

The Localization of the Japanese Convenience Store FamilyMart in Taiwan

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Abstract

This paper takes a preliminary step towards realizing the internationalization of Japanese convenience stores and investigates the localization process of Taiwan FamilyMart. The development process of Taiwan FamilyMart can be divided into three broad stages: market entry (1988 to 1993), growth (1994 to 2005), and maturity (2006 to 2014). This paper discusses how Japanese FamilyMart transferred its expertise and know-how to the Taiwanese market through these three stages with a focus on five-point critical success factors.

This study's research method uses survey analysis conducted via interviews with company executives and historical information collected from newspapers, magazines, and other secondary data.

A combination of prior research and author own preliminary studies on the Japanese founded company suggests that a five-point summary explains FamilyMart's critical success factors in the evolution of Japanese convenience stores: (1) The number of franchise stores exceeds corporate stores. (2) Sales for the ready-to-eat food category, such as the rice ball, are greater in Japan than in other countries. (3) The joint product distribution system with the manufacturer is crucial to operations. (4) The efficiency of chain management is enhanced by information systems. (5) Service, quality, and cleanliness (S&QC) are considered the fundamental responsibility of retailers.

The results of this study show that Taiwan FamilyMart successfully managed the five-point critical success factors for effective Japanese convenience store operations despite initial barriers to knowledge transfer. Significantly, FamilyMart achieved market entry by establishing joint venture arrangements whereby local partners were granted majority management and encouraged to pursue innovation. This represents a core success factor. However, in addition to capital investment the company supported the technical expertise of local companies by maximizing resources. FamilyMart combined the contributions of the parent company Itochu Corporation and its related companies and suppliers in the domestic market to aid overseas development in the Taiwan local market.

In conclusion, this study finds that barriers to knowledge transfer were overcome by establishing joint ventures with local partners, encouraging innovation, and applying effective strategies that aligned with the market context.

Keywords: Japanese convenience store; Retail internationalization; Localization; Growth strategy; Franchise system; Joint venture; Innovation

Introduction

The number of convenience stores in Japan totaled 51,720 as of November 30, 2014. The corresponding year-over-year growth rate for convenience stores in Japan was 5.2%, according to the Japan Franchise Association. While the growth rate has been positive, expansion into East Asia has presented difficulties for many Japanese chains.

In 1988, FamilyMart was the first Japanese convenience store chain to expand overseas, and a number of other chains have since followed FamilyMart's example. Japan's top chain, Seven-Eleven, set up their first branch office in 2004 and commenced expansion into China. The second largest Japanese chain, Lawson, followed suit by extending business operations into China, Indonesia, the Philippines, and Thailand. FamilyMart, Japan's third largest chain, had already entered China, Indonesia, Korea, the Philippines, Taiwan, Thailand, the US, and Vietnam by 2014. Despite international market growth, the number of profitable Japanese convenience store chains is surprisingly few. Many of these are managed by local joint venture companies. Taiwan's FamilyMart represents one of the successes.

Studies relating to Japanese convenience store operations in East Asia are rare. Kawabata [1,2], Kawabe [3], and Chung [4] have assessed the case of Taiwan FamilyMart, but these studies focused primarily on operational development. This study takes an initial step towards realizing the internationalization of Japanese convenience stores and

investigates the localization process of Taiwan FamilyMart. The study focuses on the critical factors of the chain's success.

FamilyMart (headquarters: Tokyo, Ikebukuro) was established in September 1981. By the end of 2013, the company was operating 13,017 stores in eight countries. FamilyMart holds a reputation as the leading international competitor among Japanese convenience stores. However, at the end of July 2014, a withdrawal from South Korea reduced the number of overseas stores to 5,337. This divestment concentrated the majority of overseas FamilyMart stores in Taiwan (2,903 stores).

The goal of the FamilyMart chain is "to make our customers' lives more comfortable and enjoyable, primarily by displaying hospitality in everything we do, and by ensuring a shopping experience characterized by convenience, friendliness, and fun" [5]. Service, quality, and cleanliness (S&QC) is considered the fundamental responsibility of retailers [6].

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Research Methodology

This study’s research method uses survey analysis conducted via interviews with company executives from Japan and Taiwan (including the CEO of FamilyMart).¹ Additionally, this research collected historical data from Taiwanese newspapers and magazines, FamilyMart corporate news releases, public websites, and other corporate documents.

A combination of prior research [7-10] and author own preliminary studies on the Japanese founded company suggests that a five-point summary explains FamilyMart’s critical success factors in the evolution of Japanese convenience stores: (1) The number of franchise stores exceeds corporate stores. (2) Sales for the ready-to-eat food category, such as the rice ball, are greater in Japan than in other countries. (3) The joint product distribution system with the manufacturer is crucial to operations. (4) The efficiency of chain management is enhanced by information systems. (5) S&QC are considered the fundamental responsibility of retailers (Table 1).

The development of Taiwan’s FamilyMart can be described in three stages: market entry (1988 to 1993), growth (1994 to 2005), and maturity (2006 to 2014). The growth stage is categorized according to the first year that a surplus was achieved – at this point, store numbers and operating income were rapidly increasing. The maturity stage corresponds to a period of considerable decline in operating profits and a reduction in store proliferation.

This study examines the historical development of Taiwan FamilyMart through the three stages of development. The study addresses the transfer of the chain’s expertise to the Taiwanese market with a focus on the five-point critical success factors.

