

## Success Factors 7-Eleven in Thailand

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**Abstract** — Business format franchising, which includes the product or service, the brand name or trademark, and the operating system developed by a franchisor, has experienced significant growth over the past few decades. International franchising is also growing at a rapid pace partly because of market opportunities that include new trade agreements. The CP All Public Company Limited is the operator of the 7-Eleven convenience stores which has required creating opportunities in the franchise system. Potential franchisors have the staff and support for all aspects of their businesses. To have better chances for success, 7-Eleven needs to evaluate itself in order to improve the system. Two success systems were selected as guidelines in order to improve and develop its own system. People are one key success factor in franchise business particularly the representative of the franchisor, who as an agent of the company reflects the company's image. For the company's sustainable growth, emphasis will be placed on organizational and human resource development. Both parties in the business the franchisors and the franchisees must provide good cooperation to each other. The franchise business is a special relationship where the parties can mutually share the benefits. The franchise manual is the tool of doing franchise business, which can reduce some confusion in operating the business.

**Keywords** - success factors; franchise; convenience stores; Thailand.

### I. INTRODUCTION

CP All Public Company Limited is the operator of the 7-Eleven convenience stores, which have been with the Thai society for two decades. The 7-Eleven, Inc., USA, has granted CP All Public Company Limited the exclusive right to conduct business under the Area License Agreement, a store network that covers every area across the country and a wide array of products and services.

The Company attempts to be the convenience store in the hearts of the Thai people through developing and selecting new products and services to provide greater customer satisfaction. With regards to product strategy, the Company focuses on drinks and ready-to-eat food. It will be able to expand the number of branches in Bangkok, the suburbs, and the provinces. While maintaining business stability and growth, the company will also operate organizational and human resource development for a more efficient staff and more effective and operating processes. Nowadays, it has been able to accomplish growth according to set targets, financial security and systematic operations under

management in line with the standards of the National Quality Award. These successes have been reasonable due to the purpose, knowledge, and capabilities of all employees at every level. The concentrated efforts of all employees working in agreement, combining similarities and differences will drive effective thinking and working together and will finally lead to the ability to create continued strength for the Company. Moreover, the Company will focus on building an organizational culture to create competitive advantage to meet customers' demands through differentiated products and services. In addition, this will also promote the create talents of the employees and improve the quality of employees to be more effective. The success and stability of CP All today will be an important foundation in building future business sustainability [4].

In 2008, the business sector was affected by both the economic and political crises, which reduced the income, purchasing power and consumer confidence among rising costs. With consumers worried about the economic conditions and payment, consumer confidence was not invigorated. Consequently, retailers have implemented various sales and promotional strategies to attract customers and maintain market share. On the other hand, it was found that retail business in the form of convenience stores has been able to increase and has become an interesting segment for investment by both current retailers and retailers from other segments. Despite strong competition due to the increase of small-scale retail stores, there is still an opportunity for continued outlet increase in communities to serve consumers who increasingly demand convenience and speed.

Among economic and political uncertainties, lower income and purchasing power, and higher cost of living because of higher product and advantage prices, consumers were more careful about their spending. At the same time, business competition intensified. Under these conditions, the Company continued to operate its business under the following main principles:

- A. *Having customers as the center in driving the company forward.*
- B. *Thinking systematically and working as a team.*
- C. *Decision - making based on information and facts.*

D. Creating value for all stakeholders including employees, business partners, suppliers, shareholders, investors, society and communities.

Despite this competitive environment, the company continued to expand due to improved internal management under the concept and strategy of focusing on satisfying customers' demands while developing human resources to be in trend with the market. Meanwhile the Company attempts to continuously develop its value chain in delivering the best to the customers. The Company has increased the number of distribution centers in strategic areas in order to accommodate new stores and distribute products efficiently and effectively.

