Research Paper

How Convenience Stores have Changed Retail and Distribution in Thailand?: A Comparative Business History of 7-Eleven Stores in Japan and Thailand

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Abstract

New retail formats have been on the rise in Thailand since the late 1990s. Of these new formats, convenience stores are one of the most remarkable formats in terms of growth rate. As the lifestyle of people in Thailand is changing, convenience-oriented retail stores are becoming more popular, especially among urban residents. Thus, convenience stores appear to have drastically changed shopping scenes in Thailand. However, the convenience store format is not always operated in the same way in every country. The extent and depth of a new retail format's impact on the whole distribution system in each country should be expected to differ among countries. These differences come not only from the company's management strategies but also the country's particular circumstances; i.e., there are contextual differences. To consider such a point, this study adopts a comparative business history approach. First, it considers how the convenience store format has adapted itself to Thailand's particular market circumstances, using 7-Eleven as the case study. Thereafter, by comparing with the experience of convenience stores in Japan, this study considers to what degree convenience stores in Thailand have impacted the country's entire distribution system. As a result, first, this study argues that 7-Eleven in Thailand has adapted itself to the particular market conditions. As for the latter question, i.e., to what degree have convenience stores in Thailand impacted the country's entire distribution system, it is concluded that compared with the experience of 7-Eleven in Japan, 7-Eleven in Thailand has thus far had a limited impact on the retail and distribution system.

Keywords: Thailand, Japan, convenience stores, 7-Eleven, comparative business history

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1. Introduction

Today, one of the most familiar scenes we see on a street in Thailand is 7-Eleven, a retail outlet of the world's largest convenience store chain. Figure 1 shows that in Thailand, 7-Eleven has satisfactorily increased the number of stores as well as its sales volume since the opening of its first store in Bangkok. By the end of March 2013, the number of 7-Eleven outlets had reached 7,000. At present, 7-Eleven is the largest convenience store chain by far in Thailand and surpasses FamilyMart, Thailand's second largest convenience store chain,[1] with only about 943 outlets as of the end of October 2013 (*The Nikkei*, November 15, 2013)[2]. Now, Thailand has the world's third largest number of 7-Eleven convenience stores after Japan and the United States. Since the late 1980s, new retail formats such as cash-and-carry, hypermarkets, supermarkets, and convenience stores have been introduced in succession in Thailand. These new retail formats, together with previous modern retail formats such as department stores, are generally referred to as the "modern trade" and have attracted considerable attention. Of the new retail formats, convenience stores are one of the most remarkable formats in terms of growth rate (Endo, 2013: 68-70).

[1] This study does not include Tesco Lotus Express in the convenience store format category because it should be regarded as another type of retail format combining a supermarket and convenience store.

[2] For information on the comparison with FamilyMart, see Endo (2013: 116-19). In September 2012, Siam FamilyMart Co., Ltd. operating FamilyMart convenience stores in Thailand sold slightly more than 50 percent of its shares to Central Group's Central Retail Corporation (CRC). With the affiliation between the two companies, "Tops Daily" stores, small-scale supermarkets affiliated with CRC, are supposed to be converted to FamilyMart stores (*The Nikkei*, March 18, 2013). Under the leadership of the Central Group, the expansion pace of FamilyMart store openings is likely to increase.

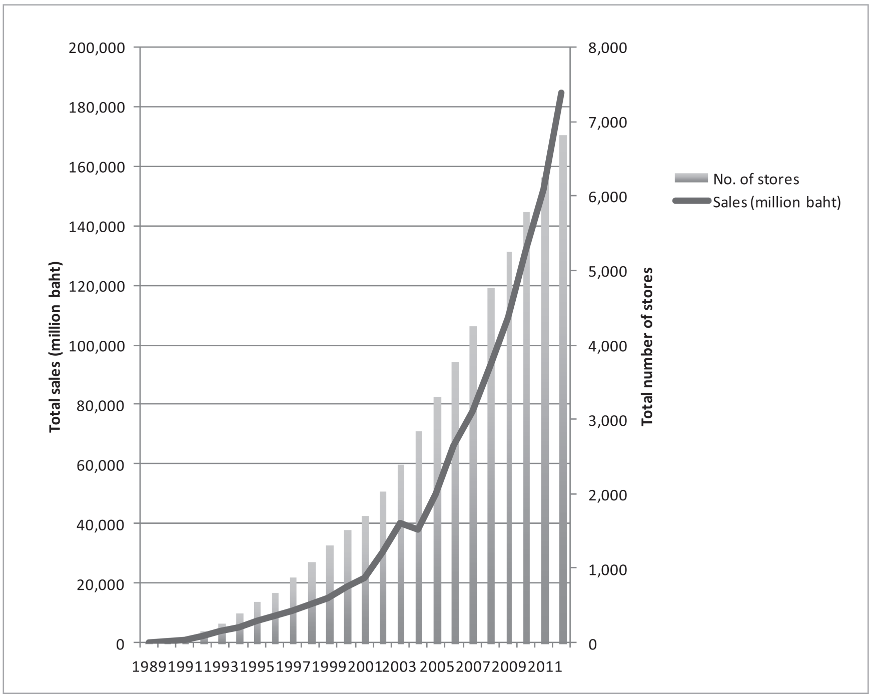

Figure 1

Total sales by and number of 7-Eleven stores in Thailand

Source: Annual reports of CP All (C.P. Seven Eleven) plc.
Note: Sales refers to sales income only from CP All (C.P. Seven Eleven) plc.

