Entering Shanghai: 7-Eleven’s Choice of Master Franchisee

This case was prepared by Yi Pan under the supervision of Dr. Hyunjoo Oh and Dr. Bart Weitz. This was prepared to support the IRET Program at the David F. Miller Center for Retailing Education and Research at the University of Florida. Support for the IRET Program was provided by a BIE Grant from the U.S. Department of Education.
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In February 2008, Chris Tanco, the Senior Vice President of the international franchising business, 7-Eleven, read the three applications proposed by the President Chain Store Corporation, Hong Kong Dairy Farm Group, and Beijing 7-Eleven for the permit that would bring 7-Eleven into Shanghai, China. The high disposable income of its citizen coupled with its well established infrastructure makes Shanghai one of the most attractive markets for foreign retailers. As a result, Shanghai has become the center for finance and trade in China. However, many international and domestic companies have already occupied this area. The competition among the existing convenience stores has intensified over time. Can 7-Eleven succeed and turn a profit amongst this competition? The decision of 7-Eleven’s top management to grant the permit will go a long way in determining its future success in eastern China. Needless to say, 7-Eleven is very cautious about making its first move in Shanghai.

Background of 7-Eleven

7-Eleven is a pioneer of the convenience store concept, as well as the world’s largest operator, franchiser, and licensor of convenience stores. It began as an ice-house in Dallas Texas in 1927. It created the initial concept of convenience retailing when, in addition to selling blocks of ice, it began offering milk, bread and eggs when grocery stores closed on Sundays and weekday evenings. Its first convenience store was titled “Tote’m” because customers “toted” away their purchases. In 1946, “Tote’m” became “7-Eleven” to represent stores’ new and extended hours - 7a.m. until 11 p.m., seven days a week. As the demographic and lifestyles of its customers changed, 7-Eleven began to offer 24 hour service 7 days a week. In 1991, Ito Yokado, a Japanese retail giant, acquired more than half of the shares of the company. He changed the name of the corporation from Southland Corporation to 7-Eleven, Inc. In 2005, 7-Eleven became a wholly owned subsidiary of Seven & I Holdings company, a Japanese-based organization.

Today, 7-Eleven operates, franchises, and licenses roughly 7,000 stores in both the United States and Canada, as well as approximately 29,700 stores internationally; including Japan, Taiwan, Thailand, South Korea, China, Hong Kong, Malaysia, Mexico, Singapore, Australia, Philippines, Indonesia, Norway, Sweden, and Denmark. The first 7-Eleven convenience store in China was opened in 1992 in Shenzhen (See Appendix 1 for the International Expansion of 7-Eleven). There are now more than 500 stores in Guangdong and Beijing, and it is the only national convenience store chain in China with cross-regional presence. 7-Eleven’s stores in Guangdong are operated by Hong Kong Dairy Farm International Holdings Limited, its regional master franchisee in the Guangdong providence. While 7-Eleven’s stores in Beijing are operated by Beijing 7-Eleven Co. Ltd, its regional master franchisee are in the Beijing and Tianjin area (See Appendix 2 for the map of China).

Each 7-Eleven store focuses on meeting the needs of busy shoppers by providing a broad selection of fresh, high-quality products and convenient services at fair prices everyday. Customers can enjoy speedy transactions in its clean, safe, and friendly shopping environment.

2 http://corp.7-eleven.com/AboutUs/Internationallicensing/tabid/115/Default.aspx retrieved 07/31/2010
3 http://baike.baidu.com/view/1037.htm retrieved 07/31/2010
Three Candidates for Shanghai 7-Eleven

The situations of the three applicants for the right to operate 7-Eleven stores in Shanghai are summarized below.

**Beijing 7-Eleven Co., Ltd**

A joint venture of Japan-based Ito Yokado (65%), Beijing Shoulian Group (25%) and China National Sugar & Alcohol Group Corporation (10%), Beijing 7-Eleven started in 2004 with its headquarters in Japan, and has aspirations of expanding to China. Its biggest shareholder, Ito Yokado, is the largest retailer in Japan. It has operated 7-Eleven stores successfully in Japan since 1973. Now, Ito Yokado and 7-Eleven are two subsidiaries of 7 & I company. Ito Yokado entered China in 1996. It runs supermarkets, hypermarkets, and convenience stores in Beijing and Chengdu, and it has an office in Shanghai. Attempting to Shoulian to take advantage of its local knowledge and experience in running chain stores, 7-Eleven selected Shoulian as a partner. Shoulian is comprised of 10 popular chain retailers located in Beijing, which includes the notable Beijing Yikelong Commercial Co Ltd, Beijing Lufthansa & Wangjing Shopping Centre and Xiaobaiyang Supermarket etc.