The 7-Eleven Stores are categorized into three types based on ownership as follows:

TABLE I. TYPES OF 7-ELEVEN STORES

(Unit : stores)	2006	2007	2008	2009	No. of new store opening in 2009
Corporate Stores	2,119	2,462	2,671	2,794	123
Franchise Stores	1,449	1,562	1,813	2,130	317
Sub-Area License Stores	216	255	294	346	52
<b>Total</b>	<b>3,784</b>	<b>4,279</b>	<b>4,778</b>	<b>5,270</b>	<b>492</b>

Source: Adapted from Annual Report 2009 CP ALL Public Company Limited

1) *Corporate Stores*: The stores are wholly-owned and managed by the Company. The Company invests in retailing equipment, store decoration and inventory.

2) *Franchise Stores*: The Company offers an opportunity for any person including employees to operate their own 7-Eleven stores under a franchise system. The Company will be responsible for investment in retailing equipment, store decoration and inventory.

3) *Sub-Area License Stores*: The Company engages in sub-area license agreements with third parties to operate 7-Eleven stores in the territory where the sub-area licensees themselves will be responsible for the management of 7-Eleven stores. The Company will provide assistance and support under the agreed conditions.

## II. LITERATURE REVIEW

The important keys in developing an operational model to be successful in a franchise system are time, money and managerial skills in ensuring a profitable franchise system. Regardless of the nature of the franchise business, franchisors are realizing the importance of an appropriate model where techniques and procedural factors for system augmentation are developed for implementation [9]. To a franchisee, franchising means the opportunity for extensive training and preparation prior to opening an outlet plus the use of a recognizable name, trademark, or logo associated with the products or services to be offered. To be successful in franchising, a company must have a unique or competitive product associated with a protected trademark [1]. The business format must be well documented and easily simulated so that it can be transferred to others. Both franchisor and franchisee have advantages and disadvantages that stem from their connection in a franchising relationship [13]. In achieving this goal, there can be problems, particularly in recruiting the right type of franchisees and franchisors and maintaining accurate and significant communication between the two parties [11].

Competitive advantages are the collection of superior competencies that create customer value [14]. While some strategies create competitive advantages, which may be easy for competitors to imitate, the competitive advantages acquired in effectively running the chain are harder to copy. Effective supply chain, thus, offers the opportunities to create sustainable competitive advantages [10].

Distribution always occurs when connecting a point of consumption with a point of production by overcoming certain differences in time, quality, quantity and space. Moreover, distribution activities are typically called flow of activities and refer to the flow of products, information and so-called goods [12]. The management of such flows or marketing channels can be systematized in a range between markets and hierarchies. There are two kinds: direct and indirect distribution. Direct distribution involves company sales forces, facilities, or direct shipments to customers while indirect distribution involves the use of wholesalers, distributors, or third parties to supply the products to the customers [3].

Management of the distributions channel follows a structured approach using criteria, which help to evaluate optional channel structures during which alignment, trade-offs and channel relationships are considered [8]. A distribution channel consists of the groups of people and firms involved in the transfer of title of products from the producer to the final consumer or business user.

In intensive distribution, producers sell their products or services through each available store in the market where consumers might reasonably look for the products or services by projecting ultimate consumers demand satisfaction from convenience goods immediately, so that the customers will not postpone their purchases to find a particular brand. In exclusive distribution, suppliers agree to sell their products only to a single wholesaling middleman and/or retailer in a given market [7].

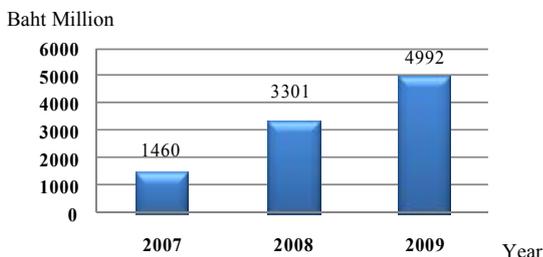


Figure 1. Net profit

Source: Adapted from Annual Report 2009 CP ALL Public Company Limited.