The convenience store format is a new retail format that first appeared in the United States and has been developed to a high degree in Japan. It is characterized by a relatively small-scale store, a broad selection of daily foods and necessities, and long business hours. The development of its chain is supported by an efficient logistics system built on information technology (IT). The advantage of this retail format literally consists in its "convenience," not in "low prices." With rapid urbanization, consumers have become more time conscious. Moreover, with a decreasing population per household, the average amount of household purchase per shopping event has been accordingly reduced. In fact, Thailand's urbanization rate has increased from 31.3 percent in 2000 to 44.2 percent in 2010 (*Population and Housing Census*, 2000 and 2010), while its population per household has steadily decreased, especially in Bangkok, as shown in Figure 2. As the lifestyle of people in Thailand changes, convenience-oriented retail stores are becoming more popular, especially among urban residents (*Prachachart Thurakit*, January 23, 2012). Thus, convenience stores appear to have drastically changed the shopping scenario in Thailand.

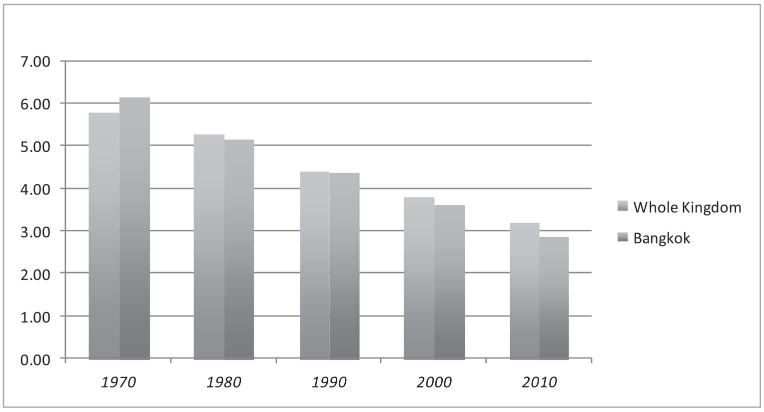

Figure 2

Population per household

Source: National Statistic Office, Population and Housing Census, Annually.

However, this convenience store format is not always operated in the same way in every country. Moreover, the extent and depth of the new retail format's impact on the entire distribution system in each country should be expected to differ among countries. These differences come from not only the company's management strategies but also the country's particular circumstances; i.e., there are contextual differences.

New retail formats from overseas have been on the rise in emerging markets, including Thailand, since the late 1990s. Accordingly, studies on transnational retailers' advance into emerging markets have recently flourished, and Thailand, one of the most popular host countries for transnational retailers, often appears as a case study. Many of these studies aim to explore the retail internationalization process from a commercial science perspective, and tend to focus on the activities of transnational retailers[3]. While these studies examine the local context of the host countries, they do not necessarily pay sufficient attention to specific particulars. Studies on the retail internationalization process are popular among economic geographers as well. In particular, the conceptualization of 'territorial embeddedness,' highlighting the circumstances of host countries, is very interesting[4]. However, these studies tend to overlook local retailers' active responses to transnational retailers.

[3] See, e.g., Davies & Yahagi (2003); Dawson et al. (2003); Dawson & Lee (2004); Yahagi (2007); Kawabata (2011).

[4] See, e.g., Dicken & Malmberg (2001); Coe (2004); Hess (2004); Wrigley et al. (2005); Coe & Wrigley (2007); Dawson (2007).

Given that convenience stores are generally operated in host countries through franchising, we should emphasize individual activities of local companies in host countries. To consider such a point, a business history approach highlighting the individuality of companies, especially a comparative business history approach for international comparisons, would be useful. According to Nakagawa (1981), corporate administration is regulated by three factors: economic, organizational, and cultural factors. These factors correlate with one another through corporate activities. Moreover, these regulatory factors act on the actual development processes of each country's business history in various ways. By focusing on diversity, international comparative studies on corporate management significantly contribute to highlight the characteristics of each country's corporate management. Such a methodology is known as the comparative business history approach.[5] Kawabe (2003), who made a study of comparative business history examining 7-Eleven stores in Japan and the United States, paid attention to the fact that Ito-Yokado, which introduced 7-Eleven into Japan, was confronted with disadvantageous conditions including its insufficient managerial resources as well as the high land prices and prevalence of small-scale stores peculiar to Japan. He then elucidated that 7-Eleven in Japan has successfully developed a more efficient management system than in the United States through overcoming those difficulties.

In addition, Yahagi (1994) conducted an in-depth analysis of convenience stores in Japan from a business administration approach. He argued that the innovation of convenience stores in Japan extended to the entire distribution system as well as the inside of the retail industry. Given the extent and depth to which convenience stores have brought about an impact on the entire distribution system in Japan, the framework of Yahagi (1994) is very useful.