The Market Entry Stage (1988 to 1993)

Taiwan’s FamilyMart: The beginning

FamilyMart expanded their business to Taiwan in 1988 justified by the statement “geographic and cultural distance between Taiwan and Japan are close, and the high economic growth rate also was the reason to choose Taiwan as the first overseas extension” [11].

The macro environment was a significant factor in the market entry stage. In 1987, per capita gross domestic product (GDP) in Taiwan was US\$7,558, and the economic growth rate was 10.68%. Additionally, the revision of the Foreigner Investment Ordinance in May 1986 facilitated foreign capital-backed retailers’ entry to the Taiwanese market. In 1988, the service industry worker population exceeded that of the manufacturer industry for the first time. In the microenvironment, FamilyMart’s competitor 7-Eleven, operated by the local firm President

Enterprises Corporation (PEC), opened their first shop in 1980, and more than 200 shops were subsequently opened in 1988. Overseas chains such as Circle-K, ampm, Nikomart (from Japan), and local capital chains such as Hi-Life and Union Bread (also operated by PEC) were progressing their branch establishment plans.

Taiwan FamilyMart was established in 1988 as a joint venture between Japan FamilyMart (40%); Chinese Automobile Company (CAC), General Motors (GM) in Taiwan (51%), and Japan’s Itochu Corporation (9%). FamilyMart selected CAC as their partner based on three reasons: (1) The company handled 200,000 products, of which convenience stores stocked over 3000 items; there is a strong resemblance between the two businesses. (2) The company owned a location control system that could be used for convenience store development. (3) The owner of CAC was familiar with Japanese corporate philosophy, which facilitated communication and the building of relationships (Table 2).

The first store opened in December 1988 in the Taipei Station area. Company plans for the market entry stage were to open eight shops within the first year, 200 shops within three years, and 1,000 shops within ten years.

Transferring the Japanese convenience store features

FamilyMart transfers their expertise to the international market through a specialist team from Japan composed of the president and the store development, operations, commodity, management, and construction staff. This specialist team remained in Taiwan until the mid-1990s.

FamilyMart first followed a standardization strategy. The company imported many Japanese products to pursue a high quality policy and a differentiation strategy. Most of the convenience store chains in Taiwan were investments for local food manufacturers, who used them as marketing channels. The result was limited merchandise. However, the high quality policy of FamilyMart was not accepted by the market. Eventually, the company decided in 1990 to cut imported goods from 30% to 10%.

In 1991, Mr. Pan, an employee of CAC, assumed the presidency of Taiwan FamilyMart. Mr. Pan had graduated from Tukuba University (Japan) and was central in building the relationship between CAC and FamilyMart. He was also the person who insisted on the introduction of three features in his Japanese convenience stores: (1) an electronic ordering system (EOS), (2) an efficient product distribution system, and (3) a franchise system. The ready-to-eat food category had been introduced to the market by that time, but had not yet experienced success because of traditional consumption habits.

| | Franchise stores | Ready-to-eat food | Joint development of commodities | Joint delivery systems | Information systems | Service |
|--------------------|---|--|-------------------------------------|--|--|--|
| Yahagi [10] | - | Develop original ready-to-eat food | Merchandising with the manufacturer | Multi-times, bulk-breading, on-time delivery | - | - |
| Kim [8] Kim [7] | - | High sales volume in the ready-to-eat food category | - | Organization of the product distribution system | Development of an efficient information systems | Enhanced service |
| Ogawa [9] | Franchise systems | Merchandising | | Delivery system and the wholesaler policy | Ordering and operation support system | - |
| This paper | Number of franchise stores exceeds corporate stores | Sales ratio for the ready-to-eat food category is higher in the target country than in other countries | | Joint product distribution system with the manufacturer is crucial | Efficiency of chain management is enhanced through information systems | Emphasis on service, quality, and cleanliness (S&QC) |

Table 1: The features of Japanese convenience stores.

| | |
|----------------|---|
| August 1988 | Taiwan FamilyMart corporation was founded. |
| December 1988 | The first store opened. Became the first in the industry to adopt the EOS ordering system. |
| March 1989 | The Taiwan Distribution Center company was established. |
| September 1990 | Franchise systems were formally applied. |

Source: Summary by author.

Table 2: The key dates and events in the market entry stage.

| | |
|----------------|---|
| December 1994 | Achieved annual surplus for the first year. |
| December 1997 | The numbers of shops reached 500. Annual revenue exceeded NT\$7.5 billion. |
| January 1998 | Start of the public utility payment service. |
| September 1998 | The introduction of the complete POS system. |
| December 1998 | Annual revenue exceeded NT\$10 billion. |
| March 1999 | The introduction of the industry's first in-store service for items ordered online. |
| November 1999 | The first factory was established in Linkou. |
| December 2000 | Wuri distribution center in Taichung was established. The number of shops reached 1,000. |
| March 2001 | Established a bread factory in the Linkou area. |
| January 2002 | Launched Chinese New Year dishes for advanced purchase. |
| February 2002 | Started initial public offering on February 25. |
| December 2002 | Annual revenue exceeded NT\$20 billion. |
| April 2003 | Introduction of the follow-on POS system. |
| June 2003 | M&A with another convenience chain and acquisition of 43 shops. |
| December 2003 | The number of shops reached 1,500, and 73% of them were franchise operations. |
| March 2004 | Expanded to Hualian and Taidong, both on the eastern side of Taiwan. |
| April 2004 | Opening of Ping Roun Food Company, FamilyMart's second ready-to-eat food factory in northern Taiwan. |
| June 2004 | Launch of a new distribution subsidiary called Re-Yi Distribution Service Company for publication products. |
| July 2004 | Opening of the first FamilyMart store in Shanghai. |
| April 2005 | A virtual distribution center (VDC) is introduced from Japan. |

Source: Summary by author.