Selective distribution covers the broad and wide area of the market exposure between intensive and exclusive distribution. Moreover, in the selective distribution selling is only done through those middlemen who will give the product special attention. The distribution center concept is widely used by firms at all channel levels. Many products buzz through a distribution center without ever tarrying on a shelf, workers and equipment immediately sort the products as they come in, subsequently move the products to an outgoing loading dock, and then to the vehicle which will take the products to the next stop [15].

Strategic management views technology as a source for creating sustainable competitive advantages [2]. Technology can change the structure of an industry by setting up entry and exit barriers [11].

Point-of-sale system (POS) makes possible for the store to keep records of who (what kind of customers) bought what kind of products and when [6].

### III. RESEARCH METHODOLOGY

The appropriate research to understand the successful franchise system is the qualitative method. It needs in-depth studies to understand perception, requirements, and attitude of the people who relate with 7-Eleven in Thailand. The research had been done using interviews with key persons who are policy makers. Mr. Suwit Kingkaew, Senior Vice President of CP All Public Company Limited. All furnished all the information. The secondary data was collected from the annual reports of 2008 and 2009.

### IV. FINDINGS AND ANALYSIS

#### A. *The main reason*

The Company analyzed the data about retail business and found that retail business franchise will grow up and enlarge in the future. The Company considered and thought about the 7-Eleven retail business franchise because most branches are in the United States of America. Then the Company negotiated to buy 7-Eleven license franchisors. The franchise business does not use big money for investment because the character of a franchise business is investment between the franchisee and the franchisor.

The important factors to consider when a company selects a market are the environment and the location of residences, hospital, school, market, and bus station. The Company will send the staff to study and analyze the market for people who would come and share the investment. Since its operation retail business franchise, CP received excellent and expansion franchisees from a total of approximately 5,270 branches in Thailand [5]. About 400 branches (or 5%) closed down. The majority reasons were trouble with the franchisee's partner and changes in location and environment after opening, such as bus stop, the bus station, and many others. Nevertheless, political problems will also affect decision-making because the investors are going to consider the events and political changes that might have an effect on establishing succeeding businesses because of policy and political uncertainty. The other factors the franchisee has to consider are the laws and the regulations that directly affect

the business, the approbation of company retail, the continuing consumer patronage, the city planning, the commercial competition, and others.

#### B. *Emphasize and give priority to HRD*

An innovation culture has been developed and promoted in the organization as the Company realizes that innovation is the heart of developing new businesses, products and services, creating competitive advantage which will enable the business to have sustainable growth. The President Award Project has been established to provide an opportunity for employees at all levels in franchisee companies of CP Company to think out of the box and express their opinions in order to generate new ideas for implementation that will lead to new work procedures or innovations for the organization. In addition, the Big Crowd of Fish Project provides an opportunity for 7-Eleven store employees at the operational level who closely interact with customers to suggest new ideas for cost reduction and customer satisfaction.

The 7-Eleven has continuously placed importance on human resource development, as it is the key to sustainable business growth. The Company, therefore, promotes education and training to develop highly qualified staff. Human resource development is provided through the bilateral education system or learning from both coursework and real-life experience, which was developed in cooperation with the Office of the Vocational Education Commission. This eventually led to the establishment of Panyapiwat Techno Business School to provide vocational education and presently offers Bachelor's and Master's degree programs. The establishment of learning centers in Bangkok, in the suburbs and in the provinces increased accessibility to schools and raised the level of education level. Thirty-one private vocational schools also joined the bilateral education program teaching through video conference.

Concerning the staff, the franchisees may either recruit their personnel themselves or ask CP to arrange it for them. However, all new employees must pass the standard training of CP before they can be employed, the widely known requirement of 7-Eleven compared with other competitors or other franchises [5].