Therefore, this study first considers how the convenience store format has adapted itself to Thailand's particular market circumstances, with 7-Eleven as the case study, by adopting a comparative business history approach. This study simultaneously refers to Yahagi (1994) for the analytical framework. For comparison, 7-Eleven in Japan was selected because it is the largest convenience and the most influential store chain in Japan since its first store in 1974. This study considers differences between the two countries, Japan and Thailand, regarding their retail business environments, i.e., the retail and distribution structure, physical distribution system, and consumer market and behaviors. Thereafter, the experiences of convenience stores in Japan are compared with those in Thailand with respect to their impact on the countries' entire distribution systems.[6]

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[5] Blackford (2008) is one of the recent representative studies of comparative business history.

[6] For earlier studies on the development of retail and distribution system in Japan and Thailand, see Endo (2013, introduction and references).

2. Historical background of Thailand's 7-Eleven

In Thailand, CP ALL Plc. (formerly, C.P. Seven Eleven Co., Ltd.) operates 7-Eleven convenience stores. The company is affiliated with the Charoen Pokphand (CP) Group, Thailand's largest agribusiness group. Since the end of the 1980s, the CP Group has been developing into a multi-industry conglomerate, subsuming high-tech industries, property development firms, and financial businesses, as well as expanding its presence in the agriculture-related industry, which was the group's traditional business (Suehiro & Nanbara 1991, 73-108). A full-scale entry into the distribution industry was also part of the group's strategy. The CP Group established its first 7-Eleven convenience store in 1989 by means of an area license from the US-based Southland Corporation (now 7-Eleven, Inc.).[7]

In Thailand, new retail formats such as general mass merchandisers (e.g., hypermarkets), supermarkets, and convenience stores emerged in succession beginning around 1990; moreover, distribution innovations such as central purchasing systems and information technology were simultaneously introduced along with these new retail formats. In addition, as 7-Eleven in Thailand expanded its business by enlarging its chain, improving the assortment of goods, developing new goods, and reinforcing service functions, it established subsidiaries related to the convenience store business in succession. Table 1 shows the structure of CP ALL and its subsidiaries as of the end of 2012. As a conglomerate-type business group, CP ALL's corporate strategy is to establish various companies related to the business in succession and incorporate them into sub-business groups.

[7] 7-Eleven, Inc. is now a subsidiary of Japan-based Seven & i Holdings Co., Ltd., which runs 7-Eleven in Japan. At least up to 2012, 7-Eleven Japan has had no direct part in the management of 7-Eleven in Thailand. According to a newspaper report, however, CP ALL has recently asked Seven & i Holdings for the management's support, including its know-how concerning ready-to-eat food (*The Nikkei Marketing Journal,* August 2, 2013).

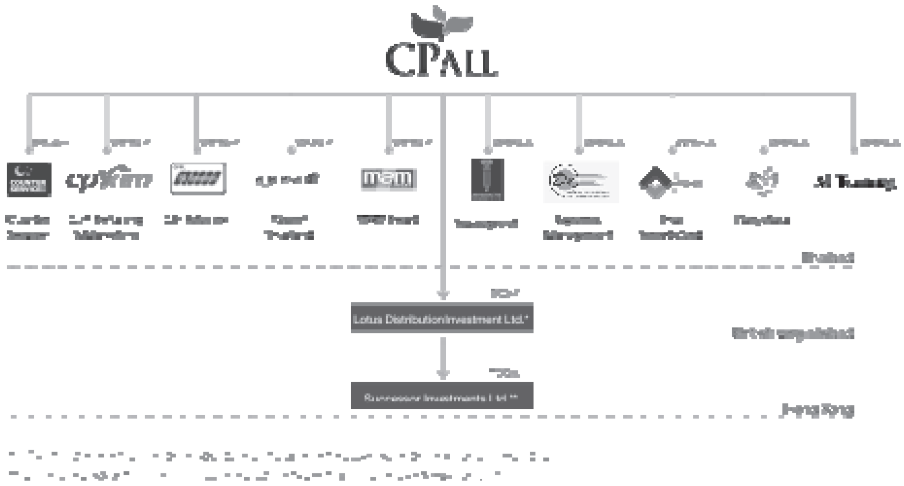

Table 1

CP ALL Plc. and subsidiaries

Source: CP All Plc, Annual Report 2012.

In these respects, the development process of 7-Eleven in Thailand differs greatly from that of 7-Eleven in Japan. In Japan, supermarkets emerged in the 1950s, and convenience stores did not become prominent until the 1970s. Because of the time lag between the emergence of these two formats, distribution innovations were introduced at different times. Moreover, Ito-Yokado[8], which began to operate the 7-Eleven convenience store business in Japan, was such a medium-sized supermarket chain during the 1970s that it did not have sufficient managerial resources to develop the new retail format. The company could not afford to invest money to internalize various businesses related to the convenience store format. Under such historical conditions, 7-Eleven in Japan has grown by changing and utilizing the existing distribution system. The difference of historical conditions between the two countries has subsequently brought about different developments of 7-Eleven in each country.

[8] Ito-Yokado belongs to Japan-based Seven & i Holdings Group.