Xiaomei Cao, a manager at an accounting firm in Beijing, just finished preparing for the presentation for a client tomorrow. He felt hungry and realized it was already 11 PM. There was nothing left in the refrigerator and he would love to have something hot to eat before going to bed. He immediately thought of the 7-Eleven newly opened in his neighborhood and he really missed those ready-to-eat hot foods. He took a look out of the window, it was a late December night and it would be really cold to go out even for a couple of minutes. At the end, he made himself a cup of coffee and went to bed.

Beijing may not be the best market for convenience stores at this present time. Although consumers in Beijing have relatively high disposable incomes, the cold winters of Beijing deter customers from venturing out to 7-Eleven at night when Beijing is at its coldest. The 24 hour convenience of 7-Eleven means little to customers during these winters. Moreover, high rent, scattered space, and the high density of supermarkets and hypermarkets makes the city unfriendly and unwelcoming to convenience stores. Almost all convenience store chains in Beijing are suffering losses. For example, Hualian Quick, the domestic market leader with around 100 stores in Beijing, has been continually running deficits since opening its first store in 2002. After four years of development, 7-Eleven already has around 90 stores in Beijing, and has managed to turn losses into profits in 2008. Moreover, in early 2006, Beijing 7-Eleven became the first foreign company to be granted permission to operate franchises in China by the Commerce Department, which has been lending an edge for its future expansion in China. Beijing 7-Eleven planned to enter Tianjin, another economic center of north China in 2009. With its close relationship with 7-Eleven headquarters and the knowledge obtained from the tough market of Beijing, Beijing 7-Eleven is expecting a new journey in Shanghai.

**President Chain Store Corporation**

President Chain Store Corporation is a member of Uni-President Group, the largest food production company in Taiwan and Asia. President Chain Store Corporation was authorized to permanently operate 7-Eleven in Taiwan in 1991. After seven years of operation with deficits, its 7-Eleven stores finally turned
losses into profits. 7-Eleven now has more than 4,000 stores and is the largest convenience store chain in Taiwan.

Uni-President Group also operates Shanghai Starbucks, Cold Stone Creamy, Shanghai Afternoon Tea, Shanghai Mister Donut, Shenzhen Cosmed, Shandong Uni-Mart and Si-Chuan Uni-Mart in China. With the native knowledge of Chinese customers and years of successful operation of 7-Eleven in Taiwan, President Chain Store Corporation wants to combine the know-how and experience to make its presence known in Shanghai.

In fact, Uni-president Group was a share-holder of Beijing 7-Eleven. However, it sold all 14% of its shares just before the opening of its first 7-Eleven store in Beijing. This was due to its failed attempt to gain more shares from Ito Yokado. It also could not get enough control over both the store operations and human resources of Beijing 7-Eleven.

**Hong Kong Dairy Farm Group**

Being the parent company of Guangzhou 7-Eleven Co., Ltd, Hong Kong Dairy Farm International Limited is a leading pan-Asian retailer, with operations in south China since 1992. The chain is committed to developing its store networking and aims to strengthen the brand with more innovative and value-added services that offer one-stop shopping convenience to customers. The group has operated more than 5,000 retail outlets internationally, including Welcome (supermarkets), Maxim’s Catering (restaurant), Cold Storage (supermarkets), Jason’s Market Place (high-end supermarkets), Shop N Save (discount supermarkets), Giant (hypermarts), Mannings (health and beauty stores), Starbucks, 7-Eleven in South China, and IKEA in Hong Kong and Taiwan. 4

The company is a member of Jardine Matheson Holdings Limited, which is a global company based in Hong Kong. Founded as a trading company in China in 1832, Jardine Matheson is currently a diversified business group focused primarily on Asia. The Group's interests include Jardine Pacific, Jardine Motors, Jardine Lloyd Thompson, Hongkong Land, Dairy Farm, Mandarin Oriental, Jardine Cycle & Carriage and Astra International. These companies are leaders in the fields of engineering and construction, transport services, insurance broking, property investment and development, retailing, restaurants, luxury hotels, motor vehicles and related activities, financial services, heavy equipment, mining and agribusiness.5