Table 3: The key dates and events in the growth stage.

The electronic ordering system: In 1988, an electronic ordering system, "Family Line," which featured a pen-style scanner, was introduced from Japan.

Establishment of a logistics subsidiary: In Japan, a joint product distribution system with a manufacturer is common in many main convenience store chains. However, it was difficult for Taiwan FamilyMart to locate a wholesaler that would support their distribution system. Consequently, the company established an independent distribution branch. In March 1989, the Taiwan Distribution Center Company was established. This independent distribution center was a joint venture between CAC (51%), Japan Itochu Corporation, Nishino Syouzi (40%), and Japan FamilyMart (9%).

The franchise system: FamilyMart began introducing franchise stores in Taiwan in 1990. However, the accounting system in Taiwan differs from the Japanese system; therefore, Taiwan FamilyMart modified the original system for the Taiwanese franchises. In Taiwan, inventory belonged to the headquarters (the franchiser) not the shop (franchisee). Initially, FamilyMart transferred 51 corporate shops into franchise stores to progress their franchise model.

The overseas development of small shops, such as convenience stores, represents a challenge for many retail chains, and culture and business environment barriers exist between Taiwan and Japan. Fortunately, the store's joint venture partner, CAC, was equipped with a powerful sales force that assisted FamilyMart in the development of small-scale convenience stores.

Obstacles to achieving a surplus

Total investment grew from NT\$100 million to NT\$700 million, and the company extended the timeframe for achieving a surplus. The company identified two factors as the obstacles to achieving a surplus: First, heavy infrastructure investment was a particular burden on the distribution system and facility. At the end of 1990, Taiwan FamilyMart owned 62 stores, and it was evident that the sales could not cover the infrastructure investment. Second, was the high cost of store development. Taiwan was in a bubble at the end of the 1980s. Labor and rent costs were increasing rapidly. These factors prevented Taiwan Family Mart from achieving the goal of opening 200 stores within three years.

Summary of market entry

The macro-environmental factors that affected the Taiwan FamilyMart during this stage of development were mainly political – the revision of foreign investment regulations on May 1986 and cultural affinity. Additionally, Taiwan's economic growth and the second oil shock contributed to rising labor and rent costs. Moreover, the first mover 7-Eleven had succeeded in distributing and opening stores quickly, and other convenience chains entered the market.

Taiwan FamilyMart could not reach break-even point until 1993. By transferring the Japanese convenience store expertise, the company introduced an EOS, a product distribution system, and a franchise system, and these initiatives formed the foundation for the next stage

in development. The company's joint venture partner, CAC, and the president of Taiwan FamilyMart, Mr. Pan, had significant influence on these initiatives.

The Growth Stage (1994 to 2005)

During the growth stage, 1994 and 2005, Taiwan FamilyMart changed partners. The author separate growth stage into two periods, prior to the change in partners in 1999 and after the change until 2005.

The first stage of growth stage (1994 to 1999)

In 1994, the economic growth rate was 7.59%, and the average per capita GDP was US\$11,079, almost double that of the record in 1988. At this time, in the microenvironment, the first market-entering chain 7-eleven had opened approximately 800 shops. By the end of 1993, 2,384 convenience stores were open and operational. In 1995, ampm was forced to withdraw from the Taiwanese market because of competition.

Taiwan FamilyMart focused their Japanese convenience strategy on four goals: (1) to promote franchise stores and reach break-even point, (2) to create an information system, (3) to set up a facility for ready-to-eat products and product distribution, and (4) to introduce new services. The creation of an information system was the most important task at this stage (Table 3).

Promoting franchise stores and reaching break-even point: In 1994, Taiwan FamilyMart extended their shops into Kaohsiung City; the second largest city in south Taiwan. By the end of 1994, the number of stores totaled 192, and the company achieved its first year's surplus. The achievement was the result of promoting the franchise stores, as Mr. Yamashita (Executive Officer of FamilyMart) stated during an interview (on July 4, 2014).

The operating cost of a franchise store is typically approximately 70% to 80% of the cost of operating a corporate store. Taiwan FamilyMart began to focus on developing franchise stores to obtain more profit. In February 1995, the 200th shop was opened in Taipei; the company had taken seven years to reach their original first three-year goal.

Mr. Pan announced a new target after the achievement; to "reach 500 stores by 1998, increase the rate of franchise stores to 95%, and to improve their product distribution system." In achieving this goal, the company sought to introduce TV commercial messages beginning in August 1995. The company introduced the Japanese "multiple shops franchise stores" model in 1999.

By the end of 1997, 100 shops opened every eight months on average. The number of shops had reached 500, and annual revenue exceeded NT\$7.5 billion. By the end of 1999, the numbers of shops had reached 800.

The creation of an information system: The modification of the Japanese information system was necessary to render it compatible with the Taiwanese accounting system. In 1996, with the cooperation of Japan FamilyMart and Japan Itochu Techno-solutions Corporation (CTC), Taiwan FamilyMart established a subsidiary called Family Net Company. In October 1997, the company introduced a store operating and POS system. In September 1998, POS was introduced in all stores.