3. Characteristics of 7-Eleven in Thailand

Framework

Then, how has 7-Eleven in Thailand adapted itself to the particular market conditions, and therefore, what characteristics does it have? By comparing 7-Eleven stores in Japan and Thailand, this section will discuss on these issues. First, an analytical framework for the comparison is presented.

Figure 3 outlines the innovation in 7-Eleven in Japan, which was formulated by Yahagi (1994). The most important point here is that the innovation has extended to the dimensions of not only the retail business but also the supply chain and organizational structure or business relationships. This implies that not only the convenience store chain itself but also the entire surrounding system should be considered. Therefore, Yahagi (1994) entitled his book "Innovation of the Convenience Store *System*," not merely "Innovation of the Convenience Store."

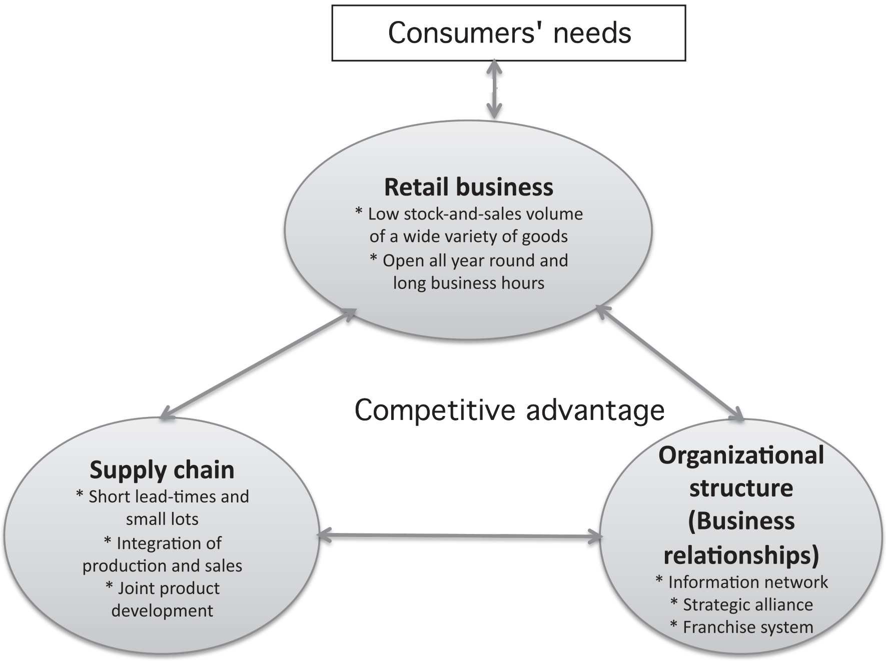

Figure 3
Innovation in Japan's convenience store system

Source: Yahagi, 1994:17.

The convenience store system starts with sales data that reflect consumers' needs. To respond to consumers' needs, convenience stores introduced several innovations in the retail business, such as low stock-and-sales volumes for a wide variety of goods, open all year round, and long business hours. To realize innovations in the retail business, innovations in the supply chain, such as short lead-times and small order lots, integration of production and sales, and joint product development, were required. Moreover, to achieve innovations in both the retail business and supply chain, innovations in the organizational structure or business relationships, such as information network, strategic producer–retailer alliance, and the construction of a franchise chain, were indispensable. In other words, the combination of these three innovative factors (retail business, supply chain, and organizational structure) created the convenience store "system" and enabled the new retail format to have a competitive advantage.

In addition, it is necessary to briefly explain the two terms, internalization and externalization of organization, for the following argument. By "internalization," this study means that a company incorporates various functions of production and supply into itself. In contrast, by "externalization," this study means that a company utilizes external managerial resources for production and supply. In the case of externalization of an organization, thorough cooperation among the organizations concerned is a key factor enabling the three innovative factors to interact with each other for the entire system to work well. This type of business relationship is placed somewhere between the extremes of the free market and an intra-organizational transaction, and has been characterized as a "strategic alliance" by Yahagi (1994, chapters 9-10, 13). On the other hand, in the case of internalization, the content and degree of cooperation required naturally differs from the former case. In the case of internalization, it is easy to convey the head office's policy directly to the entire production and supply system, but it will cost more to maintain the system. In this case, there is also a possibility that the entire system would become inefficient because the principle of competition would not sufficiently work within the system. Although it is difficult to judge the advantages and disadvantages between internalization and externalization, we can say that the difference between the two cases would bring about a clear difference in both the goods supply system and organizational structure.

The next part of this section will consider characteristics of 7-Eleven in Thailand while referring to Figure 3. Although 7-Eleven in Thailand has retail features in common with 7-Eleven in Japan, it decisively differs in its strong intention to internalize the supply chain and organizational structure. Thus, the following section will analyze the characteristics of 7-Eleven in Thailand by focusing on the organizational structure, particularly the franchise chain, and the supply chain, particularly the production and supply systems of strategic goods.