The first 7-Eleven store in China was opened in Shenzhen in 1992, and then it opened up more stores in Guangzhou in 1995. Now 7-Eleven has become the largest convenience store chain in Guangzhou with around 300 stores. Because of high consumer income, warm weather, and modern lifestyle, Guangzhou has attracted many foreign and domestic retailers. For example, two market leaders from Shanghai, Lianhua Quick and Kedi, had attempted to enter Guangzhou. However, both of them failed and exited the market. Their early aggressive expansions and ambitions were in vain. 7-Eleven took over 8 stores from Kedi and 110 stores from Lianhua Quick after they exited the market. OK convenience store was worth mentioning as a competitor in the market. Li & Fung, a distinguished retailer in Hong Kong, which is a member of Conoco Philips, the 2nd largest convenience store operator after 7-Eleven and was founded in 1951, operated OK convenience store.

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Liangchen Li, an engineer at a joint venture in Guangzhou, was facing the same “lunch” problem. Yesterday he was having lunch with several of his colleagues in a Szechuan restaurant near his office. Today his friend called and asked him out to lunch in a Cantonese restaurant nearby. Li walked to the restaurant, which took around 10 minutes and waited to be seated for another 5 minutes. Li’s office was on the North Tianhe road, one of the busiest business districts in Guangzhou. There were many restaurants as such near his offices and he never needed to worry about the over-crowding problem. Li spent a 45 minute delicious lunch with his friends and walked back to the office. He sat down and turned on the computer to watch a movie to relax. He noticed the clock on the computer and estimated that he still had an hour or so before his afternoon work began.

Dairy Farm Group was granted permission to franchise by 7-Eleven in south China and since then has expanded aggressively. It has outperformed all other competitors, and has become the number 1 convenience store in Guangzhou. With its glorious record in Guanzhou and sufficient financial support, Hong Kong Dairy Farm International Limited believes that it is ready for the market in Shanghai.

**Overview of Mainland China**

With a population of 1.3 billion, China has undergone a series of free market reforms initiated by Mr. Deng Xiaoping since 1978. These reforms transformed the country from an economically desolate country ruled by a totalitarian government into an industrial powerhouse. China began to take off in the 1990s, with the establishment of the “special economic zones” and the policy of creating a “socialist-market economy”.

Private business, which is also referred to as self-employed households, prospered from the reform. In the 1990s, under the reform of Premier Zhu Rongji, most state-owned enterprises (SOEs) were privatized, especially those that were losing money. SOEs used to be the major contributor of GDP and accounted for more than 90% from 1978 to 1992. The figure dropped to around 30% in 2009.

Foreign investment have been a great factor in fueling the economic giant engine. Foreign investment was strictly limited to the export-led industries in the early 1980s. In order to operate in China, foreign companies had to set up a joint venture with the Chinese firms. In addition, most of the products manufactured in China had to be exported to the international market rather than sold in the domestic market.

These limits have been lowered since the 1990s, allowing foreign companies to set up entirely foreign-owned companies without having a Chinese partner in certain fields sell the products to the domestic market. In order to attract more foreign direct investment (FDI), the Chinese government granted a series of preferential tax policies both at the central and local government levels, especially in the special economic zones, as well as in sectors like energy, communications and transportation in 1991. According to statistics, China is 2nd only to the United States in its amount of foreign direct investment.

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from 1993 to 2001. The figure amounted for $69.47 billion in 2006.\textsuperscript{9} Notably, most of the FDI came from Hong Kong, Taiwan and Japan.

As stated in the agreement of China’s entry into the WTO, the government gradually opened up certain industries to foreign companies from 2001, which gave foreign companies more control over their subsidiaries. This heated up the competition in certain industries. New laws and regulations have accommodated such transformations, but the lack of proper and timely law enforcement at local levels made such laws and regulations useless. Furthermore, the inadequacy of property law and intellectual rights have made foreign companies unwilling to share information with their Chinese partners. The slow opening of retail markets to foreigners started in 1992, and most restrictions on foreign retailers were finally removed in 2004. After 2004, the expansion of foreign retailers in China sped up and competition among retailers increasingly became more intense (See Appendix 3 for the timeline of the gradual opening of the China retail market).

