

Seven eleven case



<http://zh.scribd.com/doc/45901851/Study-Questions-2> Questions 1. A

CONVENIENCE STORE CHAIN ATTEMPTS TO BE RESPONSIVE AND PROVIDE CUSTOMERS WHAT THEY NEED, WHEN THEY NEED IT, WHERE THEY NEED IT. WHAT ARE SOME DIFFERENT WAYS THAT A CONVENIENCE STORE SUPPLY CHAIN CAN BE RESPONSIVE? WHAT ARE SOME RISKS IN EACH CASE?

1. 1 As responsiveness increases, the convenience store chain is exposed to greater uncertainty. A convenience store chain can improve responsiveness to this uncertainty using one of the following strategies, especially for fresh and fast foods:

Local Capacity. The convenience store chain can provide local cooking capacity at the stores and assemble foods almost on demand. Inventory would be stored as raw material. This is seen at the U. S. fast-food restaurant franchise Subway where dinner and lunch sandwiches are assembled on demand. The main risk with this approach is that capacity is decentralized, leading to poorer utilization. **Local Inventory.** Another approach is to have all inventory available at the store at all times. This allows for the centralization of cooking capacity.

The main risk is obsolete inventory and the need for extra space. **Rapid Replenishment.** Another approach is to set up rapid replenishment and supply the stores with what they need when they need it. This allows for centralization of cooking capacity and low levels of inventory, but increases the cost of replenishment and receiving. 1. 2 As responsiveness increases, the convenience store chain is exposed to greater uncertainty. A convenience store chain can improve responsiveness to this uncertainty

using one of the following strategies, especially for fresh and fast foods: 1. Local Capacity.

The convenience store chain can provide local cooking capacity at the stores and assemble foods almost on demand. Inventory would be stored as raw material. This is seen at the U. S. fast-food restaurant franchise Subway where dinner and lunch sandwiches are assembled on demand. The main risk with this approach is that capacity is decentralized, leading to poorer utilization. 2. Local Inventory Another approach is to have all inventory available at the store at all times. This allows for the centralization of cooking capacity. The main risk is obsolete inventory and the need for extra space. . Rapid Replenishment Another approach is to set up rapid replenishment and supply the stores with what they need when they need it. This allows for centralization of cooking capacity and low levels of inventory, but increases the cost of replenishment and receiving. From the case study, Seven-eleven Japan Co. had provided their customers a variety of service that is different responsive way from usual convenience store concept. 1. 7dream.com Seven-Eleven Japan established an e-commerce company which their customer can choose the product at home and pick the product at the store.

Because from the survey, 92% of its customers preferred to pick up their online purchase at the local convenience store rather than have them delivered at home. Since Seven-Eleven Japan have the distribution system that conforms with these drop and pick up system. So Seven-Eleven serve as drop-off and collection points for Japanese people. Instead of providing

customers at that time the need is happen, the customers can choose the product at home and then pick up the product later at the store.

The risk of this case is normally Seven-Eleven Japan established this system as a way to derive benefit from the existing distribution system. If in the future this system is popular among the Japanese, the capacity of the existing distribution system may not be enough to serve the customers such as a space to storage the goods waiting for customers to pick up (the store in Japan is smaller than other country)². In-Store Payment Instead of selling household goods, food and groceries, a convenience store can be responsive as a payment spot.

Seven-Eleven Japan add a variety of services that customers can obtain at its stores for example an in-store payment of Tokyo Electric Power bills, gas, insurance premiums, and telephone. In order to attracted millions of additional customers every year and take advantage of opening hour and number of stores to service customer. The risk of this case is when the company adopt this service every Seven-Eleven store Japan have to link with the data of the payment such as electric bill. If the employees not fully understand how the system works, he or she will misunderstand and take too long to serve customer. Result in lower customer satisfaction and can link to overall brand dissatisfaction. Some customer will stop buying at Seven-Eleven because the long waiting time.