The setup facility for ready-to-eat products and product distribution: The Company began selling rice balls, cold noodles, sandwiches, and midnight snacks in the mid-1990s and, in 1997, oden, chimaki, and salad were added as seasonal products. As in Japan, the

company used local factories as producers of the ready-to-eat food; however, the strategy to introduce additional main meals led Taiwan FamilyMart to establish their own factory.

In November 1999, the first factory was established in Linkou with a capacity of 3300 m². The factory was an investment by Taiwan FamilyMart and Fast Food Company.

Taiwan FamilyMart built a transfer center in Taichung City to support their stores in the middle and south of Taiwan in March 1994. In December 1995, the company created a distribution center in Kaohsiung.

The introduction of new services: During initial attempts to penetrate the market, Taiwan FamilyMart began an in-store public utility payment service for customers in January 1998, which was a service introduced from Japan by Mr. Pan. The first payment service was the Taipei City parking fee followed by public utility charges such as electricity, water, and gas bills in July 1999.

As a result of efforts during this stage, the sales of Taiwan FamilyMart reached NT\$10 billion and NT\$10.1 billion in 1998. At the same time, the company changed local partners because of the financial risk associated with CAC's parent company. To overcome the risk in changing partners, Mr. Pan asked the Japanese arm of the company to increase their investment to over 50% of the funds and to establish stable management. This situation illustrated the strong relationship between the Taiwanese and Japanese FamilyMart groups.

In 1999, instead of CAC, Taisan Corporation (17%), Gunquan Foods (10%), and Sanyang Corporation (10%) composed the three main stockholders of Taiwan FamilyMart in the local market.

The second stage of growth stage (2000 to 2005)

Taiwan's economic growth rate was 5.8% in 2000, and average per capita GDP had increased to US\$14,704. However, the retail market growth rate dropped to minus 2.52% in 1999. Taiwan had become a member of the World Trade Organization (WTO) in 2002, and the Taiwanese government attempted to establish a knowledge society with the service industry as the center of economic development. In 2000, the number of 7-Eleven stores was 2,641 stores, the number of Taiwan FamilyMart stores was 1,011, the number of Hi-Life stores was 712, and OKmart (convert from Circle K) owned 608 operational stores. The increased number of convenience stores created a competitive market.

On February 25, 2002, Taiwan FamilyMart published their stock. In the same year, operating revenues were NT\$21.8 billion, an increase of approximately 20% from the previous year. Taiwan FamilyMart strengthened their growth strategy during this stage in two ways, developing the ready-to-eat food category and enhancing their S&QC.

Promoting franchise stores and extending the number of stores: Between the years 1997 and 2003, an average of 500 new stores opened every three years. The company also conducted M&A with another convenience chain in June 2003 and acquired 43 shops. By the end of 2003, Taiwan FamilyMart operated 1,500 stores, and 73% of them were franchise operations. On March 2004, the area with stores was expanded to Hualian and Taidong, both on the eastern side of Taiwan.

Renewing the information system: First, the company renewed the ordering system by introducing new hand terminals in December 2001. In the past, staff would check the back-office store computer to confirm historical sales and ordering data. The introduction of the new ordering system allowed the confirmation of these historical data

from the ordering hand terminal. In April 2003, Taiwan FamilyMart renewed their POS system. The Windows working system featured greater capacity and a large liquid crystal display (LCD) monitor to present store promotions.

The expansion of distribution centers and the creation of a new publications distribution subsidiary: The expansion of the logistics infrastructure was compatible with the expansion of the new store regions and the number of stores. First, instead of the Taichung transfer center (TC), a new Taichung distribution center was created in December 2000. Capital investment was NT\$220 million, and the site area was 10,000 m². The fourth distribution center was installed from December 2003 to April 2004 and was located in Taoyuan, Daxi, in the northern Taiwan area. Capital investment was NT\$360 million, and the site area was 33,000 m². It was a comprehensive center accommodating all distribution temperatures.

Additionally, the company launched a new distribution subsidiary called Re-Yi Distribution Service Company for publication products in June 2004. The technical expertise to run this distribution center was transferred from Nippan, one of the largest publication distributors in Japan.

Strengthening the ready-to-eat food category and building a new subsidiary: In March 2001, Taiwan FamilyMart established a bread factory in the Linkou area. The capital invested was NT\$7,000, and the establishment of the bread factory was a joint venture between Taiwan FamilyMart and the vendor Fast Food Company. The required technical expertise was transferred from Japan by the hiring of a former Yamazaki Baking Company plant manager as a consultant. The new Taiwan FamilyMart organizational structure strengthened the ready-to-eat food category team and increased the team membership from five to 11 in 2003.

Although the number of stores was increasing each year, existing vendors and factories could not fully respond to total store demand. In 2004, Taiwan FamilyMart decided to establish a ready-to-eat product branch. In April 2004, the new company, Ping Roun Food Company, began operations with capital of NT\$80 million. The new branch was a joint venture between Taiwan FamilyMart, one of Taiwan FamilyMart's vendors, Ping Roun Products Company, and Itochu Corporation. The technology expertise originated mainly from two vendors of Japan FamilyMart, Tokatu Foods Company, and Fast Food Company.

Taiwan FamilyMart changed their strategy to one that depended on investment in the "ready to eat" food branches from vendors for three reasons: First, Taiwan FamilyMart wanted to own a proprietary factory. Second, the firm wanted to merchandise new products in cooperation with the manufacturers. Third, the company wanted to introduce Japanese technology expertise into their factories.