Franchise system

Franchise systems are business models in which a company with a successful product or business system grants other companies and/or individuals the right to operate under its trade name. The original business that sells the right is called the franchisor; the company/individual that purchases the right is called the franchisee. A franchisor offers the franchisee assistance in merchandising, marketing, and management in return for fees, and their relationship is based on an individual contract. In contrast, corporate chain store systems are business models in which two or more (officially, more than 10) stores have common ownership and control as well as centralized buying and merchandising operations. Corporate stores are organized in the form of a chain by a single company.

In contrast with 7-Eleven in Japan, where the first store was established as a franchisee, 7-Eleven in Thailand only opened corporate stores during the first stages of its operations. The percentage of franchise stores in the entire 7-Eleven Thailand chain rapidly increased in the mid-1990s but decreased sharply during the 1997-98 financial and currency crisis. Beginning around 2003, as shown in Figure 4, the percentage of franchisees started to increase again. However, it was only in 2012 that the number of franchise stores surpassed the corporate stores.[9] Nevertheless, the percentage of franchise stores in Thailand remains low compared to 7-Eleven in Japan,[10] in which the percentage of franchise stores has been maintained at more than 95 percent (98 percent as of 2012). From the very beginning, a franchise system using external managerial resources is usually considered a more reasonable option than a corporate-store system in terms of minimizing management costs and expenses for new store openings.[11] Thus, the question as to why 7-Eleven had significantly more corporate stores than franchise stores arises.

[9] CP ALL provides local business persons with the necessary business contacts and skills an area-limited business license in remote areas, where the head office finds it difficult to directly control and manage the cost-effectiveness of the store. This is known as the sub-area license system (see Figure 4). The sub-area license holders, as of the end of 2012, were four distributors in Phuket, Yala, Chiang Mai, and Ubon Ratchathani (CP ALL Plc., 2013).

[10] As of 2006, only 10 percent of stores was franchise in Thailand's FamilyMart chain.

[11] Takaoka (1999) provides a useful viewpoint about this.

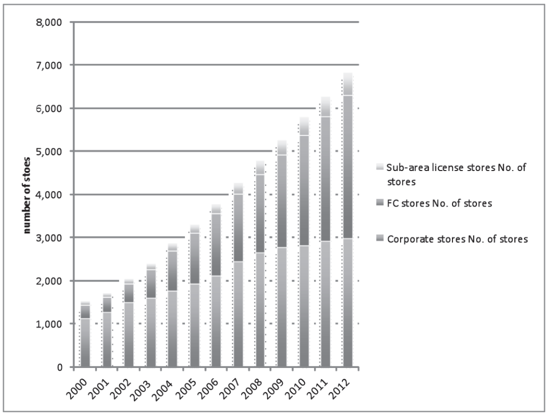

Figure 4

Types of CP 7-Eleven Store

Source: CP All (C.P. Seven Eleven) plc. Annual Report, annually.

During the initial stages of its operations, CP ALL considered it necessary to expand the chain as quickly as possible in order to acquire the suppliers' understanding of this new retail format and garner their cooperation, which is indispensable for the development of a convenience store business (Suriya *et al.* 1997: 73-81). However, unlike Japan, it was difficult to entice existing grocery stores *(cho huai)* to convert to 7-Eleven franchise stores because many owners of existing grocery stores are generally older people who are not interested in selling their well-located stores and property because of their high asset value, especially since Thailand has virtually no inheritance tax.[12] Therefore, the company had no other choice but to place an emphasis on the corporate store format.

On the other hand, the CP Group, to which CP ALL belongs, was initially unable, in the first few years, to sufficiently invest in the convenience store business because of its heavy involvement in the telecommunication business (Telecom Asia Corp. Plc.); thus, the pace of store expansion was slower than expected (Suriya *et al.* 1997: 89-95). It is possible to imagine that the investment burden created by the corporate store format had accumulated to an unbearable level, given that at the time, land prices were soaring in the middle of the investment and property development booms. In fact, 7-Eleven's business performance was significantly poor during the first few years according to the financial statements of the company, which showed ordinary profit ratio figures in the red at - 12.9 percent in 1990 and - 4.6 percent in 1991.[13]

[12] Author interviews at CP ALL Plc. (Bangkok, March 13, 2007) and Siam FamilyMart Co., Ltd. (Bangkok, July 25, 2006).

[13] It is the ratio of ordinary profit to sales.

It appeared that CP ALL had gradually shifted its focus to a franchise system; however, as mentioned above, the company found it difficult to incorporate existing grocery stores into the franchise chain. Thus, CP ALL revised the requirements of the pre-existing franchise system in order to ease the opening of new stores. Table 2 compares the former franchise system (Type A) and new franchise system (Type B) of CP ALL.

This table demonstrates that the company previously imposed some relatively tough requirements when recruiting franchisees (Type A). For example, franchisee applicants had to own their store or hold a right for a long-term lease, and the said-store had to have a certain floor space as well as an appropriate location. In addition, franchisees had to put up 3 million baht in startup costs for opening the store and received only 65 percent of the gross profit; the remaining 35 percent went to the head office (CP ALL) to cover various fees, including a "royalty" fee. If we use Japan as a point of comparison, a franchisee in Japan pays the equivalent of about 1 million baht for starting up a new store (as of September 2013 based on 7-Eleven, Japan's website). Considering the difference in the income categories between both countries, the costs of starting a 7-Eleven franchise store in Thailand are substantially higher compared with that in Japan.

