

## Chapter 2

### Strategy Choices of Convenience Store Chains in China, with Particular Reference to Seven-Eleven and FamilyMart

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**Abstract** Two large Japanese convenience store chain (CVS) companies, namely Seven-Eleven Japan and FamilyMart, began to set up businesses in China in 2004, both companies following entirely different strategies. FamilyMart chose a team management strategy which has two outstanding characteristics. First, it has been fully utilizing the resources of FamilyMart's Taiwan subsidiary and second, FamilyMart invited the Ting Hsin International Group (of Taiwan) to act as its partner in the subsidiary company. By contrast, Seven-Eleven Japan built up its China subsidiary almost wholly by itself, a policy that can be described as a managing-alone strategy. The paper argues that the differences in strategy stem fundamentally from differences in the two companies' experience of international management and from the knowledge derived from that experience. FamilyMart has considerable experience of building up joint ventures in Asian countries and has accumulated resources in its Taiwan subsidiary. Seven-Eleven Japan has strong confidence in its business model because of its remarkable performance in Japan and its success in rehabilitating the chain in the United States. The paper also illustrates that the choices of strategy have been shaped by the companies' interactions with two Taiwanese business groups, namely the Ting Hsin International Group and the President Group. Furthermore the evidence discovered by the research indicates that FamilyMart's strategy enabled the company to build up its operations more quickly than the policy adopted by Seven Eleven Japan. Although Seven-Eleven Japan's strategy is a more time-consuming way of setting up a CVS business, the approach offers a stronger possibility of establishing a more efficient and more transparent business model than do the approaches followed by the other CVS chains.

**Keywords** China, Japan, Taiwan, Convenience store, Strategy choice.

Since the 1990s, China's huge market has lured foreign companies not only in the manufacturing sector but also in the service sector. Among foreign investors, distribution and retailing in particular have been favorite activities. Following department stores, general merchandise stores and hypermarkets, foreign convenience store chain companies (hereafter CVS chains) have recently begun to set up businesses in China, on the assumption that China will liberalize franchising by foreign companies as a result of her accession to the WTO, and at present, foreign CVS operators are striving to establish their business foundations and to extend their territories in China, directly or indirectly competing with each other as well as with indigenous CVS chains.

This paper focuses on two Japanese CVS chains, namely Seven-Eleven Japan and FamilyMart. These two companies have now emerged as the world's leading CVS businesses. The CVS system originated in the United States, but has been significantly refined by Japanese companies. Perhaps the most conspicuous indication of the shift in CVS leadership from the United States to Japan is the fact that in 1991, some 75% of the stocks and management of Southland Corporation, which was the founder of the CVS system, were transferred to Seven-Eleven Japan, which had begun as a licensee of the Southland Corporation. The Southland Corporation was renamed Seven Eleven, Inc. in 1999, and became wholly owned by Seven-Eleven Japan in 2005. FamilyMart is a purely Japanese CVS chain and now has subsidiaries in the United States as well as in many Asian countries, a development that also illustrates the move of the center of gravity of this business from the United States to Japan. Seven-Eleven Japan and FamilyMart set up their subsidiaries in Beijing in January, 2004 and in Shanghai in May of the same year. Although the two chains' scales of operation in China are still small today, it is very probable that they will exert a substantial impact on China's distribution and retailing industry through the introduction of their highly refined CVS skills. This expectation gives further justification to the research that is presented in this paper.

Seven-Eleven Japan and FamilyMart followed entirely different strategies for establishing and operating businesses in China. FamilyMart chose a team management strategy which has two outstanding characteristics. First, it has been fully utilizing the resources of FamilyMart's Taiwan subsidiary and second, Shanghai FamilyMart is a joint venture between the Itochu-FamilyMart Group and the Ting Hsin International Group. By contrast, Seven-Eleven Japan built up its China subsidiary almost by itself.

Although Seven-Eleven (Beijing) is a joint venture by Seven-Eleven Japan and local capital, the Chinese investors are silent partners. In the paper, this policy will be described as a managing-alone strategy.

Why did the two companies follow such different strategies? This paper attempts to answer this question. I believe that their different strategies are deeply dependent on the particular resources that the two companies have created in the course of their development, and in particular their experience of international management and the knowledge derived from that experience. Since FamilyMart has experience of participating in joint ventures in Asian countries and has accumulated resources in its Taiwan subsidiary, it chose a team management strategy. The resources of its subsidiary and its partner enable FamilyMart to follow an adaptive and eclectic policy and allow it to set up and extend business swiftly. Seven-Eleven Japan has a strong confidence in its business model which has been constructed and produced remarkable performance in Japanese Market. Its successful experience in rehabilitating the Seven-Eleven chain after taking over the Southland Corporation further confirmed its confidence in the model. Therefore it preferred managing the subsidiary alone based on the model to modifying the model in cooperation with other firms.

Seven-Eleven Japan and FamilyMart's choices of strategy have also been shaped by their interactions with two Taiwanese business groups, namely the Ting Hsin International Group and the President Group. Seven-Eleven Japan's managing-alone strategy partly reflects the absence of its potential partner, the President Group, from management operations in Beijing. Because President Group has been the licensee of the Seven-Eleven chain in Taiwan and has constructed a successful business model independently from Seven-Eleven Japan since the late 1970s, their experience of mutual trust has been somewhat limited. In particular, on those occasions when President Group uses the chain as a channel for its products, Seven-Eleven Japan reacts with caution. At the same time, however, the success of President Group's channel policy significantly motivated the Tin Hsin International Group to join Shanghai FamilyMart.

This paper considers the present and future outcomes of these two divergent business strategies. The evidence discovered by the research indicates that FamilyMart's team-management strategy and the resources of its partner and its subsidiary enabled the company to build up its operations more quickly. Although the managing-alone strategy needs more time to set up a CVS business, the Seven-Eleven

Japan approach offers a stronger possibility of establishing a more efficient and more transparent business model than the approaches followed by the other CVS chains.

This paper's findings have implications for our understanding of foreign direct investment as well as for the analysis of the economic structure of East Asia. Previous studies have assumed that multinationals have created and accumulated most of their resources, including knowledge-based assets, in their mother countries and have then proceeded to invest in other countries, while the subsidiaries of the multinationals, and especially those in developing countries, have been seen as mere receivers of the knowledge-based assets and other resources. Although some authorities have recognized the importance of knowledge creation by the subsidiaries, it has been assumed that such knowledge creation has been nothing more than localization of the universal knowledge imported from headquarters. Other research has focused solely on innovation by local firms, but not by the multinationals' subsidiaries as latecomers. The two cases in this paper demonstrate that subsidiaries can create knowledge which is applicable to other locations. Moreover the research suggests that this phenomenon is substantially related to characteristics of knowledge accumulation in the tertiary sector.