2. SEVEN-ELEVEN'S SUPPLY CHAIN STRATEGY IN JAPAN CAN BE DESCRIBED AS ATTEMPTING TO MICRO-MATCH SUPPLY AND DEMAND USING RAPID REPLENISHMENT. WHAT ARE SOME RISKS ASSOCIATED WITH THIS CHOICE? 2. 1The main risk for Seven-Eleven is the potentially high cost of transportation and receiving at stores. 2. By using

rapid replenishment system, Seven-Eleven Japan store can manage lower inventory in the store and higher shelf space available. This fit for Seven-Eleven in Japan because of smaller size of the store. But it still have some risk in case of a very fluctuated demand, when the demand raise to a very high level the inventory that the store stock might not be enough to serve customers demand. This situation will lead to loss of a sale and lower customer's satisfaction. The rapid replenishment is a core concept to lean thinking.

It's how you can manage the flow of inventory and how you can shorten the cycle time between each delivery. Which mean seven eleven will deliver more often and the quantity of the product between each deliver will depend on the demand of the customer that forecast from the Point Of Sale and previous Data. It allowed seven eleven to be able to control their inventory level because when they deliver more often they can deliver just few amounts at a time. Therefore there are also some risks associated with this system.

First, even though the rapid replenishment is a good system but the cost of replenishing and receiving is high. It's because the system that require to put the rapid replenishment become efficient, for example they have to install the point of sale system to generate the sale information to the dc and supplier so they can deliver the good that fit for the curtain demand. For the receiving they also have to have the product scanner to scan the product when it arrives to the store. All of that equipment that's required will raise the cost of the replenishing and receiving.

Furthermore, the receiving cost also high because of the number of the delivery that higher too. Second, even though rapid replenishment helps seven eleven to maintain their inventory level that drive by the demand of the customer, to save their inventory cost. Sometime it might be risk in the shorten of inventory(backlogs) because when seven eleven tried to micro match the demand and supply, seven eleven have to rely on the past purchasing data and the point of sale data. To be able to generate the demand forecast to deliver the product to each of seven eleven chain store.

What if the demand has become so fluctuate to the point that it over their inventory level, that time seven eleven will be suffer from the empty shelf. As you know that the favorite items from seven eleven are such as lunchbox, rice ball and sandwich, so most likely if the consumer come during the high demand won't have the food to consume. So most likely the consumer will go to other convenience store to buy the food to serve their need in that curtain time. If this scenario happen more that few time, the consumer most likely to switch the convenient store.

That's why this is also the risk that seven eleven has to face and try to overcome in order to maintain their competitive advantage. Third, the risk that they have to face is that they will not have the economics of scale in production because when they apply the rapid replenishment, the suppliers will only produce the product to match the need of the store when they need it. They won't produce the same item for the large amount, which is if they produce in that way they won't have to suffer from the set up cost in each batch that they have to produce.

Fourth, even though the rapid replenishment will lower the transportation but seven eleven still have to concern about the gas price because if the gas price raise it will again increase their operation cost. Then again seven eleven won't be able to raise their product price to serve that cost too due to the incentive competition in the convenience market. Fifth, Due to the system that when the trucks deliver the product to the store, there will be only the store people who scan and check the product in to the system. There will be no way of detecting the feud.

The replenishment system worked on trust and did not require the delivery person to be present when the store personnel scanned in the delivery. This is a very risky system because store personnel may stoles the products. It can cause company loss in a million. 3. WHAT HAS SEVEN-ELEVEN DONE IN ITS CHOICE OF FACILITY LOCATION, INVENTORYMANAGEMENT, TRANSPORTATION, AND INFORMATION INFRASTRUCTURE TO DEVELOPCAPABILITIES THAT SUPPORT ITS SUPPLY CHAIN STRATEGY IN JAPAN? 3 . 1 All choices made by Seven-Eleven are structured to lower its transportation and receiving costs.

For example, its area-dominance strategy of opening at least 50 to 60 stores in an area helps with marketing butalso lowers the cost of replenishment. All manufacturing facilities are centralized to get the maximum benefit of capacity aggregation and also lower the inbound transportation cost from the manufacturer to thedistribution center (DC). Seven-Eleven also requires all suppliers to deliver to the DC where products aresorted by temperature. This reduces the outbound transportation cost because of aggregation of deliveriesacross multiple suppliers. It also lowers the receiving cost.

