

A Study on 7-Eleven's Core Competencies: Focusing on the VRIO Model

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Abstract

In this study, the core competencies of 7-Eleven, Japan's representative convenience store, were derived through a qualitative analysis method using VRIO (value, rarity, Imitability, and organization) framework, a management strategy model based on Resource-Based View (RBV).

As a result of VRIO analysis, the value can be based on the scale that 7-Eleven ranks first in the Japanese convenience store industry in terms of the number of stores and market share that it has developed based on capital. The rarity is based on the fact that raw material procurement, the main activity of a company, is establishing the nation's largest distribution channel in the entire process, from producers to logisticians and franchisees. The difficulty for Imitability is based on a dominant strategy and has secured a competitive advantage by opening stores in a specific area, improving awareness, and raising barriers to entry. As the largest company in the convenience store industry, it is confirmed that 7-Eleven is the result of organizational power that has built stores not only in Korea but also in 16 countries around the world.

Keywords: 7-Eleven, VRIO Framework, Value Chain Analysis, Core competence

1. INTRODUCTION

Convenience Stores (“CVS”) in Japan, introduced from the United States in the 1970s, provide high convenience to customers such as long hours of operation and one-stop shopping and develop products that meet the needs of consumers and operate a franchise system, such that they have continued to grow [7]. However, due to the recent COVID-19 situation, many changes have been seen in the CVS industry. According to the Japan Franchise Chain Association, as of the end of February 2020, the total number of stores of the top three CVS companies, including 7-Eleven Japan, Family Mart, and Lawson, reached more than 50,000. As the number of stores increases, management difficulties are getting more serious [7]. However, even in this rapidly changing business environment, 7-Eleven accounts for more than 65% of the total sales of the Japanese convenience store industry and maintains a continuous competitive advantage [10], [11], [13],[14].

The reason why 7-Eleven has been able to secure a competitive edge in this way can be seen as creating core competencies that it has built over a long period since its opening. In other words, core competencies are the source of a company's market-leading power and a factor that makes the company look forward to the future [6]. According to the resource-based view (RBV), the factors that influence the performance of a firm are the unique resources or capabilities that the firm possesses. In other words, firms with rare resources that rival firms cannot imitate enjoy a competitive advantage over firms that do not [2], [3].

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Therefore, this study intends to analyze which of the management resources 7-Eleven has built up since its inception of the convenience store business has developed into core competencies that are the source of competitive advantage based on the content presented above. First, this study analyzes the company's management resources using the value chain analysis proposed by Michael Porter [8] and the Resource-Based View (RBV) presented by Barney [4, 5], further intends to derive 7-Eleven's core competencies by utilizing the VRIO (value, rarity, Imitability, and organization) framework, which is an internal competency analysis tool.










2. LITERATURE REVIEW

2.1 Current Status of Convenience Store Industry in Japan

The first convenience store in Japan is the first 7-Eleven store that opened in Toyosu, Koto-ku, Tokyo in 1974. Since then, the three leading Japanese convenience stores including 7-Eleven, Family Mart and Lawson, have accounted for about 90% of the convenience store market. According to the Japan Franchise Chain Association, as of December 2020, the size of the Japanese convenience store market is 10.96 trillion yen, and the number of convenience stores is 55,743. In addition, the number of annual visits to convenience stores is over 17.4 billion, and 1 person uses the convenience store about 140 times a year and 12 times a month, on average, once every three days.

As Table 1 suggests, 7-Eleven ranks first in sales and market share among the top nine convenience stores in Japan. Currently, with more than 20,000 stores, 7-Eleven has maintained an equal partnership between its franchisees and headquarters and is responding to the rapidly changing convenience store market through new product development and service improvement, as well as store innovation, in order to maintain a continuous competitive advantage [14].