This paper has seven sections following the introduction. The first section explains the paper's approach and hypothesis. The second section briefly explains the overall situation of China's CVS business and describes Lawson's pioneering challenge as a reference point for the following analysis. The third section illustrates the differences between the strategies of FamilyMart and Seven-Eleven, and the fourth section examines the reasons for the differences, focusing on the development paths of the two companies. The influence of competition between the two Taiwanese business groups on FamilyMart and Seven-Eleven's choices of strategies is examined in the fifth section. The sixth section discusses the advantages and disadvantages of the two contrasting strategies. The final section summarizes the discussion and highlights some of the implications of the research.

### **Approach and hypotheses**

The "evolution" approach, which has developed since the research of Nelson and Winter (1983), is generally supposed to be most appropriate of the methods available for analysis of the process of strategic choice by CVS chains. Fujimoto (1997) adopted this approach in his study of the Japanese auto industry in order to examine

Toyota's system which over the years had undergone repeated changes. According to Fujimoto, if other systems than the one being followed can be potentially sustainable, the historical background behind the actual choice of system is worth investigating (Fujimoto 1997: 15).

Fujimoto depicted the development of Toyota's system as an "emergent process" which is a very complicated process that is neither entirely accidental nor entirely decisive, chosen neither completely rationally nor completely irrationally, and which is neither fully controllable nor fully out of control. More specifically, in an emergent process, creation and transformation of systems is brought about by five factors, namely rational calculation, random trial, environmental constraints, entrepreneurial vision and knowledge transfer, and it is impossible to determine in advance which of these factors will be significant (Fujimoto 1997: 13-17).

This paper considers Seven-Eleven and FamilyMart's choices of strategy to be an emergent process. The evolutionary approach has the following advantages: (1) options that were not selected in the actual choice of system can be taken into consideration. For example it is an important question why Seven-Eleven Japan did not choose the team-management strategy which FamilyMart chose, and vice versa; (2) the impact of unexpected events can be explicitly argued; (3) the argument can subsume invisible factors such as entrepreneurial vision, as mentioned above.

Based on this approach, the paper examines the factors that have affected Seven-Eleven and FamilyMart's choices. It will be argued that that their different strategies have been deeply dependent on their resources in Penrose's (1959) meaning of the word - resources that have been created in the course of their development. In particular, their strategies reflect their experience of international and domestic management and the knowledge thus derived. FamilyMart has experience of joint ventures in Asian countries and has accumulated knowledge and other resources in its Taiwan subsidiary. It chose the team management strategy since its experience indicated that the strategy had been effective and that FamilyMart's resources have enhanced its effectiveness. Seven-Eleven Japan had not done business in Asia before its investment in China, and lacked the resources available to FamilyMart's subsidiary in Taiwan. More importantly, Seven-Eleven Japan has a strong confidence in its business model which has been constructed and produced remarkable performance in Japanese Market. Its successful experience in rehabilitating the Seven-Eleven chain after taking over the Southland Corporation further confirmed its confidence in the model.

Therefore it preferred managing the subsidiary alone based on the model to modifying the model in cooperation with other firms.

Seven-Eleven Japan and FamilyMart's choices of strategy have also been shaped by their interactions with two Taiwanese business groups, namely the Ting Hsin International Group and the President Group. The former is a partner of FamilyMart in Shanghai and the latter operates the Seven-Eleven chain in Taiwan. The paper presents a complementary hypothesis relating to the two groups, their strategies concerning CVS business, and the interplay between them and the Japanese companies, a relationship that reflects their own particular experiences. The President Group's success in Taiwan has been particularly influential as regards not only its own decision but its rival's.

Of course other hypotheses can be proposed. For example it is quite possible that the sizes of the companies, or differences in their financial resources and/or manpower might have had a significant influence on Seven-Eleven and FamilyMart's choices of strategy. While the importance of these factors cannot be denied, on their own they do not provide a sufficient explanation and might well be secondary in importance. In the paper, I will demonstrate the plausibility and validity of my hypothesis and the inadequacy of competing hypotheses by describing the strategic thinking of the companies, and will show how this thinking is based on opinions and facts that were made known to me through interviews with related companies and through statistical information and materials contained in newspapers, journals and websites.

### **China's local CVS chains and Lawson as a pioneer**

Seven-Eleven Japan and FamilyMart, the two companies being investigated by this paper, are late entrants into China's CVS business. In the early 1990s the first Chinese CVS, Baishi Bianlidian, opened in Shanghai (Zhao 2003) and as **Table 1** shows, by 2005 China already had three chains with more than 1,000 stores and several chains with hundreds of stores. All of these were Chinese in origin. The three Japanese chains still remain small in scale.

Although the Chinese CVS chains have been growing quickly during this decade, most of them are in deficit (CCSFA 2006: 46)<sup>1</sup>, and their sales per store are small in comparison with those of foreign chains. According to Noda Shin'ichi's<sup>2</sup> estimate, in Shanghai daily sales of the Lawson and FamilyMart's stores is on average

7,000 RMB per store while the local CVS's daily sales amount to between 3,000 and 4,000 RMB.

**Table 1** Japanese and Major Local CVS Chains in China

CVS Chains	Main Area	Number of Stores
Japanese Chains		
Shanghai Lawson	Shanghai	283
Shanghai FamilyMart	Shanghai	105
Seven-Eleven (Beijing)	Beijing	35
Local Chains		
Kuaike Bianlidian	Shanghai	1,959
Kedi Bianlidian	Shanghai	1,182
Haode Bianlidian	Shanghai	1,010
Shanghai Liangyou Jinban Bianlidian	Shanghai	800
Cangzhou-shi Haorizi Chaoshi	Cangzhou	758
Qingdao Weike Jiamengdian	Qingdao	718
Dongguan-shi Tangjiu Jituan Meiyijia Bianlidian	Dongguan	682
Shaoxing Gongxiao Chaoshi Bianlidian	Shaoxing	622
Qingdao Liqun Bianlidian	Qingdao	620
Beijing Wumei Bianli Chaoshi	Beijing	564

Note: The numbers of stores of Japanese chains are those in June or July of 2006. The numbers of local chains are in 2005.

Source: Nikkei Business (September 4, 2006: 28-9) and CCSFA (2006: 46).