The information infrastructure is set up to allow store managers to place orders based on analysis of consumption data. The information infrastructure also facilitates the sorting of an order at the DC and receiving of the order at the store. The key point to emphasize here is that most decisions by Seven-Eleven are structured to aggregate transportation and receiving to make both cheaper. 3 . 2 ? Filling in the entire map of Japan is not our priority. Instead, we look for demand where Seven-Eleven stores already exist, based on our fundamental area dominance strategy of concentrating stores in specific areas. The above statement shows that to ensure that the support of Seven-Eleven Japan's facility location to its supply chain strategy, Seven-Eleven Japan has based its fundamental network expansion policy on a market dominance strategy. Wherever Seven-Eleven Japan enters into any new market, it was built around a cluster of 50 ± 60 stores supported by a distribution center. The main reason of applying cluster strategy, it is that clustering gave Seven-Eleven Japan a high-density market presence and allowed it to operate an efficient distribution system.

There are several benefits of implementing the market-dominance strategy including such as boosting distribution efficiency, improved brand awareness, increasing the system efficiency, enhancing efficiency of franchise support services, improving advertising effectiveness and preventing competitors' entrance into the dominant area. For inventory management, what Seven-Eleven Japan had done to develop capability that support its supply chain strategy is to offer its stores a choice from a set of 5, 000 stock keeping units and each store could carry on average about 3, 000 stock keeping units depending upon the local customer demand.

Seven-Eleven emphasized regional merchandizing to cater precisely to local preferences. Each store carries food items, beverages, magazines, and consumer items such as soaps, detergents, etc. The highest generated sale of Seven-Eleven is under food category, and under Seven-Eleven Japan concept, the food items were classified in four broad categories including Chilled items such as sandwiches, delicatessen products, and milk; Warm items such as box lunches, rice balls, and fresh bread; Frozen items such as ice-cream, frozen foods, and ice cubes; and Room-temperature items such as canned food, instant noodles, and seasonings.

The efficiency in managing the inventory of Seven Eleven Japan could be proved by the resulted of inventory turnover rate is equal to over 50 when comparing to the second largest Seven Eleven in the United States is only about 17 in 2003. For transportation or distribution system of Seven Eleven Japan, the system was tightly linked the entire supply chain for all product categories as Seven Eleven distribution centers and the information network played a key role in that regard.

Its main objective is to carefully track sales of items and offer short replenishment cycle times. In 1987, Seven Eleven Japan had offered three times daily store delivery of all rice dishes and twice a day for fresh food. Its distribution system was flexible enough to alter delivery schedules depending on customer demand. When a store placed an order, it was immediately transmitted to the supplier as well as the distribution center. The supplier received orders from all Seven Eleven stores and started production to fill the orders.

The supplier then sent the orders by truck to the distribution center. The key to store delivery was what Seven Eleven called the combined delivery system. At the distribution center, delivery of like products from different suppliers was directed into a single temperature-controlled truck. There were four categories of temperature-controlled trucks such as frozen foods, chilled food, room temperature processed foods, and warm foods. The number of stores per truck depended on the sales volume.

The system worked on trust and did not require the delivery person to be present when the store personnel scanned in the delivery; this helps to reduce the delivery time spent at each store. Based on the information, it is shown that Seven Eleven has continuously improved its transportation and distribution system, since 1974, there were 70 vehicles visited each store every day but later on in 1994, there were only 11 vehicles necessary. This dramatically reduced delivery costs and enabled rapid delivery of a variety of fresh foods.

In 2004, Seven Eleven Japan had a total of 290 dedicated manufacturing plants throughout the country that only produced fast food for Seven Eleven stores. The items were distributed through 293 dedicated distribution centers that ensure rapid and reliable delivery. None of these distribution centers carried any inventory, they merely transferred inventory from supplier trucks to Seven Eleven distribution trucks. Transfleet Ltd., a company set up by Mitsui and Co. for exclusive use of Seven Eleven Japan, provided this transportation.