Some people say that China could be referred to as “many countries within one”. It is not only because of the difference in the cultural, traditional customs and consumer psychology, but also because of the variance of the unbalanced development in the economy, infrastructure, transportation systems, and natural and human resources. For example, people in northern China prefer buns and noodles, while people in the south prefer rice (north and south China are divided by the Huai River). Coastal cities are generally well developed than the inner land, and other wealthier regions include the Pearl River Delta, the Yangtze River Delta, the Bohai Gulf and Beijjing-Tianjing-Liaoning Region. The central government launched a program called “China Western Development” beginning in 2000 to develop the vast western and inner land of China to re-balance the regional development.

Overview of Retail Industry in China

With a significantly large population, China possesses a huge demand in its market that no company could afford to ignore. The total volume of retail sales of consumer goods is 10848.8 Billion RMB. The average growth rate of the total volume of retail sales of consumer goods is 13.2%. At the same time, disposable income per capita and consumption expenditures per capita are increasing each year (See Appendix 4). The first-tier cities like Beijing, Shanghai, Guangzhou and Shenzhen are way above the national average. For example, disposable income per capita in Shanghai was 26,675 RMB in 2008, much higher than the national average of 15,781 RMB. Cities with high-income populations are the major battlefields for international retailers, as these population can spend more, especially for convenience stores, since the prices in the convenience stores are generally 10%-15% higher than the average (See Appendix 5 for the GDP of each province).

Geographic Unbalance of Retail Industry

The unbalanced development not only results in differing economies amongst the cities, but also the development of infrastructure in these cities. Railways and highways serve as major transportation and they are quite important to retailers. Public transportation is especially well developed in regions like the Pearl River Delta, the Yangtze River Delta, the Bohai Gulf, and Beijing-Tianjing-Liaoning region (See Appendix 2 for the map of China). Retailers require efficient distribution systems to assure daily

\textsuperscript{9} \url{http://en.wikipedia.org/wiki/Economy_of_the_People%27s_Republic_of_China} retrieved 08/01/2010
operations. These circumstances are especially true for companies that run convenience stores. Most of their ready-to-eat products are made daily and require 2-3 replenishments each day. An inefficient distribution system would increase operation costs for the company, which is something any company would try to avoid the most.

The lack of retail talent is a major problem for retailers who want to develop in China. The retailing industry has a relatively short history in China and college graduates with higher education backgrounds are not willing to enter the industry because they consider it as a low-entry-barrier job. This is especially true in the 2nd and 3rd tier cities. Based on the facts that have been discussed earlier, retail development varies in each region. Currently, convenience stores have showed great potential in eastern and southern China.

The Development of Retail Industry

As part of China’s agreement of entry to WTO, the Chinese central government agreed to open its retail industry gradually from 2001 with a five-year plan. Although foreign retailers like Carrefour, Wal-Mart and 7-Eleven have already been operating business in China for a decade, the change in policies has definitely attracted more multinational companies, and granted more control to the foreign companies. Meanwhile, domestic retailers were beginning to merge and develop, in order to compete with the incoming international players. Some state-owned-enterprises began to merge their businesses and took advantage of the already established distribution systems, allowing them to control the cost and compete on economies of scales. For example, Bailian Group, the largest retailer in China, was established in 2004 by the merging of several large state-owned retailers in Shanghai.

Traditional grocery stores are considered the “old fashion” of convenience stores in China. Those traditional grocery stores are usually run by a family, mainly husband and wife, father and son, or by brothers. The products they offer include snacks, household products, detergents, cigarettes, alcohol and ice cream. They are usually located near the communities, thus they have a regular consumer base. The owners will usually develop long term relationships with their customers and give their loyal customers discounts. The customers and owners often chat for minutes and sometimes the customers can pay by credit based on their “Guanxi” with the owner. Traditional grocery stores are generally small in size and the products are clustered on the shelf, allowing the customers to view all the products at first glance. In Shanghai, such grocery stores are replaced by the modern convenience stores, but in cities like Beijing and Guangzhou, traditional grocery stores can still be found in communities. Traditional grocery stores are wide spread in China, especially in less-developed regions.