The China Chain Store and Franchise Association (2006: 49-51) identifies four problems that affect present-day CVS chains in China. Two of these<sup>3</sup> are noteworthy, namely the inability of CVSs to differentiate their merchandise from that available in supermarkets, and the tendency of the CVSs to display a limited variety of goods with large volume in the manner of hypermarkets. These problems are caused by the local chains' weak ability to develop original goods and the absence of

information and distribution systems. If the CVSs were capable of developing original goods, they could provide different merchandise from other types of retailers. If they had integrated systems, or so the argument runs, they could provide various goods matching consumers' needs, which differ from location to location, even in the very small spaces of the stores, and could capture customers by supplying merchandise seamlessly despite of limited stocks. The reality is in fact contrary to this view. Owing to the weak distribution system, many chains cannot distribute a portion of items to their stores and leave them to procure some goods by themselves, and this debilitates the management of the chains (CCSFA 2006: 47). Noda said the local chains are not complete CVS chains, but instead are voluntary chains.

The foreign CVS chains possess the resources that the local chains lack. Although the foreign chains have grown more slowly and their present scales of operation are much smaller than those of the Chinese chains, their resource advantages are thought to be sufficient to enable them to grow steadily and to favorably compete with Chinese chains in the future.

The pioneering foreign CVS chains are Seven-Eleven in Guangdong Province and Lawson in Shanghai. Guangdong's Seven-Eleven, which now has around 200 stores, is managed by Hong Kong's Dairy Farm Group. The group was licensed by the Southland Corporation in 1981 and has managed the Seven-Eleven chain in Hong Kong. Even after 1991, when Seven-Eleven Japan acquired the Southland Corporation, the group and Seven-Eleven Japan did not establish a close relationship and Seven-Eleven (Beijing), which was set up by Seven-Eleven Japan, has no direct relationship with Seven-Eleven either in Guangdong or in Hong Kong.

Lawson, the first challenger to enter the China market as an operator of Japanese CVS chains, established Shanghai Hualian Lawson Co. Ltd. in 1996. That company was a joint venture with local capital and Lawson took the initiative in setting up business.

Lawson's experience suggests that a foreign chain's own resources are insufficient for running CVS businesses in China and indicates that some degree of localization is necessary. Lawson did not succeed in increasing the number of its stores swiftly and was in deficit for several years following its arrival in China, but in the early 2000s Lawson changed its strategy and accelerated the degree of localization. Ochiai Isamu, who assumed the presidency of Shanghai Hualian Lawson in 2001, reduced the number of Japanese staff from 13 to 3 and appointed local staff to

important posts<sup>4</sup>. Moreover in 2003, Lawson reduced a portion of its stock and yielded the initiative of management to its Chinese partner (Nikkei Ryutsu Shinbun May 3, 2003). Lawson's new strategy succeeded. After 2003 it accelerated the expansion of its business activities in China<sup>5</sup> and eventually, in 2004, it produced a surplus (Nihon Keizai Shinbun February 22, 2005).

Lawson's experience makes the characteristics of FamilyMart and Seven-Eleven Japan more apparent. FamilyMart's strategy can be seen as one that telescopes the Lawson strategy by exploiting the resources of its Taiwanese subsidiary and partner. Seven-Eleven Japan seems set on introducing the Japanese system more aggressively than Lawson did.

### **FamilyMart's Team Management Strategy versus Seven-Eleven's Managing-Alone Strategy<sup>6</sup>**

Both Seven-Eleven and FamilyMart share the same goal. They recognize that CVSs should serve consumers and should abide by such values as convenience, speed, simplicity, cleanliness, safety and security. Moreover they consider franchising to be the best way of familiarizing customers with CVSs. However they follow different strategies for realizing their ambitions. FamilyMart has adopted a team management strategy while Seven-Eleven has chosen a managing-alone strategy.

Seven-Eleven (Beijing)'s capital is provided by three stockholders, namely Seven-Eleven Japan, the Beijing Wangfujing Department Store Group and the Zhongguo Tangye Jiulei Group. The Beijing Wangfujing Department Store Group is an affiliate of Beijing City government. When time Seven-Eleven (Beijing) was established, the other affiliate of the government, the Shoulian Group, was its stockholder, but in 2005 the government replaced the Shoulian Group with the Beijing Wangfujing Department Store Group. The Zhongguo Tangye Jiulei Group is an affiliate of the Ministry of Commerce of the central government. Since the Beijing Wangfujing Department Store Group and the Zhongguo Tangye Jiulei Group are silent partners, Seven-Eleven Japan has carried out the planning, the setting up and the management of Seven-Eleven (Beijing) by itself.

According to the original plan, Taiwan's President Group, which is the licensee of Seven-Eleven chain in Taiwan, was supposed to participate in Seven-Eleven (Beijing) and own 14% of its stock (making Seven-Eleven Japan's share at that time 51%). But the Chinese government pointed out that the joint venture by the President

Group and Carrefour, France's hypermarket company, violated the 65% ceiling on stockholding by foreign companies and that permission for investing in Seven-Eleven (Beijing) was conditional on selling out the stock of the joint venture. Since no appropriate purchaser could be found, the President Group had to abandon joining Seven-Eleven (Beijing). However even if the President Group had taken part as planned, the group's influence would have been a highly limited one, and Seven-Eleven Japan's leadership would have hardly changed because unlike FamilyMart, Seven-Eleven Japan was thought to have little intention of making full use of Taiwan-based experience. In the following section I will explain this point in greater detail.

FamilyMart's team management strategy has had two distinguishing characteristics. First, the Itochu-FamilyMart Group<sup>7</sup> invited the Ting Hsin International Group to be the largest stockholder of the joint venture. Second, Shanghai FamilyMart has been fully utilizing the resources of its Taiwan subsidiary.

Shanghai FamilyMart is a joint venture organized by FamilyMart, Taiwan FamilyMart, Itochu Corporation, and the Ting Hsin International Group<sup>8</sup>. They respectively own 16.8%, 18.3%, 14.3% and 50.5% of Shanghai FamilyMart's stock<sup>9</sup>. The former three companies are members of a group headed by the Itochu Corporation. Family Corporation, Itochu Corporation's affiliate, is the largest stockholder of the group and possesses 30.6% of FamilyMart's stock. Itochu Corporation and FamilyMart together hold 45% of Taiwan FamilyMart's stock, the former's owning 4% and the latter 41%.

The stockholders provide Shanghai FamilyMart not only with capital but also with non-pecuniary resources, and they manage the company as a team. It was the Itochu-FamilyMart Group that drew up the plan for a CVS business in Shanghai and they have implemented it, even though the Ting Hsin International group owns the largest share of Shanghai FamilyMart's stock and is planning to lead its management in the future. Itochu Corporation, FamilyMart and Taiwan FamilyMart jointly carried out a feasibility study and Shanghai FamilyMart has been consolidating business at the primary stage ever since its establishment. Of the three aforementioned stockholders, Taiwan FamilyMart is now responsible for management on the spot while FamilyMart supplies general know-how and the system of operation, which includes a computerized information system. Meanwhile, Itochu Corporation's task is to construct and operate logistics such as distribution and development and the production of foods.