Table 2

Franchise system of CP ALL Plc.

Former Franchise System (Type A)	New Franchise System (Type B)
Requirements for franchisee * Ownership of store or long-term lease of eight years or more. * Busy traffic location, e.g., near bus stops, wet markets (*talat*), intersections, etc. (examined by the head office). * Floor space of more than 100 sq m. * Width of store building more than 7m.	Characteristics compared with the old system * Head office leases the stores. * Head office selects the location and establishes the stores for the franchisees. * Start-up costs for the franchisee are lower, and head office now borrows money from banks for the franchisees. * Franchisee targets are younger generation. * Independence of the employees in the head office is also encouraged.
Total start-up costs: 4.5 million baht * Franchisee invests 3 million baht, allocated as follows: 1.2 million baht for opening inventory costs; 0.9 million baht for interior finishing; 0.7 million baht as compensation for potential damages: and 0.2 million baht for management fees * Head office invests 1.5 million baht.	Total start-up costs: 4.5 million baht * Franchisee invests 1.5 million baht, allocated as follows: 1 million baht for security deposit; 0.35 million baht for franchise fees; 0.1 million baht for store transfer fees; and 0.05 million baht for other fees. * Head office invests 3 million baht.
Profit division ratio * Franchisee: 65% of gross profit * Head office: 35% of gross profit	Profit division ratio * Initial income of each franchisee: 0.02 million baht per month. * Increases according to any rise in the gross profit.
New store openings * Franchisees prepare store openings themselves, including everything from finding a proper location to interior finishing, in cooperation with the head office. Store furniture and equipment are leased by the head office (franchisees are responsible for any repair expenses).	New store openings * Head office establishes new stores and manages them for more than six months until sales reach a fixed amount and then they are transfered to franchisees. * In addition, corporate stores are sometimes converted to franchise chain stores.
Inventory * Each franchisee invests 1 - 1.2 million baht.	Inventory * Head office is responsible for inventory investment and management.

Source: Suriya et al. (1997: 76-81, 214-15); Sompratthana et al. (2000: 102-17); Phirawut (2004: 61-63, 75-76); Thot (2005: 48-51, 135-37).

Subsequently, CP ALL decided to establish new requirements for opening franchise stores around 2004 (based on information from the company's annual reports). These new requirements placed the head office in charge of all start-up procedures for new store openings on behalf of franchisees, from the selection of store locations to the construction of the store buildings (Type B). It would then manage the new stores for more than six months until sales reached a certain level before leasing them to the franchisees (see Table 2).[14] Table shows that the requirements of the pre-existing franchise system were substantially relaxed. For example, franchisees only need to invest 1.5 million baht of the 4.5 million baht required to open a franchise store, while the head office provides the remaining 3 million baht. In addition, the head office is responsible for inventory investment and management. With this new system, the company can recruit new franchisees among the younger generation, who are willing to manage a convenience store but have neither property nor funds to do so. Moreover, CP ALL has adopted a policy to provide ambitious employees the chance to run their own store by transferring to them the management of existing corporate stores.

Thus, CP ALL raised the proportion of franchise stores, mainly Type B ones, in which the head office leases the stores to franchisees. However, some problems associated with the new franchise system cannot be overlooked. One such problem is that in the case of a Type B franchise store, the head office (CP ALL) cannot help investing more money than in a Type A franchise store, though less than in the case of a corporate store. One of the merits of the franchise system is that the head office can reduce managerial resources by utilizing certain external resources. By considering this, the expansion of chain operations, mainly in the form of Type B franchise stores, would increase the investment burden of the head office, i.e., CP ALL, and could reduce the merit of the franchise system by half. However, more problematic is that in the case of Type B franchise stores, the owners or franchisees have only limited authority to manage the stores, while the head office conducts most of the business activities, ranging from the opening of new stores to construction and fund-raising and, finally, to inventory investment. Type B franchise stores do not have sufficient incentive mechanisms, inherent in other franchise systems, by which franchisees are expected to work harder than head office employees to increase business performance.

[14] To be more precise, in addition to the original Type A and the new Type B franchise systems, there is a Type C, which is similar to Type B, but with a longer-term contract (Thot, 2005). As for franchise stores, the company has primarily opened Type C stores since October 2007 (*Than Setthakit*, October 7, 2007).

Strategic-goods supply system

The 7-Eleven stores of Japan and Thailand differ in their supply chain system. In particular, note that Thailand's 7-Eleven head office deals directly with consumer goods manufacturers by bypassing existing product and service chains (disintermediation). The head office has constructed an efficient physical distribution system as an infrastructure, with its own distribution centers as the core. Thailand's 7-Eleven has the manufacturers deliver their products in bulk to its distribution centers, and thereafter, it delivers goods from the distribution centers to each store[15]. In this respect, the supply chain system of Japan's 7-Eleven differs with that of Thailand's 7-Eleven. Japan's 7-Eleven selected a few competent wholesalers to concentrate physical distribution affairs into their hands and entrusted them with delivery to each store. For this purpose, Japan's 7-Eleven distribution system required to be drastically altered. It is in this sense that Japan's 7-Eleven has built an innovative system, where convenience stores play a leading role by involving suppliers, e.g., wholesalers and manufacturers (Yahagi 1994). In contrast, Thailand's 7-Eleven does not ask its existing suppliers to drastically change their commercial practices and business connections. In other words, Thailand's 7-Eleven has simply introduced a new distribution channel into the country with no connection to the country's existing intermediate distribution and physical distribution systems.

