attracted approximately 4,500 footfalls every day.

Service offerings were another area that opened up infinite possibilities for PCSC changing the conventional nature of its 7-Eleven stores. The basic idea was to increase revenue not only through footfalls but also through a fee for some of the services.

Pre-ordering

Pre-ordering was among the first fee-based services introduced. PCSC executives realized, in late 1990s, that Taiwanese people were devoting progressively less time to regular shopping due to longer working hours. The trend was particularly evident in seasonal shopping for occasions such as Valentine's Day and Mother's Day. PCSC came up with a novel idea, wherein customers could order their purchases by phone and pick up the goods on payment at the 7-Eleven store of their choice on a day and time that suited them. Pre-ordering soon covered a wide range of unconventional items, such as foods from five-star restaurants.

Delivery and Pick Up

The e-commerce platform installed at each 7-Eleven store was being used as a conduit for delivery and pick up of any product that was outside the realm of the store. The most popular use of this service was for the purchase of books. The store would not sell the books but any customer could walk into the store and use i-Bon to order a book through Amazon, the global online book distributor. The customer could then designate a specific 7-Eleven store for Amazon to deliver the book. The store would receive the book from the courier on behalf of the customer for pick-up at a convenient time.

The other popular delivery/pick-up service was laundry. Customers could drop their laundry at a 7-Eleven store on their way to work. At a fixed time each day, a dry cleaner would collect the laundry. The laundered clothes would then be returned to the store, either for customers to pick up in the evening or for delivery to the customers by the 7-Eleven trucks.

7-Eleven also facilitated buyers and sellers who used auction sites. For example, a seller could leave a purchased auction item at a 7-Eleven store in Taipei city for pick-up at another 7-Eleven store in Tainan city. The 7-Eleven transportation network would send the item from Taipei to Tainan, where the buyer, after making the payment, could pick it up. The money would be transferred, electronically, from Tainan to Taipei for the seller to collect.

Telecom

7-Eleven stores sold prepaid phone cards, in addition to monthly phone plans. The store had its own brand called 7-Mobile. It was part of the telecom services provided by Uni-President which was competing with the much bigger, state owned Chunghwa Telecom, for cellular services. Said Hsieh:

> 7-Mobile has carved out its own niche in the face of state monopoly. It has its own advantage in the sense that Chunghwa Telecom (the leading mobile phone operator in Taiwan) does not sell foods and beverages. At NT$140 per month for two years (less than US$5), we also offer a low threshold price. The calls within the same telecom network are free. We have secured a licence from National Communications Commission, the country's official regulator of the telecom sector, but 7-Eleven uses the infrastructure and airtime of Far East Tone, a mobile phone service wholesaler, which preempts us from the need to invest in cellular base stations. 7-Mobile is a private brand telecom service.

Ninety-five per cent of 7-Eleven stores in Taiwan had Wi-Fi access points, which allowed anyone with a wireless card (from either Chunghwa Telecom or 7-Mobile) to have free access to the Internet from their cellphone in most 7-Eleven stores.

i-Cash

The Taiwanese 7-Eleven stores sold i-Cash cards, prepaid cards available in a range of denominations of the local currency, the New Taiwan dollar. These cards removed the need to carry cash as they could be used like a debit card at any point of purchase. i-Cash could also be used to make purchases at one 7-Eleven store for delivery to another person at any other 7-Eleven store anywhere in Taiwan. The cards could also be used by parents to pay for purchases made either by their school-aged children or by their older children who were away at college. Young urban professionals also used the cards to pay for purchases made by their retired parents.

PCSC had also collaborated with EasyCard Corp, a Taiwanese provider of touch-and-go integrated circuit (IC) cards, which could be used by customers to gain entry to metro services, bus services, designated parks, stores and government agencies. The i-Cash-EasyCard, as the joint offering was called, had become a popular e-wallet for small daily purchases in Taiwan. It was convenient because it eliminated fumbling for the correct change at payment counters.

Coffee Counter

The decision to move into fresh foods was extended in 2004 to the launch of fresh coffee, branded as City Café, in Taiwan's 7-Eleven stores. Coffee was almost an addiction among Taiwanese people, who wanted it in cold weather or hot weather, with breakfast or lunch, with a sandwich or a rice bowl. City Café had changed Taiwan's coffee landscape, triggering not only the offering of coffee from fast-food chains such as McDonald's and other convenience stores such as Family Mart and Hi-Life but also the launch of independent, stand-alone coffee chains such as Starbucks and 85ºC.