The Development of Convenience Store

The first convenience store in Mainland China was opened by 7-Eleven in 1992 in Shenzhen. After that, convenience stores have grown rapidly across the country (see Appendix 5 and 6). However, the development of convenience stores is still in its early stages of growth. The popularity of the convenience stores is largely dependent on the disposable income and shopping behavior of the customers in different regions. Most convenience stores are located in eight cities or provinces with the highest GDP and the highest density of populations, including Shanghai, Beijing Tianjin, Zhejiang, Jiangsu, Guangdong,
Shandong, Fujian and Liaoning\textsuperscript{10}. Shanghai alone owns 1/5 of the convenience stores. Geographically, convenience stores are mainly distributed in the east coast, including Bohai rim, Yangzi River Delta, and Pearl River Delta. There are fewer convenience stores in inland China. Additionally, there are no modern convenience stores in several inland provinces such as Jilin, Heilongjiang, Tibet, Ningxia, and Xinjing as of 2008.

In contrast to other retailer formats, the market of convenience stores is relatively concentrated. The top 12 convenience store chains control over 60% of the market share (see the leading convenience stores’ market share in Appendix 7). Most of the leading convenience store chains, with the exception of 7-Eleven, are domestic companies, and their operations are largely regional. For example, Kedi, Quick, and Suguo focus on Eastern China; Meiyijia and Tianfu, are in Southern China; Liqun and Weike are in the Shandong providence.

Unlike the U.S, convenience stores in China are not associated with gas stations. Actually, you can only find a few convenience stores that are located near gas stations. The car ownership is still low in China, even in 1\textsuperscript{st} tier cities (by 2008). Thus, there are not many gas stations in cities. Besides, all the gas stations in China are not self-serviced. The drivers drive through the stations, pay the employees at the gas pumps, and the employees will fill the tanks for drivers. They do not need to get out of their cars. This is different than the U.S, where most of the gas stations are self-serviced, and drivers need to leave their vehicles and sometimes go inside the convenience stores to pay for gas and buy something on their way out.

The prices of products sold in convenience stores are generally 10%-15% higher than the ones sold in the supermarkets, there is a premium on the convenience of the services provided. As a result, their targeted customers are the people who are in a hurry and are not price sensitive. Convenience stores are usually located near communities, schools, and office buildings where people only need to buy one or two items to go or some items they forget to purchase in supermarkets. Most of the profit of convenience stores comes from the hot-spot, ready-to-eat food such as sushi boxes, lunch boxes, sandwiches and desserts. The services provided in convenience stores are evolving each year.

\textbf{Convenience Stores in Shanghai}

\textit{Hehui Gao, a senior business analyst in a consulting firm in Shanghai, was thinking about her lunch. She still had 5 reports due by the end of the day and the lunch break was only an hour long, from 11:30AM to 12:30PM, like most of the other companies in Shanghai. She thought about her colleague’s proposal; order a lunch box from a Chinese restaurant, but it would take 45-60 minutes before it would be delivered. Her office was located at the Fuzhou Road, surrounded by numerous traditional and western restaurants. But according to her past experience, she would have to wait at least 30 minutes to order her food, as it was the lunch break, and every restaurant would be crowded by employees that worked in the area. What would be the fastest way to get a decent lunch? An idea occurred to her: the All Days convenience store at the street corner she passed by this morning when she purchased a sandwich for breakfast. After making up her mind, Gao took the elevators down and walked to All Days. She picked up a lunchbox and checked it out, which cost her 8 Yuan. Then she had it microwaved at the store, and...}

picked up a yogurt while waiting. It took her less than 10 minutes to have lunch ready and 10 minutes to enjoy it. Gao used the remaining 40 minutes to take a nap and then continued to work in the afternoon.

Shanghai

With a population of 18.58 million, Shanghai is the most populous city in Mainland China, and it has a GDP of 1218.9 trillion yuan, accounting for 4.9% of the nation’s total.\(^\text{11}\) Citizens of Shanghai had a disposable income of 23,623 yuan in 2008. As China’s finance and trade center, Shanghai’s development did not start until 1992.

Shanghai has been referred to as the “New York of China” as it serves as a melting pot of eastern and western culture. Shanghai residents are more prone to accept western customs, and are much more aware of international name brands. They celebrate Christmas and Valentine's Days, and are willing to adjust their life styles in a more western manner. Shanghai is a fast-paced city where numerous employees from other parts of China work diligently.

“Baishi” was the first convenience store in Shanghai, which first opened in 1993. Since then, Shanghai has become a battlefield where the competition is the most severe. There were around 4,000 stores in the city by the end of 2008, accounting for 3400 consumers per store. Even in Japan, with the most developed convenience store format, the number is around 3700 per convenience store. Domestic companies dominate the market for convenience stores. Major players are All Days, Kedi, Lawson, Family Mart, C-Store, Lianhua and Buddies. It is not uncommon for several convenience stores to appear on the same block. Any newcomers who want to enter the market should be aware of the severity of the competition and distinguish themselves through retail differentiation. The top management of 7-11 commented that “entering Shanghai is hard,” and therefore it is very cautious about their entrance to the Shanghai market.