Regarding this, the difference between Japan and Thailand 7-Eleven stores appears especially in the assortment of goods for sales. Like Japan, 7-Eleven in Thailand sells 2,000-2,500 items (SKUs) in each store, with a floor space of around 100 square meters. However, it is decisively different from Japan in that the proportion of ready-to-eat foods (e.g., fast foods) to the total sales of each store is very low. Although C.P. Retailing and Marketing,[16] a subsidiary of CP ALL, has been striving to develop ready-to-eat foods, especially cooked-rice foods, and raise the ratio of cooked-rice foods,[17] these foods are only in the category of "frozen foods," having an expiry limit of 2-6 months, or "chilled foods," having an expiry limit of 3-6 days. This difference is caused by the food culture and purchasing behaviors specific to Thailand. For example, people in Thailand generally prefer eating out, at food wagons, and scarcely regard convenience stores as destinations to buy ready-to-eat foods for lunch or dinner.[18] Therefore, Thailand's

[15] For more details, see Endo (2013: 125-27).

[16] It has changed the company's name to CPRAM Co., Ltd effective from May 1, 2013.

[17] This coincides with CP ALL's orientation toward "ran im saduak," which implies a convenience store format emphasizing foods (*Prachachart Thurakit*, February 2, 2012).

[18] In Thailand, the front of a convenience store is a rather good location for food carts. Food cart owners open their business by signing an agreement with the 7-Eleven head office and paying a small fee (author interview at Siam FamilyMart).

7-Eleven delivers goods from the distribution centers to its stores only once a day, at midnight to avoid daytime high temperatures and traffic congestion.[19] This suggests that convenience stores in Thailand give higher priority to the convenience of the head office rather than to their customers, which is also different from convenience stores in Japan.

In addition, it also clearly differs from Japan in that Thailand's 7-Eleven stores rely largely on the group's subsidiaries, particularly C.P. Retailing and Marketing, for the procurement of ready-to-eat foods. This is partly because the existing independent food companies are not ready to supply ready-to-eat foods to 7-Eleven stores in Thailand. Another reason is that CP ALL holds food-related companies as its subsidiaries, which induces it to internalize the production and supply of ready-to-eat foods for 7-Eleven stores.

In contrast, Japan's 7-Eleven attaches greater importance to ready-to-eat foods because their gross profit rate is high and these are strategic goods that allow a convenience store chain to differentiate itself from the competition. Thus, the proportion of ready-to-eat foods to the total sales of each store is high. Considering the high, inherent risk of spoilage to ready-to-eat foods, the Japanese convenience store company postpones the production and distribution activities more than they generally would in order to bring those activities as close as possible to the actual demand in terms of time and place. What is the "postponement"? The antonym of postponement is "speculation." Speculation is often seen in the anticipated production (product based on estimated order) for ordinary daily processed foods and necessities. Speculation is more convenient for manufacturers when supplying products because they can achieve economies of scale in their production schedule. On the other hand, it is liable to cause a mismatch between demand and supply at the point of sale. Particularly in the case of ready-to-eat foods, which are perishable and whose demand easily fluctuates according to environmental conditions such as climate, supply on the principle of speculation would be certainly confronted with such a risk that goods are unsold or sales opportunities are lost. Therefore, the supply of ready-to-eat foods should be based on the principle of postponement. However, this requires the convenience store side to construct an efficient information technology (IT) platform to predict demand as accurately as possible through a thorough stock keeping unit management. Moreover, this forces suppliers to shorten their lead-time and deliver goods frequently. In the case of cooked-rice foods, Japan's 7-Eleven chain has adopted a delivery system of three times a day and controlled temperatures throughout the supply system at 20 °C. The fixed temperature at 20 °C means the optimum temperature decided in terms of taste and quality control of cooked-

[19] Author interview at CP ALL.

rice foods. Such a supply system gives rise to managerial difficulties on the both sides. In short, postponement and speculation exhibit a trade-off relationship. To overcome this dichotomy at a higher level, only the suppliers who can meet the exacting requirements are allowed to continue dealings with 7-Eleven stores. Otherwise, they are excluded from the business connection. Therefore, a collaborative relationship including competition and tensions is needed between the convenience store chain and the selected suppliers. This is referred to as strategic alliances (Yahagi, 1994).

Thus, the comparison between convenience stores in Japan and Thailand makes the characteristics of convenience stores in Thailand clearer. The small proportion of ready-to-eat foods in Thailand's 7-Eleven chain means that the company does not necessarily have to build close but tense business connections with suppliers, in contrast to Japan's 7-Eleven chain. In other words, it can be said that Thailand still lacks the preconditions for the construction of a "convenience store *system*" in the same sense as Yahagi (1994) discussed.