Enhancing S&QC: The future of S&QC was dependent on human resources and education. The company introduced three plans. First, in August 2002, a store staff training (SST) program was introduced from Japan. This was a certification system with a three-step challenge for employees. The aim was to improve service quality. Second, in September 2003 the company began to hold a contest that consisted of "voting for the best services employees" to emphasize the significance of the S&QC policy among employees. Third, in October 2003, Taiwan FamilyMart established a corporate training institution. Employees who finished the course were eligible for promotion. Taiwan FamilyMart won a service competition for efforts in the convenience category in November 2004 held by the leading Taiwanese business magazine, *Global Views*.

Services related to e-commerce were addressed during this stage. In March 1999, Taiwan FamilyMart began the industry's first service for items ordered online and obtained from the shops. Moreover, in October 2000, the company founded a new branch company, CVS COM Company, which began Taiwan FamilyMart's e-commerce business. The e-commerce business was in cooperation with three other convenience chains and serviced 2,750 shops belonging to four companies.

In April 2005, another branch related to e-commerce business, FamilyNet Company, was founded. It introduced the virtual distribution center (VDC) from Japan. The investment ratio was Taiwan FamilyMart 85% and Japan FamilyMart 15%.

New services included reservations for New Year dishes provided in-store, which was highly successful in January 2002 and was a service emulated by other chains.

In addition to the five features of Japanese convenience stores, other significant factors affected the growth strategy at this stage: image advertising and store reformation, the introduction of large-scale campaigns, and entry into the new Chinese market were additional accomplishments.

Image advertising and store reformation: Image advertising began to differentiate Taiwan FamilyMart from competitors. In February 2000, Taiwan FamilyMart appointed a Taiwanese female singer to promote the slogan "FamilyMart is your home". The target demographic was men and women between 19 to 35 years of age residing in urban areas. Taiwan FamilyMart's Mr. Ban described the effect of the promotional campaign "After these advertisements, there were no more customer misunderstandings of the Taiwan FamilyMart's TV CM as the CM of our competitor 7-Eleven. We think our image differentiation campaign was successful" (*EMBA World Accounting Magazine* 2005, p.80).

With respect to store reform, the second-generation concept store was introduced to store number 1,300 as a trial in December 2002. Compared with conventional stores, the new store featured brighter lighting in the entrance and the counter area, lower shelves, a cashier station, and a broader passage. After opening store number 1,400 in September 2003, all of the new stores followed the second-generation concept.

Introduction of the large-scale campaign: The Taiwan retail market growth rate began to slow down around the year 2000, and price competition in the convenience store industry reached normal levels. For example, 7-Eleven launched a low-priced NT\$40 lunch box on December 24, 2001 and experienced dramatic sales. Taiwan FamilyMart launched a super value lunch at NT\$39 in January 2002 to compete. However, such low-price competition only succeeded in extending temporary sales and did not provide a long-term effect.

Another phenomenon was the introduction of a large-scale campaign, an initiation shared by 7-Eleven. In April 2005, to improve performance that had been sluggish in recent years, 7-Eleven launched a campaign "if you spend more than NT\$77 you will receive a Hello Kitty magnet." The brand Hello Kitty appealed to an extensive age group in Taiwan, and the campaign increased the number of collectors and pushed 7-Eleven's July monthly sales to NT\$10.1 billion. Affected by 7-Eleven's performance, other convenience store chains suffered.

To compete with 7-Eleven, Taiwan FamilyMart launched a similar campaign in October 2005, "if you spend more than NT\$75, you will receive an MSN facial expression magnet." During the 10-week

campaign period, 40 million magnets were distributed. Average sales increased from NT\$65 to NT\$70 with an increase of over 20% in total sales. Since then, many convenience store chains frequently leverage other companies for promotional campaigns.

Entry into the Chinese market: In 2004, Japan FamilyMart entered the Chinese and US markets. Based on the success of Taiwan FamilyMart over the previous 15 years and the strong relationship with Japan, FamilyMart invited Taiwan FamilyMart to join them in entering the Chinese market to assist them in transferring their expertise to Shanghai FamilyMart. Shanghai FamilyMart was a joint venture between Ting Hsin International Group, Japan FamilyMart, Taiwan FamilyMart, Itochu Corporation, and Chinese CITIC Holdings [4].

Summary of the growth stage

The information systems – facilities for ready-to-eat food production and distribution systems – gradually improved during the growth stage. All of the processes were supported by the functional branch companies. Additionally, new programs such as corporate education and contests were introduced to improve levels of S&QC and corporate branding. By the end of 2005, 1,851 stores were operating under the management of Taiwan FamilyMart. The position of the second largest convenience store in Taiwan had stabilized.

The Maturity Stage (2006 to 2014)

Innovation and strategies in the maturity stage

Taiwan’s economic growth rate in 2006 was 5.44%, and average per capita GDP was US\$16,491. However, in 2008, the economic growth rate was only 0.73% and dropped to minus 1.81% in 2009. Fierce competition in the retail market was augmented by an increase in the number of supermarkets and general merchandise stores as well as convenience stores. By the end of 2013, a total of 10,087 stores serviced a Taiwanese population of 23 million and included 4,900 7-Eleven stores, 2,895 Taiwan FamilyMart stores, 1,293 Hi-Life stores, and the remainder was composed of other chains. The top three chains occupied approximately 90% of total market share.

In the context of increased competition and sluggish economic growth, Taiwan FamilyMart profits recorded a negative growth rate of 3.7% in 2006. Consequently, the company launched innovative strategies to increase their sales (Table 4).