According to estimates made by the Fair Trade Commission, an official agency of Taiwan in charge of competition policy, approximately 530,000 cups of coffee were sold every day at convenience stores in Taiwan. Up to 400,000 of those cups of coffee were sold by 7-Eleven stores alone.[7]

Seating Areas

Another example of innovating to local needs was the services that 7-Eleven targeted to seniors. Double-income families were on the rise in Taiwan, creating a social vacuum for seniors, whose numbers were also increasing. Seniors needed to find ways to occupy their time because their children were away at work all day. Some 7-Eleven stores designated a small seating area for seniors, where they could linger, mingle, chat with each other, exercise together and generally feel good and included in their community. 7-Eleven developed and sold special products for the seniors, such as low-calorie and high-fibre snacks. The designated seating areas in the stores were also used as a children's after-school waiting room. The children could colour drawings and do homework before being picked up by their parents on their way home.

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[7] *Lydia Lin, "Convenience Chains Fined for Coffee Price-Fixing," The China Post, November 3, 2011, http://www.chinapost.com.tw/taiwan-business/2011/11/03/321803/Convenience-chains.htm, accessed January 5, 2012.*

Taxi Services

7-Eleven stores in Taiwan had a provision for calling for a taxi service for handicapped persons. These people then received a discount in cab fare from 7-Eleven in cooperation with the Social Affairs Bureau of the Taiwanese government. People with hearing problems could use the store's i-Bon, for free, to call a cab. The store also kept a log book to help in the retrieval of personal belongings lost by such customers while in the cab. A unique service offered by the Taiwanese 7-Eleven stores provided assistance to customers who had drunk too much alcohol to drive home. The store would arrange for two drivers—one to take them home and the other to drive their car home. Explained Hsieh:

> The Taiwanese society is changing in many ways. The needs of its people are changing. The concept of convenience is also changing. What we are doing at 7-Eleven must change accordingly. The two basic questions we ask ourselves regularly are: "How can we help customers manage their daily chores? How can we help them cope with their day-to-day inconveniences?" Customers should walk in to a 7-Eleven store and be free to say, "This is my personal store. I can do whatever I want here."

By January, 2011, 7-Eleven had 4,783 stores in Taiwan (see Exhibit 9: 7-Eleven Stores and Market Share in Taiwan). For 2011, PCSC had generated a revenue of NT$138.9 billion and a net income of NT$6.1 billion (see Exhibit 10: President Chain Store Corp. Income Statements, 2000–2011). For the year, it had assets of NT$ 69.8 billion (see Exhibit 11: President Chain Store Corp. Balance Sheets, 2000–2011).[8] According to Hsieh, the growing view was that "people in Taiwan could live without the government but they could not live without 7-Eleven."

INFRASTRUCTURE OF HQ

The six major businesses of UPEC — Provisions, Dairy and Beverages, Instant Foods, General Foods, Consumer Health and Logistics — covered a wide range of products, which, in turn, required a network of collection and distribution hubs for both procurement (the back end) and sales (the front end). As a result, the group had developed an in-house infrastructure.

One major competitive advantage of 7-Eleven Taiwan was its being part of a conglomerate (see Exhibit 12: UPEC Infrastructure Companies). In leveraging the internal network to meet the needs of its stores, both owned and franchised, 7-Eleven in Taiwan was able to move its focus in capturing value from the inside of the store (during the localization phase of growth) to its external environment (during the innovative phase of its growth).

The first step in this regard was PCSC's decision to use the group's own logistics business, rather than private vendors, to deliver inventory to the 7-Eleven stores. PCSC had been relying on private vendors because its own transportation needs were limited by the size of the Taiwanese market. The shift to internal services reduced the number of delivery trucks that each 7-Eleven store needed to monitor from about 30 to 8, generating immediate efficiency in the supply chain. The sharing of resources was soon expanded to other areas, such as cash flow and information systems management.

PCSC had 27 warehouses in Taiwan and eight fresh food preparation centres. By 10 a.m. each day, the latter took orders from individual stores for Bentos (single portion dishes served in take-out boxes), dumplings and sandwiches, which had an expiry limit of 24 hours. The fleet was deployed for delivery by

[8] US$1 = NT$ 29.4898, http://fx-rate.net/USD/, as on February 29, 2011.

10 p.m. through Computer Aided Planning and Scheduling (CAPS), which would tie up all routes and schedules. PCSC was using its own fleet of vehicles for delivery. Each vehicle, in turn, was franchised. The system helped reduce the costs of supervision and encouraged entrepreneurship within the group.