The Ting Hsin International Group is famous for the Master Kang brand attached on the instant noodles and other food and beverages. It has been the largest producer of instant noodles in China for more than a decade, which means that it is the largest producer in the world. Before it set up a factory in China in the early 1990s, it was a small castor oil producer in central Taiwan. After some failures in attempting to invest in mainland China, it found a very large untapped market for instant noodles, the domestic products being too poor in quality and imported products being too expensive. It began to make instant noodles that were of a higher quality than the domestic product and that were cheaper than imported noodles, and soon succeeded in acquiring a very large share of the Chinese market (Sato 1997: 196).

After succeeding in the marketing of instant noodles, the Ting Hsin International Group started to diversify aggressively not only into other foods and beverages but also into distribution and retailing. From the viewpoint of the Ting Hsin International Group, participating in Shanghai FamilyMart is a part of this diversification strategy.

The Ting Hsin International Group can provide Shanghai FamilyMart with a useful infrastructure resource, namely its very well-established system for distributing the products of its food processing factories. These were built up to serve the hypermarkets established by the company and could easily be transformed into the infrastructure needed to supply a CVS chain. The group and Itochu Corporation's affiliate Nishino have now established a joint venture which distributes goods to FamilyMart stores in Shanghai. Moreover since the group's product distribution extends throughout China, it will prove a valuable resource for FamilyMart's expansion of its territory.

Other important resources of the Ting Hsin International Group include its accumulated experience of doing business in China, its prestige as a successful company, and its wide-ranging networks of contacts, which are expected to be extremely helpful in a country where for business success, it is essential to negotiate with central and local government officials<sup>10</sup>.

At the present stage of consolidating its business, Taiwan FamilyMart is playing an extraordinarily important role, as is shown by the fact that Taiwan FamilyMart sends to Shanghai many senior executives including the zongjingli (the president), while FamilyMart and Itochu Corporation respectively send only one person there.

Taiwan FamilyMart possesses four kinds of resource that are not available to

either FamilyMart or Itochu Corporation<sup>11</sup>. One of these is cultural<sup>12</sup>. Since Taiwan and mainland China share the same culture, Taiwan FamilyMart has some advantages over the two Japanese companies. Fluency in the language is the most prominent advantage. Once in China, Taiwanese staff can freely communicate with local staff, customers, suppliers and government officials directly and without the need for translation. They are more able to sense than the Japanese what people in Shanghai are thinking. Moreover, even though there are some differences in food preferences between Taiwan and Shanghai, the Taiwanese can understand more accurately than the Japanese which taste of fast food is appropriate for Chinese consumers.

The second resource is an institutional one. Some of the formal and informal transaction rules, and the system of taxation in Shanghai, are similar to those in Taiwan. Consequently Shanghai FamilyMart can operate in the regulatory climate of China by using the systems that Taiwan FamilyMart has already developed in Taiwan.

Third, Taiwan FamilyMart has accumulated abundant experience and is endowed with experienced manpower. Taiwan FamilyMart was established in 1988 and thereafter underwent many difficulties. At the beginning in particular there were many problems to overcome. Thus Taiwan FamilyMart is capable of providing staff experienced in solving problems in a process of setting up business, and can call upon the knowledge of these employees when establishing and developing business operations in Shanghai. For instance, one of the tasks that Taiwan Family Mart has had to tackle in China is the conversion of a manufacturer-led distribution system to a joint distribution system served through a distribution center<sup>13</sup>. It has been very difficult to persuade the manufacturers to agree to this because FamilyMart is not yet a major channel. However the company's staff had to solve a similar problem during the early period of Taiwan FamilyMart's growth, and they are confident that the manufactures will change their policies as the FamilyMart chain grows. Although FamilyMart underwent a similar kind of experience during the initial stage of its development in Japan, the necessary adjustments were made many years ago, and there are few staff left who have personal knowledge of the company's procedures at that time.

Fourth, the networks that have been established among Taiwanese enterprises can be seen as a useful resource. FamilyMart succeeded in allying with the Ting Hsin International Group, a giant food processing company, using this resource. When FamilyMart was looking for a business partner to assist it in its operations in Shanghai,

Taiwan FamilyMart’s president, Pan Jin Tin (nowadays the chairman) introduced the group to his company’s headquarters. Since the group originated from Taiwan and had bought Wei Chuan Corp. which had been a major supplier of the chain in Taiwan, Pan and Taiwan FamilyMart both had connections with the corporation and were capable of negotiating smoothly with it.

**Seven-Eleven and Family Mart’s different paths**

What were the causes of the differences in approach between Seven-Eleven and FamilyMart? My hypothesis is that their strategies have depended on the resources that they had accumulated before starting business in China. Of the resources the experiences and knowledge derived from the experiences have been particularly important.

Another possible hypothesis is that the companies rationally determined their strategies taking account of their scales. As **Table 2** shows, in Japan, Seven-Eleven Japan has twice as many stores as FamilyMart and in 2005, its sales volume was more than double that of its rival. Difference in size and the resultant gap of resources are obvious. Whereas Seven-Eleven Japan, large in size and with abundant resources of its own, can dispense with alliances with other companies, a team is more necessary for FamilyMart which is both smaller and less well endowed with resources. I believe that the scale hypothesis and my hypothesis centered on experience and knowledge are not exclusive but complementary and that my hypothesis centered on experience and knowledge is more significant.

**Table 2** Seven-Eleven Japan and FamilyMart’s Number of Stores and Sales in Japan in 2005

	Number of Stores	Sales of All Stores (billion Japanese Yen)
Seven-Eleven Japan	11,310	2,499
FamilyMart	6,841 (Nov. 30, 2006)	1,032

Note: Data of area franchisees are included.  
 Source: Two companies’ websites  
 ([http:// www. sej.co.jp/](http://www.sej.co.jp/) ; <http://www.family.co.jp/>).

Size and richness of resources, while necessary, is on its own not enough for managing-alone strategy. An abundant resource endowment does not exclude the adoption of a team management strategy. Consequently in this case, a full explanation of corporate strategy needs to take into account other factors. Since limited resources can explain FamilyMart's need for a team management strategy but cannot elucidate the feasibility of the strategy, which cannot be freely employed, it is also necessary to explain in what ways FamilyMart was able to pursue the team management approach. The company's experience and knowledge are considered to be the most plausible factors which led them to adopt different strategies.

Among Japan's CVS chains, FamilyMart has been the most active in expanding its overseas business since the 1980s. In 1988 it established its first joint venture in Taiwan and then went on to set up joint ventures in Korea in 1990 and in Thailand in 1992.