The initiation of new franchise programs: After 2006, Taiwan FamilyMart increased the number of available programs to encourage franchise business activity. For example, “part-time special treatment” and the “FamilyMart employees U-turn program” were added in 2006, and a “personal 2FC type franchise system” was introduced in 2009. Additionally, the headquarters of Taiwan FamilyMart supported franchisees’ rental costs, the amount of which depended on the store location.

By the end of 2013, 90% of the stores were franchises (approximating the franchise capacity of Japan FamilyMart at 95%). A Taiwan FamilyMart executive had set the target for the following reasons. To provide special programs such as rental support in specific locations, to satisfy the desire that “many Taiwanese want to own their own business,” and to mitigate “the effect of unemployment in recent years” as stated by the vice president of Taiwan FamilyMart (interview at Taiwan FamilyMart with the Vice President, Mr. Yeh, 2014).

The introduction of new types of shops and the strengthening of the ready-to-eat food category: Taiwan FamilyMart attempted to increase the sales of ready-to-eat food products, but sales remained sluggish. Therefore, the company introduced new types of shops and developed fresh products through innovation, and the establishment of three new subsidiaries to support new ideas.

New types of shops: Taiwan FamilyMart experimentally introduced a new type of shop in December 2006 when they opened store number 2,000. The shop featured a brighter, contemporary atmosphere. The company also experimented with selling fresh-brewed coffee in store. An eat-in corner was created for people to eat and drink in-store with an average floor space of 132 m². Total sales increased because of these innovations.

After shop number 2,500 opened in December 2010, all subsequent shops opened by Taiwan FamilyMart were based on the new store design. By the end of September 2014, 70% of the stores had been converted and were operating under the new layout.

Developing new products through innovation: Taiwan FamilyMart developed new products to increase sales of ready-to-eat food. Innovative ideas included the sale of new products such as fresh coffee brewed in-store in 2007, baked sweet potatoes in 2010, and original soft serve ice cream in 2013. These strategies maintained sales growth.

| | |
|---------------|--|
| August 2006 | Received a certificate of attestation from SGS. |
| December 2006 | The 2000th store of FamilyMart is opened. Experimentally introduced a new type of shop. |
| February 2007 | Cooperated with Mr. Brown Coffee and began selling in-store brewed coffee. |
| April 2007 | Opening of stores on Green Island. |
| October 2007 | Second branch companies for the ready-to-eat food category was created in the south of Taiwan. This company was a joint venture with the vendor Fast Food Company. |
| November 2007 | Purchase of a local partner’s convenience store chain and transformation of 157 shops into Taiwan FamilyMart shops. |
| December 2008 | Introduction of the “FamiPort” terminal providing additional in-store services for customers. |
| 2010 | Began to diversify into the restaurant industry. The steak house VOLKS was launched in 2010 and Ootoya in 2012. |
| October 2010 | Acquisition of ISO22000 certificate. |
| 2011 | Installation of the third generation in-store POS. |
| March 2013 | Introduction of original soft serve ice cream. |
| March 2013 | Third venture company for the ready-to-eat food category was established in the north of Taiwan. This company was in cooperation with the Ping Roun Company. |
| November 2013 | The FamilyMart Collection, a private label brand of Japan FamilyMart was introduced in Taiwan. |

Source: Summary by author.

Table 4: The key dates and events in the maturity stage.

First, in February 2007, Taiwan FamilyMart cooperated with Mr. Brown Coffee, a famous coffee brand in Taiwan, and began selling in-store brewed coffee. In November 2009, the company expanded this service to 1,200 shops, almost half of the total owned stores. A new brand name, "Let's Café," was created for this coffee business.

In 2010, the company contracted with sweet potato farmers and began to control the process from production to proprietary sales of the sweet potato products. The result was average sales of eight million baked sweet potatoes each year.

Original soft serve ice cream, another popular product, was introduced in 2013 through cooperation with NISSEI, a leading manufacturer of Japanese soft serve ice cream. The co-operation with Taiwan Itochu Corporation resulted in 10 million pieces of soft serve ice cream sold in a year after stores initially began sales.

The company renewed bakeries under the guidance of a leading Japanese bakery, and KOBEYA's was launched in 2010. The company created a new rice ball using famous Taiwanese rice in 2011. These efforts increased the sales of ready-to-eat food.

In the year 2014, approximately 20 to 60 new product items were introduced within two weeks by Taiwan FamilyMart. This number was still low in comparison to Japan FamilyMart's introduction of 400 to 500 items in a month.

New subsidiary for the ready-to-eat food category: Three branch companies for the ready-to-eat food category were created. One company was established in 2007 in Kaohsiung, south of Taiwan. This company was a joint venture with the vendor Fast Food Company. Taiwan FamilyMart invested 40%. In 2008, another factory to manufacture dried laver for rice ball use was established through cooperation with Japanese Kozen Corporation. Finally, in March 2013, cooperation with the Taiwan FamilyMart's main vendor Ping Roun Company established another venture company in the north of Taiwan. Taiwan FamilyMart invested 30% of the capital.

Expansion of the distribution infrastructure: Complementing store expansion, the company built two more distribution centers, one north east of Taiwan in 2007 and the other in the south area of Taiwan in 2013. By the end of 2013, Taiwan FamilyMart owned six distribution facilities.

Innovation in information systems: The company began installation of the third generation in-store POS in 2011 and completed installation in 2013. Moreover, in October 2013, the company introduced a new electronic ordering system that enabled staff to check stock availability through the ordering terminal prior to placing an order. Between 2011 and 2013, innovation investment totaled NT\$500.