Table 1. Ranking sales and share in the convenience store industry

Ranking	Name of the company	Sales (unit: 100 million yen)	Share (%)
	7-Eleven 	31,088	65.6
2	LAWSON 	6,660	14.0
3	FamilyMart 	4,733	10.0
4	JR East Retail Net 	2,219	4.7
5	MINISTOP 	1,801	3.8
6	YAMAZAKIBAKING 	493	1.0
7	POPLAR 	192	0.4
8	Three F 	125	0.3
9	Seicomart 	92	0.2


2.2 7-Eleven's business status

2.2.1 Company overview

7&i Co., Ltd. is a global retail company headquartered in Chiyoda-ku, Tokyo. Since Toshio Yoshikawa has

opened a store in Asakusa in 1920, Yokado was open in 1958 and York Seven (later, Seven-Eleven Japan) was open in 1973. 7&i, as of September 1, 2005, is a pure holding company established by the joint-stock transfer of three companies: 7-Eleven Japan Co., Ltd., Ito-yokado Co., Ltd., and Denny's Japan Co., Ltd. (Denny's Japan). Currently, it owns 7-Eleven and Ito-Yokado, as well as department stores such as SEIBU and Sogo, and food supermarkets York Mart, Denny's, and Loft [Table 2].

Table 2. Store-Development Policy by Store Format

Format	Store brand	Development status
Convenience store	7-Eleven 	<ul style="list-style-type: none"> • Operated mainly in residential areas in the 1990s and in urban areas after 2000 • Implemented scrap-and-build strategy for revitalizing existing stores • In addition to the standard roadside-type stores, extended store openings in special locations, including train stations, business sites and universities • From November 2010, provision of support for store development by franchisees who will operate two or more stores • Operates stores in all 47 prefectures
	Ito-Yokado 	<ul style="list-style-type: none"> • Operates stores in 19 prefectures nationwide, primarily in the Kanto region • Implemented store structure reform to make efficient use of major specialty stores both inside and outside of the Group
Shopping center	Ario 	<ul style="list-style-type: none"> • Operates 20 mall-type shopping centers • Assembled tenants with Ito-Yokado as the anchor tenant
Supermarket	York Mart 	<ul style="list-style-type: none"> • York-Benimaru operates in the southern Tohoku and northern Kanto regions • York Mart is operated centered on Tokyo and three prefectures
Department store	SEIBU 	<ul style="list-style-type: none"> • Developed two department store brands, SEIBU and Sogo • According to their characteristics, stores are classified into “major stores” or “regional and suburban stores” • Six major stores are Ikebukuro, Yokohama, Chiba, Hiroshima, Shibuya, and Omiya
	Sogo 	
Restaurant	Denny's 	<ul style="list-style-type: none"> • Operates stores in 16 prefectures, primarily in the Kanto region
Specialty store	Akachan Honpo 	<ul style="list-style-type: none"> • Operates stores in 36 prefectures • Opened 42 stores primarily in Ito-Yokado, Ario, and other stores operated by Group companies
	Loft 	<ul style="list-style-type: none"> • Operates stores primarily in department stores and shopping centers in 37 prefectures • Opened 38 stores in SEIBU, Sogo, Ito-Yokado, Ario, and other stores operated by Group companies

The current 7-Eleven, an operating corporation, is a subsidiary of 7&i, a holding company. As of February 2021, it is operated by 8,990 employees, led by CEO Fumihiko Nagamatsu, and is developing into the largest convenience store in Japan with sales of 4.87 trillion yen from 21,167 stores in Japan. In addition, the number of overseas branches is expanding along with the expansion of domestic branches, and overseas branches are being actively promoted to the extent that the proportion of overseas stores accounts for about 70% of the total number of stores. As of the end of February 2021, there is a total of 11,981 7-Eleven stores in North America,

including 9,530 in the United States, 629 in Canada, 1822 in Mexico, 409 in Europe, including Denmark, and 714 in Australia. In addition, there are 18,298 stores in Southeast Asia, including 12,432 in Thailand and 2,413 in Malaysia, and 41,104 stores in East Asia including 10,501 in Korea and 3,412 in China, expanding into 16 countries around the world [14].

3. VALUE CHAIN ANALYSIS

3.1 Value Chain Analysis

The value chain is a concept proposed by Michael Porter [8] and is a tool that can analyze the process of creating added value among various corporate activities. It is a framework that divides a company's activities into main and support activities and adds margin (profit) to them. Here, the main activity refers to the activity that is directly related to the flow of a product, such as manufacturing or sales, until it reaches the customer, and the support activity refers to the one that supports main activities such as technology development or human resources [1].