FamilyMart's strategy for internationalization is to establish a joint venture with local capital holding the minority of the stock. FamilyMart instructs its partner in the concepts, systems and know-how of CVS chain management and together, the two partners accommodate these aspects to local conditions. Once the business base is consolidated, FamilyMart entrusts management of the joint venture to its partner. As has already been mentioned, FamilyMart repeated this strategy when it entered the Chinese market.

Unexpected events must also be also taken into account. In Taiwan, FamilyMart allied with the Panvest Group. However in this case, FamilyMart was unpredictably forced to deviate from its original strategy. In the fall of 1998, the Panvest Group, which was the largest stockholder of Taiwan FamilyMart, abruptly went into bankruptcy owing to the recession and to the decline of stock prices caused by the 1997 Asian Financial Crisis (Abe, Sato and Nagano 1999). Although this accident shocked the managers, the workers and the Japanese partners, it finally turned out a blessing in disguise. FamilyMart and Itochu Corporation, which took over FamilyMart from the bankrupt Saison Group, jointly bought Taiwan FamilyMart's stock and assumed its management as the largest stockholder. As a result the Itochu-FamilyMart Group acquired valuable resources including the accumulated know-how of setting up a business in a country other than Japan as well as experienced manpower which they were able to freely mobilize in pursuit of their overseas strategy.

More fortunately for the Itochu-FamilyMart Group, management the team of Taiwan FamilyMart led by Pan Jin Tin turned out to be very competent. After successfully surmounting the crisis, Taiwan FamilyMart soon returned to growth and by the end of 2006, the number of its stores had increased to 2,000, making the group second only to the Seven-Eleven chain in Taiwan. FamilyMart, highly appreciative of Pan's ability, appointed him chairman of Taiwan FamilyMart and made him a director of Japan's FamilyMart. It may well have been unprecedented for a local manager of a subsidiary in a less developed country to join the board of directors of a company in Japan. The manager of the Overseas Business Department said, "Taiwan FamilyMart is a precious thing" (Nikkei Business, September 4, 2006: 41).

When the Southland Corporation had control of Seven-Eleven chain, its internationalization policy was licensing, not FDI or the establishment of overseas joint ventures. It licensed the President Group in Taiwan, the Lotte Group in South Korea, the Dairy Farm Group in Hong Kong, the CP Group in Thailand and so on. Although it trained its licensees in how to run overseas operations, it had never managed CVS chains abroad by itself. Around 1990 the Southland Corporation ran into a financial crisis and almost went out of business. Seven-Eleven Japan rescued it and took over its management. But Seven-Eleven did not change the licensing policy that it had inherited and confined its own operations to Japan before it decided to invest in China.

Why did Seven-Eleven Japan, by setting up business in China, switch its strategy from licensing to FDI, and why did it prefer the managing-alone strategy to other strategies?

Seven-Eleven Japan's FDI in China was fundamentally due to saturation of the Japanese market. In Japan the density of CVSs is extremely high, economic growth is relatively slow and the population has started to fall. In these circumstances, high-speed growth has been impossible and in order to sustain expansion, Seven-Eleven Japan needed to extend the geographical area of its business operations.

Meanwhile Seven Eleven Japan adopted the managing alone strategy partly because it did not possess resources comparable to those accumulated in the Taiwan's subsidiary by FamilyMart. However, more important factor is Seven-Eleven Japan's strong confidence in its business model. Seven-Eleven Japan has not only maintained an impressive performance but has constructed a very sophisticated model of CVS chain management (Yahagi 1994). Most of the Seven-Eleven stores in Japan are run by franchisees and provide a wide range of services as well as various kinds of goods.

Many of the goods were originally developed by the company itself. The key concept of the system is “tanpin-kanri” (management of individual goods) which means closely investigating sales of each good in each store, ordering according to data thus collected and analyzed, and making up the best composition of merchandises in the respective store. Seven-Eleven Japan as a franchiser has continued to refine the system that supports the stores’ activities. Its confidence was further confirmed by its successful experience in rehabilitating the Seven-Eleven chain in the United States took over from the bankrupt Southland Corporation. Consequently it is supposed to prefer managing the subsidiary alone based on its principle to modifying the model in cooperation with other firms.

Moreover Seven-Eleven Japan began to feel it necessary to identify and fix the minimum requirements of the Seven-Eleven chain world-wide. The Seven-Eleven chains in other countries were licensed by the Southland Corporation and had no direct relation with Seven-Eleven Japan, and this situation was maintained even after Seven-Eleven Japan’s acquisition of the Southland Corporation. Although the Southland Corporation introduced franchisees to the CVS chain business, each of them has followed its own particular approach. Seven-Eleven Japan began to be aware of the negative effects of this situation on its brand name at a time of rapid globalization. Notwithstanding its strong confidence in its business model, until its venture into China, Seven-Eleven Japan did not have an opportunity to examine its effectiveness in markets other than the Japanese one. Since the CVS chain in the United States was taken over from the Southland Corporation, the legacy has prevented it from completely corresponding to Seven-Eleven Japan’s ideal (Nikkei Business, September 4, 2006: 36-37). The Beijing subsidiary also has a mission to test its model. The managing-alone strategy was a necessary means for pursuing this objective.

### **Rivalry between the President Group and the Ting Hsin International Group**

It should be noted that Seven-Eleven and FamilyMart’s choices of strategies in China have reflected the competition between two Taiwanese big business groups, namely the President Group and the Ting Hsin International Group. These are both large-scale food processors and fiercely compete against each other both in mainland China and in Taiwan.

The President Chain Store Corporation (PCSC) which operates the Seven-Eleven chain in Taiwan is an affiliate of the President Group. It is the largest

CVS chain in Taiwan with a share of about half of the market<sup>14</sup>. Not only does it make a substantial profit for the group every year but it is believed to be an important source of the competitiveness of the group's products. One reason why the President Group embarked on CVS chain marketing in the 1970s was its intention to break through the bottleneck of traditional distribution and retailing systems. Today, Taiwan's Seven-Eleven chain does not exclude all of its competitors' products but seems to give preferential treatment towards the products of the President Group, a policy that is a source of irritation to its most powerful rival, the Ting Hsin International Group. In 1998 the Ting Hsin International Group took over Taiwan's Wei Chuan Corp. which had long been in competition with the President Group, using the profits generated by its business in China, and in 2002 began to sell Master Kang brand instant noodles in Taiwan. The outcome, however, was unsatisfactory. One reason is that the President Group successfully blocked the Ting Hsin International Group's products from penetrating into the Seven-Eleven chain.