The infrastructure support preempted the need for a storage area in each store, which represented a major saving in space (which was in short supply in Taiwan) and in recurring expenses (such as rent). Said Hsieh:

> The good thing is that it is easy for a 7-Eleven store in Taiwan to relocate. It is not because the store is smaller in size than a U.S. store. It is because, unlike the U.S. store, our entire infrastructure is outside the store. It has reduced the cost of relocation and improved our responsiveness. It is like the way the nomads keep moving to where the pasture is. We are like retail nomads. We can pack up and go where the growth is.

7-Eleven was the first convenience store in Taiwan to use EOS (Electronic Ordering System) to not only regulate its inventory but link the cashier at each store with the head office. PCSC was also continuously implementing new technologies. In 1995, it improved the prevailing EOS with Point of Sales (POS) systems and, within two years, introduced Graphic Ordering Terminals to further improve the requisitioning and ordering processes at each store, while the employees were working on the store floor. The Mobile Office platform launched in 2000 enabled the company to get closer to the OFCs, franchisees and, thereby, the end customers.

The decade beginning in 2000 was a time when the Internet euphoria was beginning to fade and global skepticism surrounded the promise and the potential of the virtual world. But, for UPEC, e-commerce was emerging as a potential opportunity to pool group synergies. Explained Hsieh:

> We entered the e-commerce market from the last mile unlike the normal practice of doing so from the first mile. The basic trigger came from two factors. The first was the recognition that the Taiwanese market was small; so small, in fact, that it was impossible to build scale from a single business. The second was the fact that the parent company, UPEC, was a conglomerate. It was focused on foods but, within it, was not only hugely diversified but fully integrated. There was thus untapped potential for leverage within group companies, by which each could add value to the other while getting value in turn.

The services provided by the head office to the chain stores included purchasing, warehousing, and transportation and delivery. The centralization of these three activities had not only generated cost savings for the group but had also led to better utilization of resources. Individual stores could send their requisitions for supplies to the head office rather than to different vendors. Bulk purchases had led to economies of scale. The 27 warehouses across Taiwan served as feeder lines to 7-Eleven stores. Some warehouses specialized in product categories, such as fresh foods, which required specially built freezers. Some catered only to the popular home delivery service, known locally as *Takkayubin*.

PCSC was most innovative in its transportation activities. The group's fleet of 3,000 vehicles and 5,000 drivers operated in two shifts. The drivers were franchisees and, thus, were entrepreneurs in their own right. Each individual driver was responsible for keeping the vehicle clean and in running condition and for ensuring timely deliveries. Each driver had a fixed route and, thus, had guaranteed work every month.

FUTURE DEVELOPMENTS

One of PCSC's priorities, in terms of future developments, was to draw on group-wide synergies to further improve its competitive position in the Taiwanese market. In the immediate context, PCSC was working on two major goals.

The ongoing service innovations at 7-Eleven Taiwan stores would be built increasingly on the platform of shared services within UPEC. On the domestic front, PCSC was in talks with Taiwan Railway Administration, which was managing passenger and freight traffic by rail, for the sale of its tickets at its stores. PCSC was also planning to provide its customers with such services as buying and renting apartments and automobiles. In this context, according to Hsieh, the next generation of 7-Eleven stores "would look dramatically different from what they look today."

On the international front, PCSC had secured the licence from 7-Eleven Japan for full franchise rights in Shanghai. China was considered the next growth frontier for 7-Eleven Taiwan. It had already opened Shanghai's first 7-Eleven store in February 2009 and planned to open 300 stores in China's largest city within five years. PCSC had chosen Shanghai over Beijing for the launch because, with its small alleys and streets, which encouraged people to walk rather than drive, Shanghai was similar to a Taiwanese city. 7-Eleven also had 6,000 stores in Thailand, half of them in the city of Bangkok. It planned to add another 1,000 stores in Thailand by 2013.

In the larger context, 7-Eleven Taiwan had aimed at generally reducing life's inconveniences to the Taiwanese people. It was a broad mandate that placed no limit to the extent to which 7-Eleven Taiwan could expand and diversify its offerings. "Whatever bothers customers," according to Hsieh, "is our business opportunity."