For information infrastructure, Seven Eleven Japan attributed a significant part of its success to the Total Information System installed in every outlet

network linking the head office, stores, and the Seven Eleven distribution centers. Until July 1991, only a traditional analog network linked these chains. Later on, an integrated services digital network or ISDN was installed, linking more than 5,000 stores; it became one of the world's largest ISDN system. This system enables Seven Eleven to collect, process, and feed back point of sales data quickly. Sales data generated in each store by 11.00 p.m., was processed and ready for analysis the next morning. In 1997, Seven Eleven Japan introduced its fifth generation of the Total Information System, which was still in use in 2004, the hardware system included as the following; Graphic Order Terminal, this was a handheld device with a wide-screen graphic display, used by the store owner or manager to place the order. Once all the orders were placed, the terminal was returned to its slot, at which point the orders were relayed by the store computer to both the appropriate vendor and the Seven Eleven distribution center.

Scanned Terminal, these scanners read bar codes and recorded inventory. They were used to receive product coming in from a distribution center. This was then automatically checked against a previously placed order and the two were reconciled. This scanner terminal was also used when examining inventory at stores. Store Computer, this linked to the ISDN network, the POS register, the graphic order terminal, and the scanner terminal. It communicated between the various input sources, tracked store inventory and sales, places orders, provided detailed analysis of POS data, and maintained and regulated store equipment.

POS register; this POS data was automatically transmitted online to a host computer. All sales data collected by 11.00 p.m. was organized and ready for

analysis by the next morning. The data was evaluated on a company wide, district, and store basis. Due to Seven Eleven done in its choice of information infrastructure to develop capability that support its supply chain strategy, the information system allowed Seven Eleven store to better match supply with demand. Storestaff could adjust the merchandising mix on the shelves according to consumption patterns throughout the day.

The identification of slow and non-moving items also allowed a store to convert shelf space to introduce new items. 4. SEVEN-ELEVEN DOES NOT ALLOW DIRECT STORE DELIVERY IN JAPAN, WITH ALL PRODUCTS FLOWING THROUGH ITS DISTRIBUTION CENTER. WHAT BENEFIT DOES SEVEN-ELEVEN DERIVE FROM THIS POLICY? WHEN IS DIRECT STORE DELIVERY MORE APPROPRIATE? 4. 1 Direct store delivery (DSD) would lower the utilization of the outbound trucks from the Seven-Eleven DC. It would also increase the receiving costs at the stores because of the increased deliveries.

Thus, Seven-Eleven forces all suppliers to come in through the DC. DSD is most appropriate when stores are large and nearly-full truck load quantities are coming from a supplier to a store. This was the case, for example, in large U. S. Home Depot stores. For smaller stores it is almost always beneficial to have an intermediate aggregation point to lower the cost of freight. In fact, Home Depot itself is setting up these intermediate facilities for its new stores that are often smaller. 4. There has been useful advantage of Seven-Eleven upon CDC and DSD as the centers allow smoothing of distribution operation to the stores and the provision of better quality and better information on supply and deliveries is available and there was control

of the supply chain as achieved. The presence of technology like the adaptation of the POS system can possibly move ahead and do aid the store employment and management situation by freeing up staff time. Seven-Eleven U. S. has begun introduce the Combined Distribution Center daily delivery of fresh-prepared foods around 2000.

By partnering with multiple food companies, the convenience retailer will be able to offer fresh-made-daily and delivered-fresh-daily pastries, gourmet sandwiches, wraps, entrees, as well as other perishable and ready-to-eat foods once a day. This was a challenge because the CDCs are operated by several different third-party partners, and Seven-Eleven felt it did not have effective metrics for comparing performance to a reliable benchmark. This was due to many factors, including different facility sizes, building layouts and the variety of products handled by each CDC.

Added choices to customers in perishable consuming. Seven-Eleven can add other specialty items to its selections such as fruit salads, seasonal whole and cut fruit, fresh-squeezed juices and produce from a farmer's market. The consumers can easily get the fresh perishable products near their house. Daily delivery means just that Seven-Eleven stores can place orders to the CDC and get fresh product by sorting for delivery to stores at every night. With the company's proprietary retail information system, each store can customize its order to provide the exact items the customers in their neighborhood want. Receiving fewer deliveries to your store during the day. In this advantages, the stores no need to waste the time to check through each delivery because all needed products will be set up and combined since the Distribution Centers. Expedite business for local food companies, which

can now make one delivery to a central location for distribution to local stores. y Reduce the holding Inventory Cost. Stores can order just the amount they sell in a day or two, so they don't have product sitting around on the shelves.