The success of President Group's vertical integration strategy was one of the main reasons why Ting Hsin International willingly participated in establishing Shanghai FamilyMart. For its part, FamilyMart persuaded the group not to use the CVS chain as an exclusive channel for marketing its own products, so as to avoid doing harm to the chain's sound development. The function of the FamilyMart chain for the group may well have been defensive, that is, by dealing with Family Mart, it can at least avoid being blocked by competitors. In reality, stores of Shanghai FamilyMart carry the President Group's and other companies' products as well as those of the Ting Hsin International Group's although at the same time discriminately displaying Master Kang instant noodles in containers that have been given some extra decorative additions.

The President Group has been unsuccessful in convincing Seven-Eleven Japan to allow it to operate a Seven-Eleven chain in China<sup>15</sup>. Seven-Eleven Japan has not accepted the President Group's proposal probably because, as has already been explained, it has attempted to create a standard model in China and abroad. At the same time, Seven-Eleven Japan might be skeptical of the group's background as a manufacturer and could well be critical of the Group's occasionally using the CVS chain as a product channel. The President Group has been seeking other types of distribution and retailing business in China such as hypermarkets, supermarkets, drug stores and fast food restaurants while expecting to be offered a franchise arrangement in

areas other than Beijing by the Japanese franchiser<sup>16</sup>.

### **Advantages and disadvantages of two strategies**

It was only two years ago that Seven-Eleven and FamilyMart established their subsidiaries in China and it is too early to conclude whose performance is the more distinguished of the two, and whose strategy is the most successful. It must also be noted that the Chinese government has just allowed foreign companies to run franchises in China, this being the common goal of the two chains as well as their main battle ground. However some initial achievements are already apparent and suggest how the different strategies of the two companies might unfold in the years ahead.

The advantage of FamilyMart's team management strategy is its speed of setting up business. Although Shanghai FamilyMart was established in 2004, shortly after the establishment of Seven-Eleven (Beijing), by autumn 2006 the number of its stores in operation had already increased to over a hundred, a total that was more than double the 50 stores of Seven-Eleven Beijing<sup>17</sup>. Moreover Shanghai FamilyMart has already started franchising while Seven-Eleven (Beijing) still manages all of its stores directly. Furthermore in October 2006, FamilyMart began operations in a new Chinese location, namely Guangzhou, and opened its first store there.

The company's Taiwan-based resources have contributed substantially to the swift establishment of Shanghai FamilyMart's business in China. Thanks to these resources, Shanghai FamilyMart has been able to overcome the awkward institutional hurdles that all foreign companies have to cope with in doing business in China<sup>18</sup>.

In this latter regard, the following points are relevant. First, China's customs of business transactions differ considerably from those of Japan. In China, manufacturers have strong powers that enable them to fix prices at shipment from their factories in spite of the purchased volumes. Since competition is very fierce in the Chinese retail market, retailers tend to make very small margins, but they are allowed to return the unsold goods to the manufacturers unconditionally. Moreover large-scale purchasers receive from manufacturers such benefits as dispatchment of sales clerks, co-sponsorship for their events, and rebates<sup>19</sup> instead of discounts. Chinese transaction rules might appear to threaten the spread of CVS franchising because they attribute most of the benefits to the franchisers and squeeze the franchisees' margins. But since there are similar procedures in Taiwan<sup>20</sup>, it is relatively easy for Taiwanese managers in Shanghai FamilyMart to adapt their operations to Shanghai's

circumstances.

The second problem relates to China's value-added taxation (VAT) system, which differs completely from that of Japan. But again, Taiwan has a similar system to the Chinese one and Taiwan FamilyMart has found no difficulty in developing procedures for ordering and settlement that are appropriate for the system. In other words, Shanghai FamilyMart has been able to quickly adjust to local ways of doing things, thereby saving time and resources.

By contrast, Seven-Eleven (Beijing) has spent a lot of time and resources in surmounting institutional hurdles partly because it held none of the resources that FamilyMart had accumulated in its Taiwan subsidiary and partly because it attempted to persuade Chinese manufacturers and the Chinese government to accept the Japanese-style system as a more efficient way forward. Because of this formidable struggle, Seven-Eleven (Beijing) has not yet begun franchising.

Thus Shanghai FamilyMart succeeded in reducing to a minimum the time it took to set up business operations by employing a gradual, moderate and adaptive strategy based on the resources that had been created and accumulated in Taiwan FamilyMart. There is of course a possibility that the experience accumulated in Taiwan might turn out to be constraining as well as beneficial in providing conceptions of how to do business in China. By contrast with FamilyMart, Seven-Eleven Japan has limited experience abroad and no partner. Consequently, on the one hand, it needs to expend much time and resources in constructing an overseas strategy from scratch; on the other hand, it can construct a model free of any preconceived ideas. Seven-Eleven Japan has throughout employed a challenging and innovative strategy based on the model derived from successful experience in Japan.

As for tackling Chinese customs of business transactions, Seven-Eleven has been striving to introduce Japanese-style institutions into China, a task that is very laborious. However if Seven-Eleven succeeds, its system might turn out to be very sound, transparent and efficient because franchisees can be explicitly and solidly independent. FamilyMart's system based on its Taiwan-based experience is rather eclectic. It is adaptive to local rules and institutions but might have to sacrifice some functions that have accompanied the company's style of franchising in Japan.

Meanwhile, problems concerning the floor area of stores illustrate the challenges that confront Seven-Eleven. In Beijing Seven-Eleven's store has a floor area that is about 80% of the floor space of the average Japanese store. This is clearly

more extensive than stores of FamilyMart and Lawson and far larger than the space available to the Chinese-owned CVSs in Shanghai. The large space is considered to be derived from its model of store operation, which provides for the selling of multiple goods and services. Seven-Eleven's idealism is distinguished from FamilyMart's realism. China's rents are quite high relative to prices of goods and services sold in CVSs. According to Noda, in this sense, Shanghai's rents are far higher than in Japan, where the average monthly rent is usually less than two days' sales. Taiwan FamilyMart experienced similar problems in Taiwan. Taking this difference in rents into account Pan and his managers decided that the floor area of the average store in Taiwan could be considerably smaller than in Japan<sup>21</sup>. They designed FamilyMart stores in Shanghai making use of this experience.

Another field where we can observe Seven-Eleven's innovatory approach is in the marketing of fast food. Both Seven-Eleven and FamilyMart recognize strategic importance of fast food. CVS's margins on goods procured from manufacturers are substantially limited owing to the manufacturers' strong position and to severe and often somewhat unfair competition with local retailers. Since fast food have been developed by CVS chains, they contribute to differentiating themselves from other chains and to higher margins. Furthermore, the market in China for fast food is definitely promising. In Taiwan the CVS chains have not succeeded in increasing the ratio of fast food to total sales because of strong competition from traditional restaurants and food stands. Since in China competitors of this kind are less developed than in Taiwan, CVS chains have been able to easily carve out a market.