EPILOGUE

Shortly after visiting the United States, the same group of Taiwanese businesspeople were travelling to Shanghai. Having realized, while in Los Angles, that 7-Eleven was in fact an all-American enterprise, they exclaimed when they saw a 7-Eleven store in Shanghai: One more U.S. company in China! But, they were wrong again. The 7-Eleven store they had just passed was, in fact, a store that had been franchised, not by 7-Eleven Inc. in the United States, but by PCSC from Taiwan, their own homegrown business icon. 7-Eleven Taiwan had gone global.

Exhibit 1

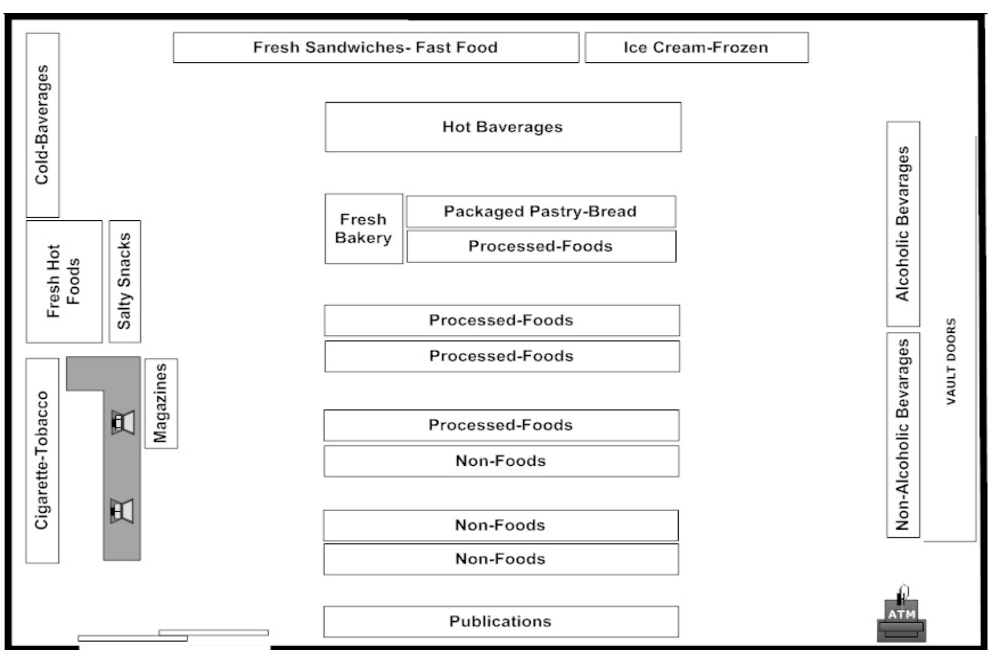
7-ELEVEN FRANCHISES WORLDWIDE – JANUARY 2011

Territory	Date First Store Opened	Number of Locations
United States	1927	7,200
Canada	1969	467
Mexico	1971	1,286
Japan	1974	13,590
Australia	1977	531
Sweden	1978	185
Taiwan	1980	4,783
China	1981	1,505
Singapore	1983	556
Philippines	1984	631
Malaysia	1984	1,305
Norway	1986	167
South Korea	1989	4,755
Thailand	1989	6,206
Denmark	1993	195
Beijing PRC	2004	121
Shanghai PRC	2009	81
Indonesia	2009	42
Total		43,606

Sources: http://corp.7-eleven.com/AboutUs/DomesticLicensing and http://corp.7-eleven.com/AboutUs/International Licensing, accessed November 20, 2011.

Exhibit 2

STANDARD FLOOR PLAN OF THE U.S. 7-ELEVEN STORES



Source: Company files.

Exhibit 3

COMPARISON OF UNITED STATES AND TAIWAN

	USA	**TAIWAN**
Land area	9,826,675 square kilometres	35,980 square kilometres
Terrain	Vast plains in central area, Hills in the East, Mountains in the West	Rugged mountains in the East, Flat plains in the West
Natural hazards	Hurricanes along the coast	Typhoons, earthquakes
Comparatives	About half the size of Russia; Slightly larger than China; European Union	Slightly smaller than the American states Maryland and Delaware of the combined
Population	307.7 million	23.07 million
Population growth rate	0.96%	0.19%
Age structure of the population	Ages 0–14: 20.1% Ages 15–64: 66.8% Ages 65-plus: 13.1%	Ages 0–14 years: 15.6% Ages 15–64 years: 73.4% Ages 65-plus 10.9%
Ethnic Groups	White: 79.96% Black: 12.85% Asian: 4.43%	Taiwanese: 84% Mainland Chinese: 14% Indigenous: 2%
Internet users	245.0 million	16.1 million
Main Urban Centres	New York (19.0 million) Los Angeles (12.9 million) Chicago (9.13 million)	Taipei (2.6 million) Kashsiung (1.5 million) Taichung (1.0 million) Tainan (0.7 million)