That means that they can guarantee the freshness in the perishable products at Seven-Eleven. y The staffs are able to consolidate work and spend more time with your customers, growing your business. As they will check the stock and place the order to the CDC and receive the product at night. y The suppliers can delivery in large amount with one full truck load as there has a store big enough to keep the products with the method to keep the product longer and still perish. C ons y Much lower density (hence longer distance) of U. S. Seven-Eleven stores.

Deliver a few product everyday may using too much cost with the longer distance of each branch. Need to increase density, even though setting up own system only reduce problems by eliminating delivers y Increase transportation cost at stores because of increased delivers. As Distribution Centers need to deliver the product everyday with a few amounts in order to keep the freshness of the product. y Losing the economics of scale advantages, as Seven-Eleven need to order the product everyday in the fewer amounts. y High costs of keeping the products as some products need a specific temperature to keep them 5.

WHAT DO YOU THINK ABOUT THE 7DREAM CONCEPT FOR SEVEN-ELEVEN JAPAN? FROM A SUPPLY CHAIN PERSPECTIVE, IS IT LIKELY TO BE MORE SUCCESSFUL IN JAPAN OR THE UNITED STATES? WHY? 7dream makes sense given that Japanese customers are happy to receive their shipments at the

localconvenience store. From a logistics perspective, online deliveries can piggy back on Seven-Eleven's existing distribution network in Japan. Deliveries from the online supplier can be brought to the DC where they are sorted along with other deliveries destined for a store.

This should increase the utilization of outbound transportation allowing Seven-Eleven to offer a lower cost alternative to having a package carrier deliver the product at home. The primary negatives are that 7dream will use up storage space and require the store to be able to retrieve specific packages for customers. One can argue that the concept may be more successful in Japan given the existing distribution network of Seven-Eleven and the frequency of visits by customers. Online delivery is able to link with the existing network.

The high visit frequency ensures that packages are not occupying valuable store shelf space for long time. Also, the frequent visits ensure that the marginal cost to the customer of picking up at a Japanese Seven-Eleven is small. This is less likely to be the case in the United States. 6. SEVEN-ELEVEN IS ATTEMPTING TO DUPLICATE THEIR SUCCESSFUL JAPANESE SUPPLY CHAIN STRUCTURE IN THE UNITED STATES WITH THE INTRODUCTION OF CDCS. WHAT ARE THE PROS AND CONS OF THIS APPROACH? KEEP IN MIND THAT STORES ARE ALSO REPLENISHED BY WHOLESALERS AND DSD BY MANUFACTURERS.

The difficulty of duplicating the Japan supply chain structure in the United States follows primarily from the much lower density of U. S. Seven-Eleven stores. This is compounded by the fact that Seven-Eleven stores are getting both direct store deliveries as well as wholesaler deliveries to its stores.

Setting up its own DCs does not allow Seven-Eleven to get the same level of transportation aggregation as it gets in Japan. Its own distribution system would help more if all wholesaler deliveries and direct store deliveries were stopped and routed through the DC.

Even then, having its own distribution system would add much less value than in Japan given the lower density of stores and larger distance between stores. 7. THE UNITED STATES HAS FOOD SERVICE DISTRIBUTORS LIKE MCLANE THAT ALSO REPLENISH CONVENIENCE STORES. WHAT ARE THE PROS AND CONS TO HAVING A DISTRIBUTOR REPLENISH CONVENIENCE STORES VERSUS A COMPANY LIKE SEVEN-ELEVEN MANAGING ITS OWN DISTRIBUTION FUNCTION? One can contend that a distributor brings much more value to the table in the United States relative to Japan.

Given the lower density of stores, a distributor is able to aggregate deliveries across many competing stores. This allows a distributor to reach levels of aggregation that cannot be achieved by a single chain such as Seven-Eleven. The big disadvantage to having all deliveries done through a distributor is that Seven-Eleven is unable to exploit having a large number of stores. In fact, it may be argued that going through the distributor has Seven-Eleven subsidize deliveries to competing smaller chains that may also be using the same distributor.