At the same time, Seven-Eleven and FamilyMart clearly differ in their strategies towards fast food marketing. FamilyMart's strategy is more moderate and its fast food such as sandwiches, lunch boxes, rice balls, and oden<sup>22</sup>(various kinds of boiled fish balls, fried tofu and vegetables in a soy sauce-based soup) and chaye-dan (eggs boiled in tea) are being introduced from Japan and Taiwan with necessary adjustments that take local taste preferences into account. Taiwan's marked influence is discernable from the fact that rice balls are available Taiwanese-style as well as Japanese-style<sup>23</sup>, that its oden is Taiwanese-style and not Japanese-style<sup>24</sup> and that it sells chaye-dan which has become a symbol of the Taiwanese CVSs<sup>25</sup>. Thus FamilyMart's fast food in Shanghai are based on those in Japan and Taiwan and have not been drastically modified. Its moderate and adaptive strategy for fast food might be partly attributable to Taiwan FamilyMart's unsatisfactory performance in fast food and

the company's limited experience in this kind of activity.

Seven-Eleven's fast food strategy is more daring and more aggressive. It places a kitchen in each store and serves hot dishes cooked on the premises. The taste and quality of foods are controlled by dressing them in advance at a central factory. Cooks in each store are in charge of final processing and presentation, and prepare materials with compounded seasoning according to fixed procedures. Seven-Eleven (Beijing) determined to supply this type of fast food on the assumption that the Chinese consumer prefers hot foods to cold ones. It should be noted that Seven-Eleven Japan does not serve hot dishes cooked in stores. In other words, the company's fast food strategy in its Chinese stores is an entirely innovative venture. Seven-Eleven (Beijing) can be creative because being free of preconceptions, it can concentrate wholly on how to create a good that is acceptable to local consumers. Significantly, Seven-Eleven has started to transfer its cooking-in-the-store approach to Korea, to prop up its local licensee whose performance has been disappointing.

### **Summary and implications**

This paper has examined two leading CVS chains, Seven-Eleven and FamilyMart, and their choices of strategies for establishing and operating businesses in China. Their choices evidently differ from one another. FamilyMart adopted a team-management strategy that has two outstanding characteristics: first, it has been fully utilizing its Taiwan subsidiary's resources and second, Shanghai FamilyMart is a joint venture between the Itochu-FamilyMart Group and the Ting Hsin International Group. By contrast, Seven-Eleven Japan chose a managing-alone strategy and built up its subsidiary virtually by itself.

Why did the strategies diverge? In addition to taking into account the difference in size between the two companies, I advanced a hypothesis centered on their experiences and the knowledge derived from them. Since FamilyMart has experience of participation in joint ventures in Asian countries and has benefited from the resources accumulated in its Taiwan subsidiary, it chose a team management strategy. Owing to the paucity of its experience abroad, Seven-Eleven Japan lacked the resources possessed by FamilyMart. More importantly, Seven-Eleven Japan has a strong confidence in its business model which has been constructed and produced remarkable performance in Japanese Market. Its successful experience in rehabilitating the Seven-Eleven chain after taking over the Southland Corporation

further confirmed its confidence in the model. Therefore it preferred managing the subsidiary alone based on the model to modifying the model in cooperation with other firms.

The paper has also shown how two of Taiwan's business groups, the Ting Hsin International Group and the President Group, have influenced the two CVS chains' choices of strategy. Seven-Eleven Japan's managing-alone strategy was adopted partly because of the absence of the potential partner, the President Group, from management in Beijing. Because the group has constructed a successful business model in Taiwan independently from Seven-Eleven Japan since the late 1970s, mutual trust between the Taiwan's licensee and Japanese virtual licensor has not yet fully developed. In particular Seven-Eleven Japan is cautious lest the group uses the chain from time to time as a channel for its products. At the same time the success of the President Group's channel policy significantly motivated the Tin Hsin International Group to join Shanghai FamilyMart.

The two strategies have had different effects. The advantage of FamilyMart's team management strategy is the speed with which business operations can be set up and extended. Under the managing-alone strategy Seven-Eleven Japan is actually an exclusive decision-maker. Perceiving the necessity to construct global standards for the operation of a Seven-Eleven chain, it has engaged in proactive and innovative experimentation, free of preconceptions, in respect of its business in China.

This paper is related to arguments concerning foreign direct investment and the nature of East Asia's economic structure, and in both of these connections, some suggestions may perhaps be offered. Previous studies have assumed that multinationals created and accumulated most of their resources, including knowledge-based assets, in their mother countries and then proceeded to invest in other countries, utilizing these assets. The multinationals' subsidiaries, meanwhile, and especially those in developing countries, have been regarded as mere receivers of assets provided by the multinationals. Hymer (1960) constructed a pioneering theory according to which the multinationals' motivations for engaging in FDI were connected with the exploitation of the advantages that they have established in their mother countries. Hymer sees these advantages in as approximating to corporate resources, a point of view that this paper shares. Later, Vernon (1966) advanced the product cycle theory and more explicitly demonstrated that most new products were first developed in the United States and that the technologies were later transferred to latecomers partly through the

FDI activities of the multinationals.

Some studies have recognized the upgrading of products and technologies in developing countries. However their arguments were confined to the passive introduction of innovation into developing countries and to small and adaptive improvements of universal knowledge created within the developed countries. The flying geese theory presented by Akamatsu (1962) offered an explanation similar to that of the product cycle theory to explain relationships between developed and less developed countries, the emphasis being placed on learning by the latter. In effect, developing countries have been relegated to the status of countries that merely learn from developed countries. Arguments derived from Akamatsu's concept have emphasized that the East Asian economy consists of multiple echelons such as Japan, the NIEs, ASEAN and China and that the backward countries can develop by following the countries that occupy the front row ahead of them (see for instance Watanabe, 1989). The implicit or explicit assumption of many studies has been that countries occupying the middle row of the group, such as the East Asian NIEs, were capable of improving existing technologies, but that the improvements have been essentially adaptations to local conditions, and not outright innovations.

In the 1990s some studies maintained that the first tier of developing countries such as South Korea and Taiwan could play a more active role and extend their functions in value chains (see for instance Hobday 1995; Cheng 1996). However these studies focused on local firms, not on the subsidiaries of multinational companies.