3.2 7-Eleven's Management Resources Using Value Chain Analysis

7-Eleven is creating added value in a chain by establishing an independent system at each value chain stage by utilizing the business model built based on these main and support activities. 7-Eleven's management resources using value chain analysis are shown in the Figure 1.

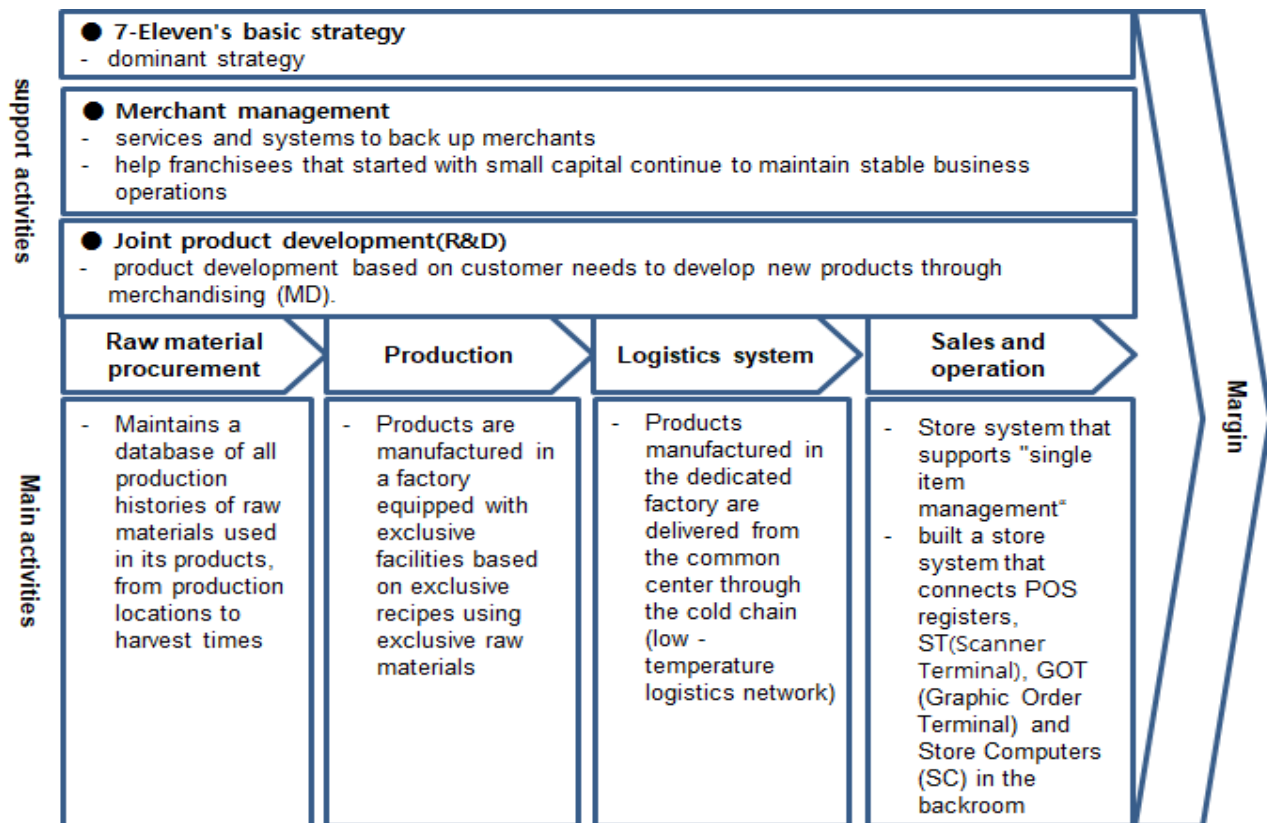


Figure 1. 7-Eleven's Management Resources Using Value Chain Analysis

3.2.1 Support Activities

1) 7-Eleven's basic strategy

The basic franchise development method of 7-Eleven is a dominant strategy, which refers to a store operation strategy aimed at gaining recognition or market share in the region by intensively opening stores in a specific commercial area. In the case of Eleven, it has been developing a dominant strategy since its inception, and 7-Eleven has been securing a competitive advantage by increasing awareness and entry barriers by increasing the concentration of a specific area through a dominant franchise strategy.