Major Players

**All Days and Kedi.** All Days and Kedi, under the same umbrella of Nonggongshang Group, together are one of the largest convenience store chains in Shanghai as well as in China. There are around 1500 All Days and Kedi stores (2008) in Shanghai currently, and 2000 Kedi stores (2008) in Mainland China.

Nonggongshang Group (NSG), literally translated as “the agricultural, industrial and commerce group” in Chinese, is a member of the Bright Food Group. The Bright Food Group is a state-owned enterprise founded in August 2006 as a group, comprising of 4 listed companies, which are Bright Dairy & Food Co., Ltd., Shanghai First Provisions Store Co., Ltd., Shanghai Maling Aquarius Co., Ltd., and Shanghai Haibo Co., Ltd. The group’s major operation scopes include: modern urban agriculture, which focuses on developing seed breeding (seedling and breeding stock); eco-agriculture and standard agriculture (milk cow, rice, vegetables, pig and aquatic products); processed dairy products (ice-cream and beverage, canned food, sugar and candy, honey products, rice wine); and retail outlets (3,300 retailing outlets including NGS Supermarket, Jieqiang chain store, All Days, Kedi, and Guangmin convenience stores). Its other business scopes also include real estate, urban services- taxi, logistics and distribution, and tourism.

All Days was founded in 1996, and unlike Family Mart’s locations around office buildings, its stores are located near communities, campuses and bus stations. Their targeted customers are students and workers.

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As a member enterprise under the Shanghai Agricultural Bureau, All Days develops its own brands and provides traditional products, like soybean milk, buns, and tea eggs, which are favorite breakfast choices for Chinese people. All Days mainly operates in Shanghai, Jiangsu and Zhejiang, and it makes full use of the existing distribution systems from the Agricultural Bureau.

**Lianhua Quick.** Lianhua Quick, established in 1997, has evolved into the market leader in Shanghai. As one member of Shanghai Lianhua Group, Quick’s main operation area is in Shanghai. It has around 1200 outlets, and accounts for about one quarter of the sales of convenience stores in Shanghai. At the same time, it operates in other major cities, including Dalian, Beijing, and Hangzhou, with around 1900 stores in mainland China (by 2008). Quick also tried to expand to Guangzhou, but failed, and then exited the market in 2006. Quick has undergone several “make-overs” to better adjust to the consumer taste.

**Buddies.** Buddies was one of the earliest convenience stores to make its presence in Shanghai. It started in 1998 and has around 500 stores in Shanghai. Its major operation area is in Shanghai, Wuxi, and Suzhou. Buddies focused on building its brand image from the beginning. It has been voted as “the most influential franchising brand in Shanghai,” since 2007.

**Lawson.** Lawson is a joint venture of Shanghai Hualian Co., Ltd, a member of the Bailian Group, and Japan Lawson Co., Ltd. With its stores opening as early as 1996, Lawson is the pioneer in the convenience store market. Inevitably, competitors have learned to copy its products and services. Lawson is the first store to have 24-hour operation in Shanghai. It is also the first store to provide a film development service, to sell tickets for entertainment activities in 1997, to allow customers to pay utility bills in 1999, to provide photocopy services in 2000, and to have ATMs and automatic medicine distribution machines in 2002.

They target students and young professionals. The stores are usually scattered around campuses and office buildings. With operation bases mainly in Shanghai, Lawson has over 200+ (by 2008) stores in Shanghai. Like Family Mart, Lawson heavily promotes its products imported from Japan. With a 50+ employee team specializing in developing new combinations of instant food, Lawson’s lunch boxes and sushi boxes enjoy huge popularity among the customers, which accounts for more than 20% of daily sales. In some stores on campus, Lawson provides delivery services to dormitories that only requires students to make a simple phone call.