Source: Central Intelligence Agency, "Taiwan," The World Factbook*, https://www.cia.gov/library/publications/the-world-factbook/geos/tw.html, accessed October 20, 2011.*

Exhibit 4

CONVENIENCE STORES IN TAIWAN

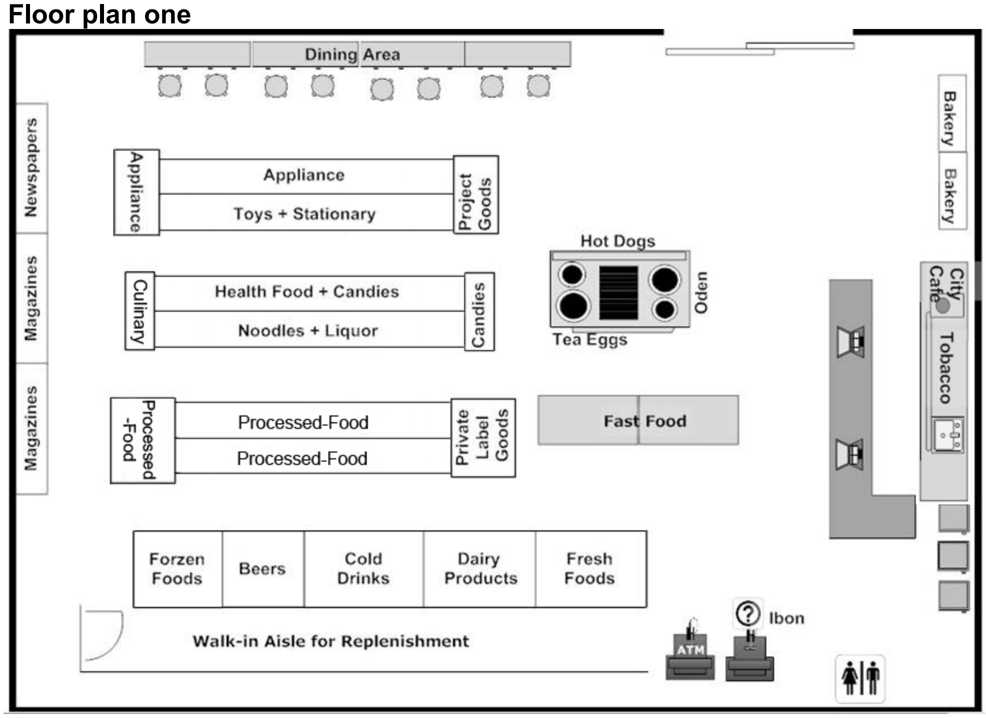
Chain Store	**2010**	**2009**	**2008**	**2007**
7-ELEVEN	4,750	4,750	4,800	4,705
Family Mart	2,576	2,401	2,326	2,228
Hi-Life	1,247	1,245	1,239	1,296
OK	837	837	830	818
Total	9,410	9,233	9,195	9,047

Source: Company files.