2) Merchant management

In the case of 7-Eleven, part of the 7-Eleven royalty paid from affiliates to the headquarters has been reduced from March 2020 to build a trust relationship with the franchisees' headquarters. This is to help franchisees that started with small capital continue to maintain stable business operations, and it is expected to provide an average annual profit of about 500,000 yen per franchise.

3) Joint product development

As the product life cycle is getting shorter and the customer's attention is focused on new products, 7-Eleven and its business partners runs a team that gather information and know-how from experts on product development based on customer needs to develop new products through merchandising (MD).

3.2.2 Main activity

1) Raw material procurement

7-Eleven maintains a database of all production histories of raw materials used in its products, from production locations to harvest times. For example, for daily products such as rice and side dishes, the "Recipe master system" is developed so that they can understand which factory uses which raw materials and how much in any process of "factory," "logistics," and "store (POS data)" built and managed.

2) Production

Products are manufactured in a factory equipped with exclusive facilities based on exclusive recipes using exclusive raw materials, which is one of 7-Eleven's strengths, and provided to customers based on high quality and safety.

3) Logistics system

Products manufactured in the dedicated factory are delivered from the common center through the cold chain (low-temperature logistics network). By sharing order data from stores with manufacturing plants and joint delivery centers for each temperature range, efficient delivery is realized quickly.

4) Sales and operation

7-Eleven has established and operated the SC (Store & Computer) system that integrates the POS register that collects sales data simultaneously as settlement at the checkout counter after customer purchases the goods, ST (scanner terminal) that assists in identifying inspection and display status, and GOT (graphic order terminal) that places orders to manage individual products by product.

4. 7-ELEVENS'S CORE COMPETENCIES USING VRIO ANALYSIS

VRIO analysis is a framework that can maintain a company's competitive advantage, expand the market, or promote innovation by analyzing a company's management resources, discovering the competitive advantage of management resources and strengths. VRIO analysis was proposed by Barney [4, 5] to analyze management resources by dividing them into four categories: economic value, rarity, imitability, and organization. In this study, 7-Eleven's core competencies were derived by applying the VRIO technique proposed by Barney [4, 5] based on the previously presented value chain analysis of 7-Eleven. Among the management resources possessed by 7-Eleven, resources with competitive advantage derived through value chain analysis were evaluated with four items (VRIO) [12]. The VRIO evaluation shown in <Table 3> was presented by analyzing the official and unofficial data collected by requesting the company by e-mail and published internally and/or externally.

4.1 VRIO Analysis Result of 7-Eleven

Table 3. Main parameters

Resources / Capability	V	R	I	O	Core Competence	Competitiveness status
7-Eleven's Basic Strategy						
Dominant Strategy	√	√	√	√	Y	Competitive advantage
Franchise management						
Efforts to increase sales and profits with franchisees (reduction of royalties)	√	√	√	√	Y	Competitive advantage
Joint product development (R&D)						
Independent product development under the MD (Merchandising) team system	√	√	√	√	Y	Competitive advantage
Raw material supply						
Checking the production history of products (recipe master system)	√	√	√	√	Y	Competitive advantage
Production						
Delivery system	√	√	√	√	Y	Competitive advantage
Logistics						
Establishment of joint delivery system	√	√	√	√	Y	Competitive advantage
Sales and operation						
Operation of single item management store system operation	√	√	√	√	Y	Competitive advantage

The core competency management resources derived from the VRIO analysis results for 7-Eleven presented in Table 2 are summarized in a total of seven.

The first resource is 7-Eleven's basic store development strategy, which is the dominant strategy that allows 7-Eleven to expand its stores in a local area, bringing the distance to each store closer and labor costs such as logistics costs, store guidance, and management costs, etc. It was also possible to expect to increase awareness within the region.

