

# NATION'S Restaurant News<sup>®</sup>

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## C-stores in Japan gain market share with tech savvy, fresh food

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Domestic convenience store operators looking to grow their share of the foodservice dollar—and U.S. restaurant operators looking to protect their businesses from further erosion by retailers—may do well to understand the Japanese C-store market, where technology is aggressively employed, fresh food is key and there is something new nearly every day, say officials with global market research firm The NPD Group.

In Japan, convenience stores number more than 40,000, nearly one on every block in urban areas, and are the second-largest foodservice market in terms of traffic, according to data from NPD's 2008 CREST Japan division.

"C-stores are very, very big there," said Bob O'Brien, NPD president of global development for foodservice. "Four of the five largest chains where people get meals and snacks are convenience stores. The other is McDonald's."

While convenience stores represent just 7 percent of the commercial-foodservice market in the United States, in Japan they account for a much larger share.

In the 12 months ended December 2008, Japanese quick-stop shops accounted for 19 percent of foodservice traffic, NPD found. During the same period, supermarkets captured 18 percent of traffic; fast-food places, which in Japan are competitors of convenience stores, captured more than 12 percent of traffic; and family restaurants, pubs and lunch-box shops each captured about 4 percent of traffic. All other foodservice outlets, including independent restaurants, captured the largest share of traffic, at 39 percent.

In Japan, C-stores are mostly franchised and can be found in locations such as downtown, on the roadside, in office buildings, by train stations and even at the beach. The three largest C-store chains are 7-Eleven, Lawson and

FamilyMart. Like their U.S. counterparts, Japanese C-stores offer a variety of packaged foods and beverages, fast-food items, fresh food, and nonfood products. Though the units are quite small, typically just 110 square meters, they deliver a lot in a little space. Most average about 2,500 items per store, according to the data.

As in the United States, men are the heaviest users of Japanese C-stores. In the 12 months ended in December 2008, men accounted for more than 60 percent of Japanese C-store traffic. However, in Japan the heaviest users of C-stores are significantly younger, typically between the ages of 15 and 29, compared with an average age range of 25 to 34 in the United States.

"C-stores originated in the U.S., but [were] uniquely developed in Japan," Takayaki Fujiyoshi, director of NPD's CREST Japan, said of the category's success in the East.

One way the Japanese have evolved the concept is by making significant use of technology, tracking what customers buy, as well as data such as age and gender, at the point of purchase. The information allows operators to stock products that meet the exact needs of

specific consumers.

"The core of it is there is very aggressive use of information management," O'Brien said. "It is not one simple set of items that they put in these stores."

Consumers' desire for all things new is a major driver of business at Japanese convenience stores. Every week about 100 items are replaced with new products at C-stores, NPD found.

"We cannot live without our C-stores.... It's part of our life," Fujiyoshi said. "It's been kind of a culture for young people to visit a C-store and find

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David Fields—Ascendant Consulting, LLC

something new.”

For example, NPD found that in 2007 7-Eleven launched about 100 new kinds of lunch boxes, and Lawson launched about 60 new kinds of rice balls. Japanese lunch boxes, or bento boxes, are single-portion meals with rice, fish or meat, pickled or cooked vegetables, and a side dish. Rice balls are a round or triangle-shaped food made of white rice usually wrapped in seaweed and stuffed with various fillings and flavors

Another strategy used by Japanese C-stores is the stocking of high-quality, fresh foods. Although the majority of C-store items are packaged food and beverage products, such as soft drinks, frozen food and instant noodles, or fast foods, such as lunch boxes, rice balls, hamburgers, salads and deli, 13 percent of the items are fresh foods and beverages, such as daily specials, bread, meat and fish.

“[C-stores] try to be fresh as much as possible,” Fujiyoshi said. “They get foods three or four times a day from the factory.”

In the year ended December 2008, the top-selling consumables included fresh foods such as rice balls; sweet breads, such as doughnuts; sandwiches; bread with cheese or bacon; lunch boxes; and spaghetti or pasta. Among the best-selling drinks were Japanese tea, coffee, tea, café au lait, cafe mocha, cappuccino, Chinese tea, vegetable juice, barley tea, fruit juice, mineral water and cola.

Open 24 hours a day, Japanese C-stores offer both one-stop shops for food and beverages and numerous convenient services, such as ATMs, movie ticketing, faxing and photocopying.

“Japanese people tend to visit C-stores very frequently,” Fujiyoshi said. “Merchandising is a very important thing in Japan.”

One Japan-based concept, Famima!!, already has made inroads on U.S. soil. Famima Corp., the Torrance, Calif.-based U.S. subsidiary of FamilyMart Group in Tokyo, currently operates about 13 Famima outlets in Southern California. The stores are foodservice-focused, offering such freshly prepared dishes as roasted-garlic tomato soup, sushi, pad thai and chicken-artichoke paninis. An official previously told Nation’s Restaurant News that freshly prepared foods accounted for 40 percent of sales.

While the Japanese C-store is a successful model, it’s not all bento boxes and roses. As in the United States, a tough economy has negatively impacted foodservice traffic. For the past five years traffic growth has been flat in C-stores and all other segments, NPD found. However, rather than wait out the economic downturn or offer deep discounts, top

Japanese convenience stores are trying to grow traffic and sales through product innovation.

For example, several years ago FamilyMart began offering fried chicken in its stores. The product was such a hit that the chain introduced fryers to all of its franchises and other chains have since followed suit.

“All those C-stores are trying to help bring in consumers [with fried foods],” Fujiyoshi said.

Such innovation seems to have paid off. The NPD data reveal that the menu importance of deep-fried foods, such as fried chicken, French fries and croquettes, at the top three C-store chains has increased each year for the last five years in a row.

It’s difficult to directly compare U.S. and Japanese C-stores, as there is a marked cultural difference in how shoppers use the stores in each country, industry experts said. For example, Americans are more likely to buy fresh foods in one trip to large grocery stores or supercenters, not at corner convenience stores. Nonetheless, foodservice experts agree that U.S. operators certainly can learn from some of what works in Japan.

“They all have the same kind of boring products,” Diane Chiasson, owner of Toronto-based Chiasson Consultants, said of U.S. C-store inventory. “It’s not exciting.”

Chiasson tells her clients to innovate, be creative and know their customers.

While David A. Fields, managing director of Ridgefield, Conn.-based Ascendant Consulting, said he isn’t aware of any U.S. C-store that electronically tracks consumers and their purchases the way the Japanese do, he said they should be.

“From a systems standpoint, it’s not that hard,” Fields said. “It’s about assortment.”

Absent the demographic-gathering technology, domestic C-store operators need to find ways to give consumers what they want to increase sales and traffic, Fields said.

“What C-stores need to focus on...[is] a better solution for the whole thing,” Fields said. “They need to put together a more comprehensive reason for consumers to come in for more than a six-pack or a gallon of milk. The company that does this is going to be way ahead of the pack.”