S&QC expansion: The "FamiPort" terminal provided additional in-store services for customers in December 2008. The customer could use the machine to purchase Taiwan Shinkan-Sen (high-speed railway) tickets. In Japan, this service is still not accessible. Another innovative service was "store-to-store" service. Customers use this service to send and receive packages in-store. In October 2013, this "store-to-store" service was extended to deliveries between Taiwan FamilyMart and Shanghai FamilyMart through their international network. At the same time, Taiwan FamilyMart also cooperated with Taobao, a leading online shopping mall in China.

As a result of S&QC expansion, Taiwan FamilyMart received a certificate of attestation from SGS Service in August 2006 from ISO22000 and Hazard Analysis and Critical Control Point (HACCP) in

October 2010. Moreover, in 2014, the company won a sixth convention sector championship in a service contest held by a Taiwanese business magazine.

Store development: After rapid store expansion in the main island of Taiwan during the growth stage, Taiwan FamilyMart began opening stores on a solitary island in the maturity stage – Green Island in April 2007 and Penghu in May 2011.

The company also conducted M&A activity by purchasing a local partner's convenience store chains in November 2007. Taiwan FamilyMart acquired 300 shops from this chain and transformed 157 of them into Taiwan FamilyMart shops.

In recent years, store expansion strategies were designed to open at least one shop in a small town or village targeting 319 small Taiwanese towns and villages. Moreover, particular company stores cooperated with manufacturers to promote products or messages and to attract customers to these shops. Taiwan FamilyMart also operates one rest area on a highway south of Taiwan.

Standardizing the private label brand: Before the year 2013, with the exception of their dessert brand "Sweets+," almost all of the private label brands of Taiwan FamilyMart were found in Taiwan. Since 2013, Japan FamilyMart has standardized their private label brand. The FamilyMart Collection was introduced in Taiwan in November 2013. In March 2014, approximately 200 FamilyMart Collection items were sold in stores. The company imported some products from Japan, such as cookies and snacks, but the majority was produced in Taiwan such as fruit juice, instant noodles, and detergent. The policy of the private label brand was not to offer low prices, but high quality products at the same price level as manufacturer brands, with some prices even higher.

Diversification: Finally, Taiwan FamilyMart began to diversify into the restaurant industry. The restaurant industry is one of the few industries that can grow in Taiwan even during a depression. The steak house VOLKS was launched in 2010 and Ootoya in 2012. Both restaurants were joint ventures with Japanese restaurant chains. The company also co-operated with Ootoya in the Chinese market.

Summary of the maturity stage

In 2013, the number of Taiwan FamilyMart stores totaled 2,903 with an operating income of NT\$53.75 billion. Revenue after tax was NT\$1.09. This represented year-over-year growth of 7.47% and 24.28%. In April 2014, the capital structure of Taiwan FamilyMart was the following: Japan FamilyMart, 47.44%; Taisan Corporation, 20.51%; Sanyang Corporation, 10.05%, and Gunquan Foods, 5.29%.

During the maturity stage, the company pursued innovative strategies such as the introduction of new types of shops, new franchise system programs, and innovation to develop new products and diversification. These strategies stimulated the growth of Taiwan FamilyMart in the maturity stage (Figure 1).

Results and Discussion

Table 5 summarizes the results of this study. These results show that Taiwan FamilyMart successfully managed the five-point critical success factors for effective Japanese convenience store operations through these stages. The gray zone is the essential part of each stage, whereas innovation occurs in all maturity stages (Table 5).

The following points summarize the five-point strategy of the convenience store relocation of Japan FamilyMart to Taiwan FamilyMart (Table 5).