The second resource is affiliate management that 7-Eleven has been pursuing. In the case of 7-Eleven, the headquarters provides various management support such as royalty reductions so that franchisees can focus on store management and sales. In addition, 7-Eleven is supporting franchisees to move away from store management based on family labor to corporate management by encouraging franchisee owners to strive not only to manage human and material resources as managers but also to manage numerical values.

The third resource is independent product development through the joint product development (R&D) process of the MD (merchandising) team system. Most of the products displayed in stores are developed by sharing information with customers and manufacturers as a team. 7-Eleven continues to create hit products unique to 7-Eleven through a joint product development process in cooperation with manufacturers and customers in the development of processed food as well as fast food, which accounts for about one-third of sales.

The fourth one introduces the “recipe master system” system that can identify raw material procurement history. For this reason, when a problem arises in raw materials, etc., the franchisee can respond immediately. In addition, even if the supply of some raw materials is interrupted due to an emergency and production becomes impossible, the headquarters can actively respond to the damaged situation by changing the menu or replacing raw materials.

The fifth one realizes high product power through a dedicated factory. More than 90% of the factories that make original products, such as bento boxes and rice balls, are produced by dedicated factories that handle only 7-Eleven products. They use 7-Eleven's raw materials, recipes, and equipment to thoroughly control quality in accordance with safety standards up to 140 items.

The sixth is a joint delivery system that improves logistics efficiency by operating a cold chain (low-temperature logistics network). The joint delivery system is the one in which products from different manufacturers are mixed in one truck, delivered by subdividing them according to each store while improving delivery efficiency. Based on this system, 7-Eleven is continuously innovating its logistics systems, such as logistics by temperature range or cold chain (low-temperature logistics network). The seventh resource is the single product management store system that utilizes 7-Eleven's unique excellent information strategy. 7-Eleven has established the information strategy based on a comprehensive store information system through optical communication for headquarters, stores, and delivery centers. One of the most symbolic among them is single product management. “Single product management” is a process of first establishing a hypothesis of “what product will be sold and how much tomorrow” and then conducting a daily process of verifying whether the hypothesis is correct through placing an order based on this. Thus, the accuracy of the order has been increased. This makes it possible to respond to customers' ever-changing needs accurately and has promoted efficient ordering by quickly discriminating between what sells well and what doesn't.

5. CONCLUSIONS

5.1 Result

This study derived core competencies through a qualitative analysis method using VRIO Framework, a business strategy model based on a resource-based view (RBV), for 7-Eleven, a representative convenience store in Japan. As a result of the VRIO analysis, it was confirmed that 7-Eleven has built various management resources as its core competencies for a long time since its opening. To summarize, the value of 7-Eleven can be based on the value of its scale, which is ranked first in the Japanese convenience store industry in terms of the number of stores and market share that it has developed based on capital. The rarity refers to the fact that the company is building the largest distribution channel in Korea in the entire process of raw material procurement, which is the main activity of a company, from producers to logistics providers and franchisees. Imitability refers to the fact that, based on the dominant strategy, it has secured a competitive advantage by opening stores in a specific area by increasing awareness and increasing barriers to entry. The significance of this study is to confirm that the organization is the result of organizational power that has built stores in 16 countries and Japan as the largest company in the convenience store industry.

5.2 Discussions

Nevertheless, the limitation of this study is that the research on 7-Eleven's core competencies is based on the analysis of official and unofficial data collected by requesting the company via e-mail, etc., such that doubts may arise. This can be attributed to the failure of empirical research, such as direct interviews with people in charge and experts due to the aftermath of COVID-19. Furthermore, in addition to the core competencies derived from this study, attention is paid to whether management resources that are currently not analyzed as core competencies could develop into one of the core competencies.

Therefore, in the future, in parallel with 7-Eleven's core competency analysis of internal and external resources of the company, research, and empirical studies will be needed considering consumer sentiment and trends in a rapidly changing environment such as COVID-19 with countermeasures against other competing companies, etc. With COVID-19, the internet market, represented by the smartphone era, is becoming more convenient than real stores, and the creation of unmanned stores such as Amazon's "Amazon Go" is also acting as a threat to the current convenience store.

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