**Family Mart.** A joint venture of Taiwan Ting Shin Group and Japan Itochu Corporation, Family Mart set up offices in Shanghai in 2002, and the company was officially registered in 2004. In July 2004, the first Family Mart convenience store was opened in Shanghai. Family Mart has business in China, Taiwan, Thailand, South Korea and the U.S. The company started in Japan in 1972, and attempted to take advantage of Ting Shin’s operational experience in convenience stores in Taiwan to better serve the taste of Mainland China. Its major operation is in Shanghai with around 400 stores. It also operates in Suzhou and Guangzhou. As with other branded convenience stores, customers can pay utility bills and purchase tickets for various entertainment activities in the stores. With excellent choices of locations, Family Mart targets white collar workers by providing high-end products with higher prices. The company imports the latest fashionable products from Japan with a high replacement rate to attract their young and trendy customers.

**C-Store.** C-Store opened its first store in Shanghai in 2001. Its parent company—Taiwan Runtex Corporation is the company that runs RT-Mart, a supermarket leader in China. Through RT-Mart’s purchase system, C-store gains advantages in merchandise management. With its main operation area in Shanghai, C-Store set up branches in Hangzhou, Suzhou and Kunshan in 2002, Wuxi in 2006, Ningbo and Shaoxing in 2008. The Southern China C-Store was set up in 2003, and extended to Shenzhen and Foshan in 2007. Although C-store entered the convenience store market late, it is becoming a rising star in the market with around 6000 stores across China.
Questions

1. What are the advantages and challenges for 7-Eleven doing business in China?

2. The convenience store sector in Shanghai is much more mature than Beijing or Guangzhou, and the competition among convenience store chains is becoming fierce. Is it a wise move for 7-Eleven to open stores in Shanghai? Why?

3. If yes, which candidate is more suitable to expand in this new market? President Chain Store, Hong Kong Dairy Farm Group, or Beijing 7-Eleven?

4. What would you recommend for 7-Eleven’s business for the future in China?
Appendix 1

International Expansion of 7-Eleven

Appendix 2

Map of China
# Appendix 3

## The graduate opening of China retail market

<table>
<thead>
<tr>
<th>Time</th>
<th>Stage</th>
</tr>
</thead>
</table>
| 1949 | • The establishment of People’s Republic of China  
      • Planned economy |
| 1978 | • China’s market reform and open door policy started  
      • However, foreign investment were forbidden in retailing, wholesaling, and other business fields. |
| 1992 | • The opening of retail market started.  
      • Opened 6 cities and 5 special economic zones for foreign retail investment.  
      • Each city or economic zone could have 1-2 foreign retailers. Other cities were forbidden to accept foreign retail investment  
      • The retail investment must be joint venture. Sole-owned foreign retailer was forbidden. Chinese partner should have at least 51% shares.  
      • Foreign retailers could not operate wholesaling in China. |
| 1995 | • Foreign retailers could operate chain stores in Beijing.  
      • Foreign retailers could partially enter wholesale section.  
      • They must be joint venture and 51% shares were owned by for Chinese partners.  
      • Licenses were for no longer than 30 years. |
| 1999 | • Foreign retailers could enter the capitals of provinces and autonomous regions.  
      • The number and scope of the foreign retailers operating in China increased. |
| 2001 | • China joined WTO and promised to open its markets to international competition over a number of years. |
| 2004 | All restrictions on foreign retailers were removed. |
Appendix 4

Disposable Income and Consumption Expenditures

<table>
<thead>
<tr>
<th>Year</th>
<th>Disposable Income per Capita</th>
<th>Consumption Expenditures per Capita</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>RMB</td>
<td>Annual Growth Rate</td>
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<tr>
<td>1978</td>
<td>343.4</td>
<td></td>
</tr>
<tr>
<td>1980</td>
<td>477.6</td>
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<td>1985</td>
<td>739.1</td>
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<tr>
<td>1995</td>
<td>4283.0</td>
<td>4.9%</td>
</tr>
<tr>
<td>2000</td>
<td>6280.0</td>
<td>6.4%</td>
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<td>8.5%</td>
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<tr>
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<td>7702.8</td>
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### Appendix 5

#### 2007 Statistics on Convenience Stores

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Appendix 614

Number of Convenience Stores 2003-2008

Sales of Convenience Stores (100M RMB) 2003-2008
Appendix 7

Market Share of Convenience Stores

- Meiyijia, 9.28%
- Quick, 9.08%
- Keladi, 6.49%
- L7-Eleven, 6.41%
- Haode, 4.61%
- Jinhui, 3.86%
- Liquin, 3.83%
- Tianfu, 3.71%
- Shanghao, 3.53%
- Weihe, 3.71%
- Suguo, 3.40%
- Guoda, 3.25%
- Others, 38.85%