4. Conclusion: How have convenience stores changed Thailand's retail and distribution system?

This study first considered how the convenience store format, which is rapidly growing in Thailand, has adapted itself to the particular market circumstances, with 7-Eleven as the case study. While comparing with 7-Eleven in Japan, it analysed the characteristics of 7-Eleven in Thailand by focusing on the organizational structure, particularly the franchise system, and the supply chain, particularly the production and supply systems of ready-to-eat foods.

As a result, the following two points have been clarified, shown in Table 3. First, the percentage of franchise stores compared to the entire 7-Eleven chain in Thailand still remains at a relatively low level. During the initial stages of its operations, CP ALL (formerly, C.P. 7 Eleven), which is operating 7-Eleven in Thailand, considered it necessary to expand the chain as quickly as possible in order to acquire the suppliers' understanding of this new retail format and garner their cooperation. However, it was difficult to persuade existing grocery stores to convert to 7-Eleven franchise stores because many owners of existing grocery stores were not interested in selling their well-located stores and property because of their high asset value, especially since Thailand has virtually no inheritance tax. The head office, CP ALL, had no other choice but to place an emphasis on the corporate store format. To reduce the expenses for new store openings, thereafter, CP ALL gradually made efforts to increase franchise stores. CP ALL has recently relaxed the requirements of franchisees to raise the percentage of franchise stores.

Table 3
Comparison of 7-Eleven Stores in Japan and Thailand

	Japan	**Thailand**
Origin of business/ Type of business group	Supermarket/ Retail-related business group	Food-related industry/ Multi-industry conglomerate
Corporate stores/ franchise stores as of the end of 2012	Corporate stores (2%) Franchise stores (98%)	Corporate stores (43.7%) Franchise stores (48.7%) Sub-area license stores (7.6%)
Supply system	Externalization Strategic alliance	Internalization Intra-organizational transaction
Proportion of ready-to-eat food to total sales	High	Comparatively low
Frequency of ready-to-eat food deliveries	3 times/day	Once or less/day

Source: Author's survey.

Second, the proportion of ready-to-eat foods to the total sales of each store is still comparatively low. This is due to the food culture and purchasing behaviours specific to Thailand. Thailand's 7-Eleven delivers goods from the distribution centres to its stores much less frequently, using its own infrastructure. This is not very problematic in the case of non-perishable processed foods and daily necessities. However, Thailand's 7-Eleven has recently promoted ready-to-eat foods by building its production and supply systems for them, with the group's subsidiaries at the centre. One reason for internalizing the production and supply of ready-to-eat foods for 7-Eleven stores is that existing independent food suppliers cannot sufficiently meet 7-Eleven's exacting requirements. Another reason is that CP ALL holds food-related companies as its subsidiaries, which enables it to internalize the production and supply systems. Thus, 7-Eleven in Thailand has adapted itself to the particular market conditions.

Then, to what degree have convenience stores in Thailand impacted on the country's entire distribution system? In the past six years, CP ALL has held several seminars for small-scale grocery stores with the collaboration of the Commerce Ministry's Internal

Trade Department and provincial chambers of commerce to encourage them to participate in 7-Eleven's franchise system (*Prachachart Thurakit,* July 11, 2013). Nevertheless, the low number of franchise stores implies that they have not sufficiently incorporated traditional grocery stores into the chains. There is also a possibility that the new franchise system, in which the participation requirements were relaxed, would reduce the merit of the franchise system by half in terms of cost reduction and incentive mechanisms. Moreover, although Thailand's 7-Eleven has been attaching great importance to ready-to-eat foods, which are "strategic goods" with high gross profit ratio, the attempt has yet to succeed. A substantial change in the food culture and purchasing behaviors is a precondition for success. In addition, it is crucial to build close, efficient, and cooperative relationships among the head office, franchise stores, and suppliers, in which they simultaneously maintain a certain level of competition. However, Thailand still lacks these conditions. In other words, Thailand's 7-Eleven is not following the same convenience store "system" that can be seen in Japan. Therefore, compared with the experience of 7-Eleven in Japan, 7-Eleven in Thailand is thought to have thus far had a limited impact on the country's entire distribution system.[20]

However, the rapid expansion of the 7-Eleven chain in Thailand is an undeniable fact. It implies, therefore, that 7-Eleven stores have some effect on the retail industry in Thailand. Given that 7-Eleven stores in Thailand are popular, particularly among young people, there is also a possibility that Thailand's 7-Eleven stores are seeking a different store concept; unlike 7-Eleven Japan, which is heavily convenience-oriented, 7-Eleven Thailand may intend to provide customers not only with convenience but also particular factors, such as novelty and coolness, appealing to young people. This issue remains to be discussed in another study.

[20] Although we should be prudent in comparing Thailand's 7-Eleven and Japan's 7-Eleven regarding profitability, because the financial systems of the two companies differ, let us consider the ordinary profit-to-sales ratio of the two companies for reference; Thailand's 7-Eleven showed the ratio figures at 6.8% in 2012, while Japan's 7-Eleven was at 31.4% in the same year, which was much higher than that of Thailand's 7-Eleven (based on the two companies' financial statements).

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