Exhibit 5

7-ELEVEN'S IRREGULAR STORE LAYOUT IN TAIWAN

Floor plan one



Floor plan two

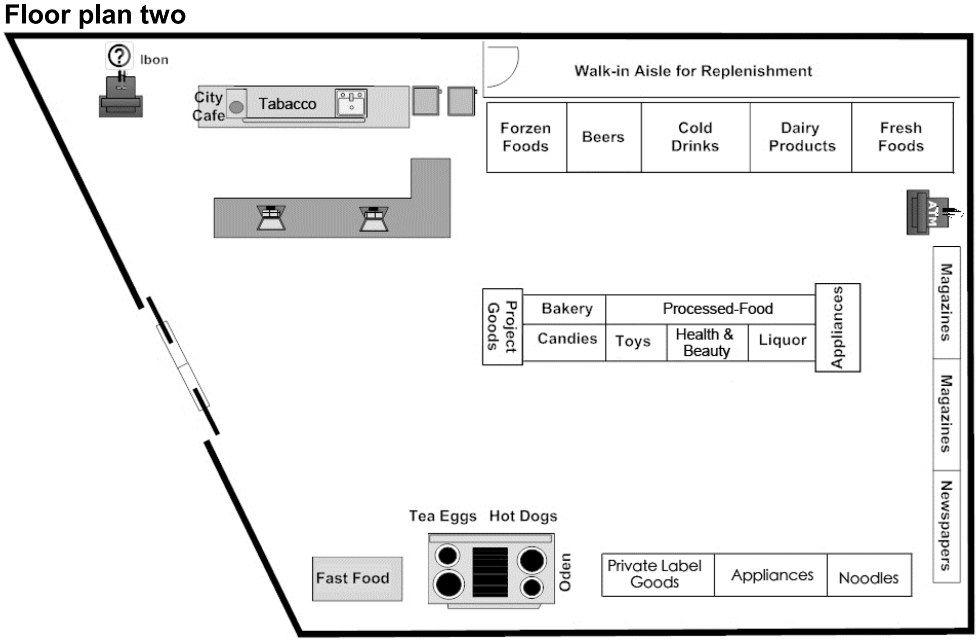
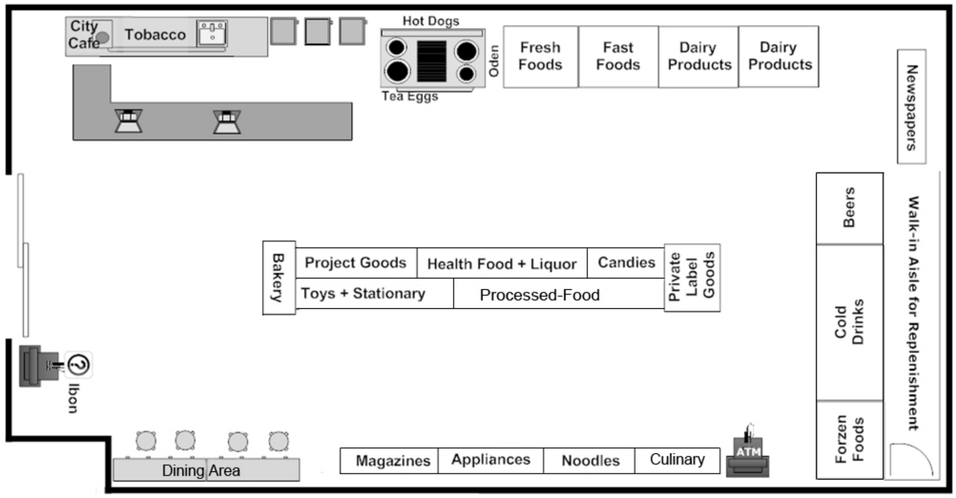


Exhibit 5 (continued)

Floor plan three



Source: Company files.