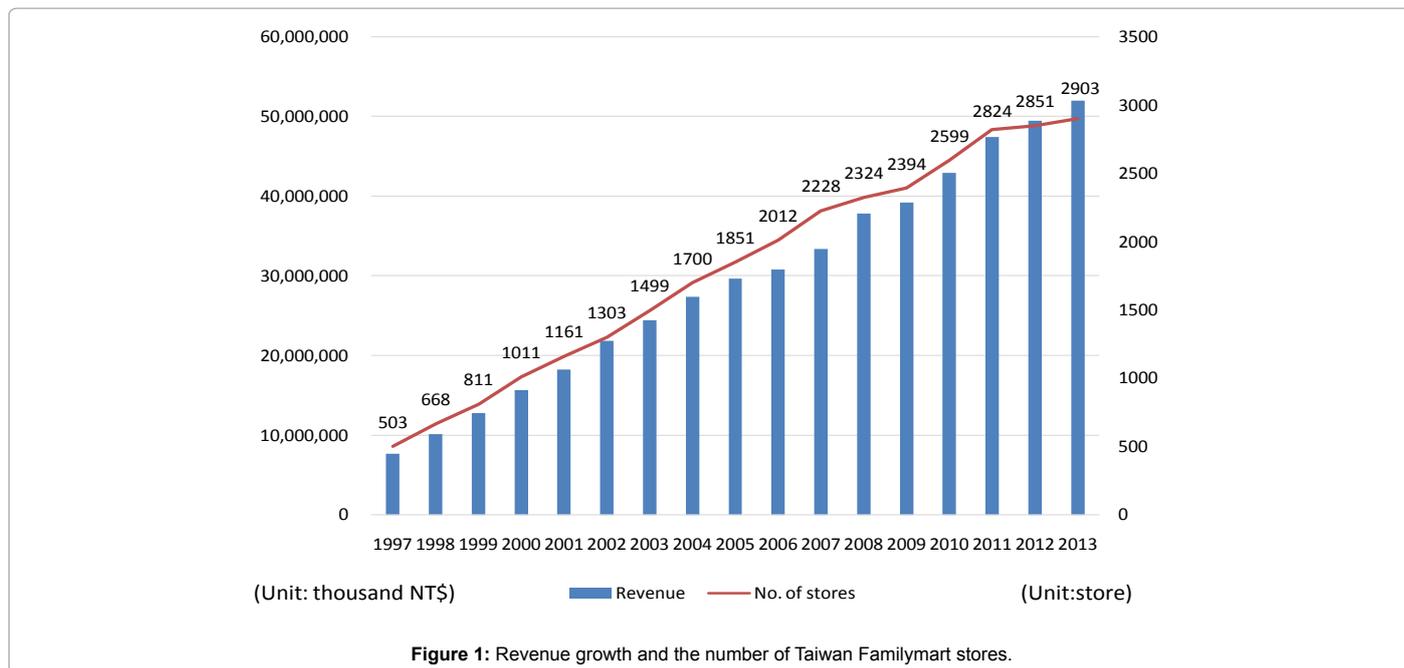


Figure 1: Revenue growth and the number of Taiwan FamilyMart stores.

| The Five-point Strategy | The development stages of Taiwan's FamilyMart | | | |
|--|---|--|--|--|
| | Market entry stage | First growth stage | Second growth stage | Maturity stage |
| Promoting the franchise system and stores | Mainly 2FC type | Franchise stores more than 70% | Mainly 1FC type | Introduction of innovative programs. Franchise stores is 89% |
| Strengthening the ready-to-eat food category | Failed because consumption habits were not formed | Consignment production. Re-challenge by new factory set-up | Two new ready-to-eat food subsidiaries. Formal introduction of lunch box | The third ready-to-eat food subsidiary. Introduce new products and new type of shops |
| Construct distribution system | Establish logistics subsidiary Taipei DC | Taichung TC, Kaohsiung DC | New publications distribution subsidiary Taichung DC, Taoyuan DC | Hualien DC, Yunlin DC |
| Construct information system | Introduce an electronic ordering system | Created an information subsidiary and introduced store operation system and POS system | Introduce a second generation POS system | Introduce a third generation POS system |
| S&QC | | Began the payment services of public utility charges | Improve service by strengthen human resources education. | Improve service by installing "FamiPort" |

Note:

1. 2FC represents franchiser-prepared space and shop. 1FC represents franchisee-prepared space and shop.

Source: Summary by author.

Table 5: The transfer of Japanese-style convenience stores at each stage.

(1) The number of franchise stores exceeded corporate stores. In the market entry stage, the franchise system was introduced into Taiwan FamilyMart; however, it was modified to suit the Taiwanese accounting system, which required the inventory to belong to the headquarters of the franchise chain. Additionally, mainly in the maturity stage, a number of innovative programs that blended with the social context of Taiwan were introduced to increase the numbers of franchise stores.

(2) The sales ratio of the ready-to-eat food category was greater

than in other countries. During the market entry stage, the ready-to-eat food category was struggling after an extended period of traditional consumption habits with respect to convenience store products. In the growth stage, joint ventures with suppliers developed facilities infrastructure in the second growth stage. The domestic market partner Japan FamilyMart supported the technology and expertise required for facilities development. Additionally, in the maturity stage, aggressive new product development through innovative ideas, and conversion to

new types of shops increased the sales of ready-to-eat products.

(3) A joint product distribution system with the manufacturer was crucial. The distribution structures of Taiwan and Japan are very different – Japan has many wholesalers to support their joint product distribution systems but Taiwan does not. Early in the market entry stage, Taiwan FamilyMart decided to establish their own distribution branch. To reduce the investment risk, the company added distribution facilities gradually according to the scale of store expansion in the development stages.

(4) Information systems enhanced efficient chain management. In the first growth stage, subsidiary information systems were established to support chain operations to overcome the inventory and tax problems in Taiwan.

(5) S&QC were considered the fundamental responsibility of retailers. In the first growth stage, the company began the utility bill payment service. In the second growth stage, S&QC was strengthened through internal contests, certification systems, and a corporate university. The “FamiPort” was installed to provide more in-store services; one example was the original store-to-store delivery service.

Conclusion

Significantly, FamilyMart achieved market entry by establishing joint venture arrangements whereby local partners were granted majority management and encouraged to pursue innovation. This is a core success factor. However, in addition to capital investment the company supported the technical expertise of local companies by maximizing resources. FamilyMart combined the contributions of the parent company Itochu Corporation and its related companies and suppliers in the domestic market to aid overseas development in the Taiwan local market.

Localization is cited as a core strategy for domestic industries expanding their business overseas, such as restaurants and other retailers; however, the entry strategy of joint ventures and relationship building between domestic and entering market companies may be slighted by many companies. The implications for convenience store managers and other industries are the following: (1) managers

should endeavor to build relationships with local partners and extend networks, (2) domestic industries should identify their key factors before developing them incrementally while responding to market changes and demand.

In conclusion, the results of this study show that Taiwan FamilyMart successfully managed the five-point critical success factors for effective Japanese convenience store operations despite initial barriers to knowledge transfer.

Further research is required to examine the localization process of FamilyMart in Thailand and China. Comparisons can be drawn with Taiwan that will firmly establish the essential success factors for Japanese convenience store chain operation.

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