The types of evidence unearthed by this paper carry implications that differ from those of previous studies. First, multinationals' subsidiaries in latecomer countries can obtain innovative knowledge from their experiences and can apply it to other locations. FamilyMart set up and operates Shanghai FamilyMart taking advantage of knowledge and other resources which the subsidiary in Taiwan has accumulated. Seven-Eleven (Beijing)'s cooking in the store has been transferred to Korea. These may not be of globally universal significance but they seem to be developments that are beyond mere localization of general knowledge created in the multinationals' headquarters and applied to other countries in the region. That is why Pan Jin Tin joined the board of directors of FamilyMart's main office. Second, as the case of Taiwan FamilyMart indicates, multinationals' subsidiaries can also play very active roles and their autonomous activities can contribute not only to the growth of the multinationals but to the improvement of the position of latecomers in the international

economic order.

Are these findings indicative of exceptional phenomena or do they suggest a general and fundamental change in the process of FDI? My interpretation is mid-way between these two positions. The above-mentioned implications have been drawn because it is the tertiary sector that the paper has examined. Significant components of knowledge in this sector cannot be arranged in a vertical hierarchy from more progressed to less progressed, as in the manufacturing sector, but must be seen in horizontal terms in the sense that the usefulness of knowledge heavily depends on whether or not it can contribute to correctly understanding the environment of each market and to the evolution of a planning strategy suitable for that environment. Moreover some knowledge obtained in one place can be no less than effective in countries other than the land of origin, regardless of whether those countries are developed or less developed. There can be little doubt that research on FDI in the tertiary sector can greatly widen our understanding of today's international economy.

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<sup>1</sup> Haode Bianlidian earned a profit in 2005 (Zhou 2006: 39).

<sup>2</sup> Noda Shinichi is the former president of Shanghai FamilyMart and is now a senior investment advisor of JETRO's Shanghai office. I interviewed him on November 8, 2006. He gave me much valuable information.

<sup>3</sup> There are two other problems: First, China's CVS chains slavishly copy foreign models without developing styles appropriate for local consumers. Second, they can hardly provide services such as faxing, photocopying, D. P. E., recycling, and on-the-spot payment of utilities.

<sup>4</sup> A remark of Ochiai. See [http://www.nikkei.co.jp/china/interview/20050120cd81k000\\_20.html](http://www.nikkei.co.jp/china/interview/20050120cd81k000_20.html).

<sup>5</sup> According to my interview at the headquarters of Lawson on November 17, 2006, localization contributes to an acceleration of decision making and an increase in the quantity and quality of local information.

<sup>6</sup> These two sections as well as the sixth section are based on interviews. In addition to the interview with Noda, I also visited the headquarters of FamilyMart Co., Ltd. on September 7, 2006, Taiwan FamilyMart Co., Ltd. on October 11, 2006, Seven Eleven Holdings Co. Ltd., which now holds Seven-Eleven Japan, on October 5, 2006 and Seven-Eleven (Beijing) Co., Ltd. on November 2, 2006. I interviewed presidents, executive officers and chief managers of the related sections of these companies.

<sup>7</sup> FamilyMart was established by the Saison Group. When the group collapsed in the 1990s, Itochu Corporation, one of the largest Sogo-Shosha (trading companies) in Japan, gained control of FamilyMart.

<sup>8</sup> At its establishment the CITIC group was also a stockholder of Shanghai FamilyMart but has now retreated from it. Its stock was bought by the other stockholders.

<sup>9</sup> The actual ownership structure of Shanghai FamilyMart is very complicated. According to FamilyMart Taiwan's material, all of its stock is owned by China CVS (Cayman Islands) Holding Corporation, 49.5% and 50.5% of whose stock owned by FamilyMart China Holding and Tingyi Cayman Island Holding Corporation respectively. The latter is the holding company of the Ting Hsin International Group. The former's stock is held jointly by Itochu Corporation, FamilyMart and FamilyMart Convenience (BVI) Co., Ltd. Their shares are 29%, 34% and 37% respectively. The last of these companies is wholly owned by Taiwan FamilyMart.

<sup>10</sup> But one informant pointed out that the group's actual performance in this sphere has remained less than expected.

<sup>11</sup> But one informant pointed out that the group's actual performance in this sphere has remained less than expected.

<sup>12</sup> Ito (2005) more generally and more comprehensively points to the importance of Taiwanese companies' cultural resources and networks, the fourth resource in my discussion, in his analysis of Japanese-Taiwanese joint ventures in China and investments to China by Japanese subsidiaries in Taiwan. His discussion is further refined in his paper included in this issue.

<sup>13</sup> Under the joint distribution system, goods from various manufacturers and suppliers are concentrated in a distribution center and then jointly distributed to each store. The manufacturer-led distribution system means that each manufacturer directly distributes its goods to each store. Since CVSs are numerous and the stores are small in scale, the former system is generally superior to the latter in the CVS sector.

<sup>14</sup> As regards PCSC's development and the role of President Hsu Chong-Jen, see Sato (2005).

<sup>15</sup> The President Group is prohibited from operating a CVS chain in the globe except for Taiwan and Philippines without Seven-Eleven Inc.'s permission by contract. Even if the group does not use the Seven-Eleven brand, operating a CVS chain violates the contract.

<sup>16</sup> The activity of Seven-Eleven (Beijing) is limited to Beijing and Hebei Province. They have not yet determined what strategy they will follow in other area of China in the future.

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<sup>17</sup> The gap between Shanghai FamilyMart and Seven-Eleven (Beijing) is not so large if we compare their total sales or total floor space, because sales and floor space per store of the latter are larger than those of the former.

<sup>18</sup> It should be noted that FamilyMart's rapid expansion does not mean that its business model in Shanghai is completed. It can earn a surplus in the future if it succeeds in extending its store network. For this reason, the store's profitability should be consolidated first. According to Noda's estimation, however, the business remains unstable mainly because of limited margins and high rents. So FamilyMart's speedy development is somewhat risky.

<sup>19</sup> The rebate is paid in the name of charge for exposure.

<sup>20</sup> When PCSC was listed, a legislator pointed out that a large percentage of its profits came from "Shangjiafei" a kind of rebate that aroused suspicions of unfair transactions (*Jingji Ribao* September 4, 1996). This demonstrates the prevalence of rebates in Taiwan.

<sup>21</sup> Another reason for the decision is that in those days Taiwan had a more limited range of merchandise than Japan.

<sup>22</sup> *Oden* is Japanese. In China *guandong-zhu* is used. This is the Chinese pronunciation of *kanto-ni* which is *oden*'s other name in Japanese.

<sup>23</sup> Taiwanese-style rice balls are bigger than Japanese ones.

<sup>24</sup> Taiwanese-style *oden* is skewered.

<sup>25</sup> When PCSC started to sell *chaye-dan* in Taiwan's Seven-Eleven chain, Southland Corporation, the licensor of Seven-Eleven chain, strictly opposed it, claiming that its dirty appearance destroyed the image of the chain. However PCSC stuck to its policy which resulted in success (Lee 1995: 13).