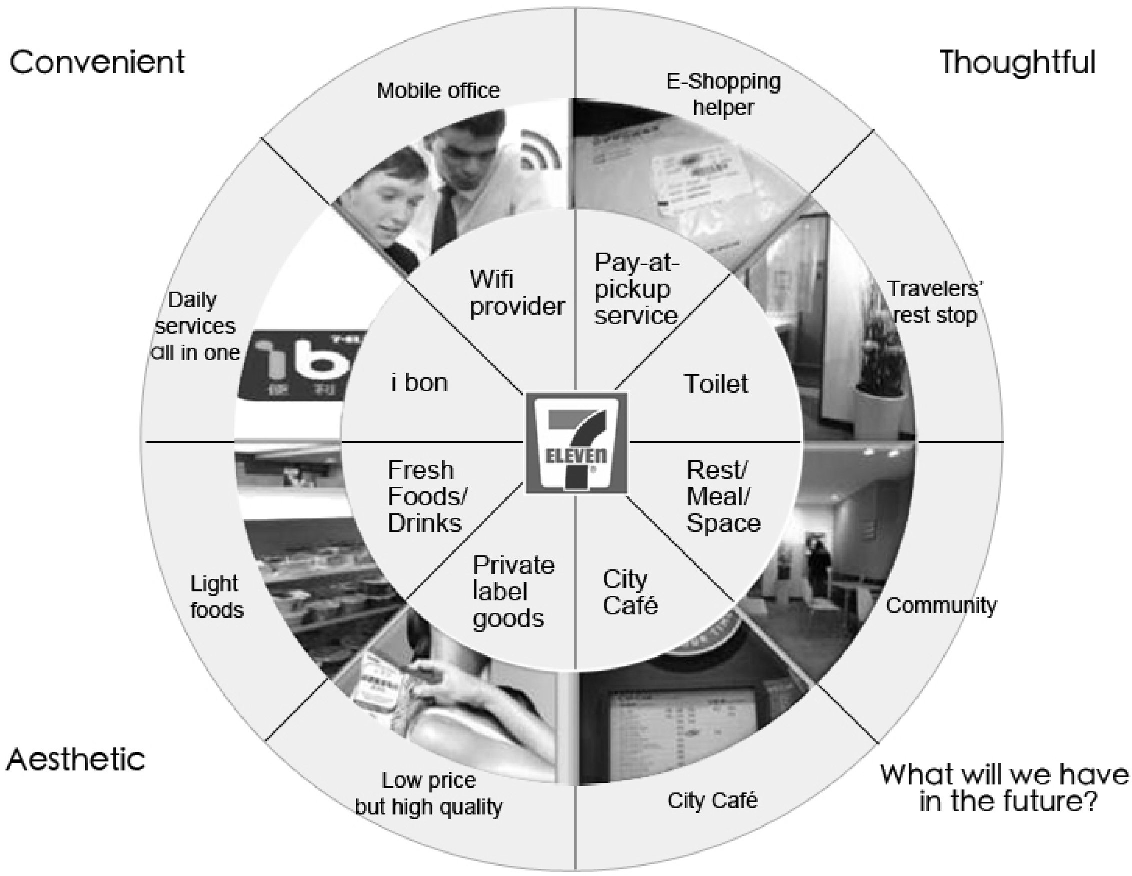
Exhibit 6

7-ELEVEN STORES AT CITY CENTRES AND STREET CORNERS IN TAIPEI

Source: Company files.

Exhibit 7

SERVICE INNOVATIONS OF THE TAIWANESE 7-ELEVEN STORES



Source: Carat Media Weekly Newsletter, 2011/07/11–2011/07/17, no. 594.

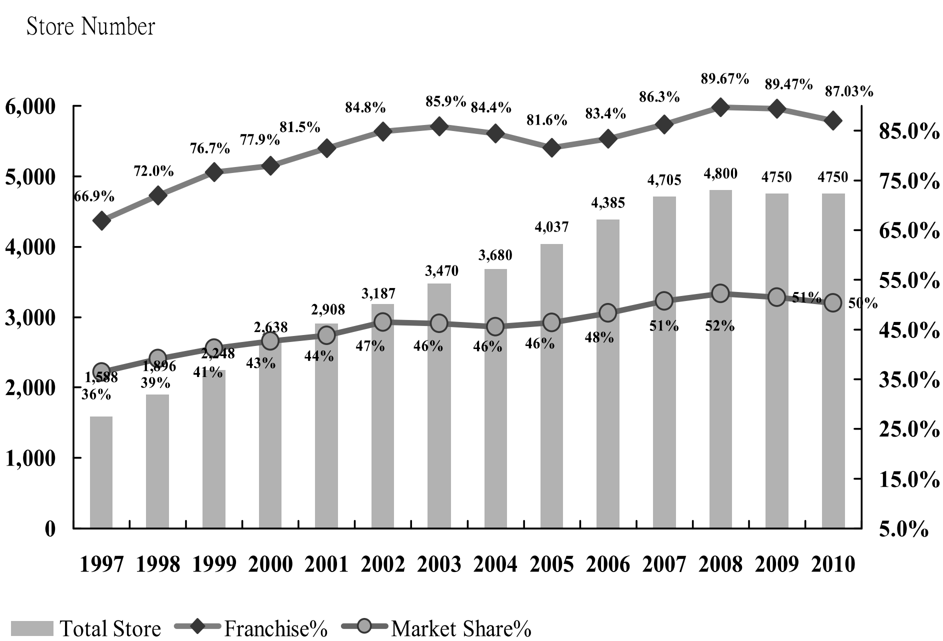
Exhibit 8

7-ELEVEN TAIWAN – IBON

Source: Company files.

Exhibit 9

7-ELEVEN STORES AND MARKET SHARE IN TAIWAN



Source: Company files.

Exhibit 10

PRESIDENT CHAIN STORE CORP. INCOME STATEMENTS, 2000–2011

Year	2011	2010	2009	2008	2007	2006	2005	2004	2003	2002	2001	2000
Operating Revenues	138,960	169,917	148,278	145,899	141,982	132,945	119,941	95,275	90,063	81,050	70,863	57,282
Cost of Sales	(92,571)	(115,961)	(100,138)	(99,256)	(98,324)	(93,042)	(83,225)	(66,486)	(63,104)	(56,578)	(49,475)	(39,923)
Gross Profit	46,389	53,956	48,140	46,643	43,658	39,903	36,716	28,789	26,959	24,472	21,388	17,359
Operating Expenses	(39,536)	(46,305)	(42,027)	(40,889)	(38,606)	(34,783)	(31,887)	(25,403)	(23,554)	(21,690)	(19,329)	(15,117)
Operating Income	6,853	7,651	6,113	5,754	5,051	5,120	4,829	3,386	3,405	2,782	2,059	2,242
Non-Operating Income	1,055	1,475	1,755	647	1,433	1,112	874	899	1,034	682	769	799
Non-Operating Expenses	(450)	(1,235)	(2,316)	(1,494)	(1,185)	(700)	(641)	(397)	(419)	(331)	(559)	(606)
Income before Income Tax	7,458	7,891	5,552	4,907	5,299	5,532	5,062	3,888	4,020	3,133	2,269	2,435
Income Tax Expense	(1,377)	(1,522)	(1,146)	(1,304)	(1,497)	(1,491)	(1,215)	(765)	(260)	(538)	(539)	(649)
Net Income	6,081	6,368	4,406	3,603	3,802	4,041	3,847	3,123	3,760	2,595	1,730	1,786

(In NT$ Million. Ending period of 2011 on September 30 and all others on December 31)

Source: Company annual reports.

Exhibit 11

PRESIDENT CHAIN STORE CORP. BALANCE SHEETS, 2000–2011

Year	2011	2010	2009	2008	2007	2006	2005	2004	2003	2002	2001	2000
Assets												
Current Assets	36,938	36,454	34,137	30,091	24,657	18,298	15,216	7,542	9,032	6,375	8,528	5,254
Long-term Investments	10,197	11,236	12,344	13,879	14,078	14,482	13,619	12,155	10,734	10,933	5,979	6,164
Fixed Assets (Net)	17,956	16,697	15,509	15,479	14,686	12,448	12,102	11,802	10,025	9,316	8,447	5,919
Other Assets	4,735	4,701	4,704	4,279	3,859	4,007	4,018	2,421	2,498	2,433	1,710	631
Total	69,826	69,088	66,694	63,728	57,280	49,235	44,955	33,920	32,289	29,057	24,664	17,968
Liabilities & Equity												
Current Liabilities	38,906	37,039	34,205	32,143	28,694	26,847	21,948	13,993	13,574	11,885	9,704	6,912
Long-Term Debt	4,564	5,527	7,662	10,079	7,640	2,090	4,069	3,385	2,663	3,395	3,184	1,204
Other Liabilities	3,190	3,125	3,033	2,720	2,536	2,284	2,083	1,550	1,440	1,288	1,176	1,054
Total Liabilities	46,660	45,691	44,900	44,942	38,870	31,221	28,100	18,928	17,677	16,568	14,064	9,170
Equity	23,166	23,397	21,794	18,786	18,410	18,014	16,855	14,992	14,612	12,489	10,600	8,798
Total	69,826	69,088	66,694	63,728	57,280	49,235	44,955	33,920	32,289	29,057	24,664	17,968

(In NT$ Million. Ending period of 2011 on September 30 and all others on December 31)

Source: Company annual reports

Exhibit 12

UNI-PRESIDENT ENTERPRISES CORPORATION GROUP INFRASTRUCTURE COMPANIES

Taiwan Business Group

	7-ELEVEN	Logistics Business	Support Business	
Company and Brand Name	PCSC 7-ELEVEN	Retail Support International Corp.	BankPro E-Service Technology	President Chain Store Tokyo Marketing Corp.
Nature of Business	Convenient Store	Room temperature distribution	Electronic commerce software services	Brand Marketing, Trade Agency, Market Research
Number of Stores	4,750			
Company and Brand Name		Uni-President Cold-Chain Corp.	President Information Corp.	Q-WARE SYSTEMS & SERVICES CORP
Nature of Business		Low-temperature and frozen goods distribution	Enterprise information system management and consulting service	ibon platform & digital service provider
Number of Stores				
Company and Brand Name		Wisdom Distribution Service Corp.	Capital Inventory Services Corp.	
Nature of Business		Distribution of publication, toys, EC, and photo development	Inventory Auditing service	
Number of Stores				
Company and Brand Name		President Logistics International INC.	President Musashino Corp.	
Nature of Business		Truck management	Fresh Food Manufacture	
Number of Stores				

Source: Company files.