#### C. *Product Mix of 7-Eleven*

The Company always studies the customers' changing needs and expectations in making plans for products and services. The marketing team continuously attempts to search and select products and services that are of high quality, are different from those of the competitors, can satisfy the demands of different target groups, and are in line with new trends and market changes. Products of the Company are categorized into the following 2 major groups: Foods & Beverage accounting for 72.3 percent and Non-food Products excluding phone card accounting for 27.7 percent. At the same time, the Company has always developed and enhanced other services for customer convenience and for serving customers' daily routines. The Company continuously strives to increase its alliance partners to provide a wider range of services shown in its payment

service which currently has as many as 685 services and a new on-line payment system through the Internet as a means of providing better service for customer convenience whereby the customers can choose to pay for services by themselves. Furthermore, there are ATM machines at approximately 4,300 branches for money transfer, distributing life assurance, catalog order, and others.

#### D. Public Activities.

The CP's policies support the dharma in its personnel management. The Company also insures that their general policies continuously focusing on customer requirement are not break the law and not against morality. To control the franchisees, the Company policies demand that franchisees follow rules and regulations. Before the franchisees are accepted as investors in the business, they must know about the rules and regulations for working in the franchise of 7-Eleven. If anyone disobeys, the Company has penalty provisions such as cancellation of the contract. The Company has the staffs' team to take care, control and check the administration of franchisees in accordance with CP's standard.

As society and communities expect, the Company has a continuous project to study the company's image and social activities as it recognizes that Corporate Social Responsibility (CSR) is one of the key elements in operating a business. From the results of the study, the Company can improve the company's businesses and various projects in order to meet the expectations of stakeholders and to bring greater benefits to society. In addition, the Company realizes the importance of the co-existence and growth of both modern and traditional retail stores. It has established a project to provide knowledge regarding retail business development through organizing "Strategies for Sustainable Retail Business" seminars in cooperation with the Department of Internal Trade.

The Company has collaborated with government and private organizations to create various projects relating to education, culture, ethics and social contribution that will help make Thai society a more pleasant place to live in. The Company's proud mission is "Because we are a part of Thai society" [5].

#### E. The factors are important to success.

The Company had chosen direction for 7-Eleven to goes up in the future already. In addition, every franchisee that, have a good system and management will be successful.

- Selection and development of products and services to satisfy each customer group and solve management problems before actual implementation at every branch.
- The Company has used product management principles to learn about product assortment and increase efficiency in area utilization such as decreasing the space between shelves in order to gain more shelf space and expanding shelf space for best-selling products and new products.

- Improved both the internal and external store environment by initiating the project "New and Modern Store with Prompt Service" to differentiate from the competitor's stores.
- Determines to maintain food safety standard through developing a supply chain, improve product quality from manufacturing, logistics, and store management.
- Provides an opportunity for share learning among employees in order to improve services provided by employees.
- Learned about customers' demands and has developed methods for store employees to study the demands of their target customers.
- Expansion into related businesses to create a business network, competitive advantage and increase choices for consumers.
- Building organizational competency through human resource development and knowledge management.

#### V. CONCLUSION

Franchising, as a method of doing business, enables rapid growth for the franchisors with only smallest capital required to be committed to the expansion effort. The franchisees has a high probability of success, statistically much higher than if he or she were to operate an independently owned business. When a franchising of 7-Eleven starts out, it's relying on intelligent guesswork to place a value on its franchise. The 7-Eleven represent the value of goodwill. The goodwill refers to the reputation of the business and its ability to attract new or repeat customers. The key successful for franchising in Thailand and other countries is the franchisors must be a supportive of knowledge, training, operating, and study and analyze the market.

In addition, the company absolutely expects for a win-win situation, which will truly create value to its brand. The company realizes that a prospective franchisor will need more than a legal agreement and a hot idea to be successful in franchising. To be a good franchisor, he should be well capable in the art of managing, planning, organizing, directing, and controlling. Policies should reflect the strengths of the franchising concept and organizational approach to effectively deliver product or service to the target market. However, a franchise is not a passage to wealth without effort. Most franchises will require long hours of solid work on the part of the franchisee in order to achieve success. What the franchisor is offering is a ready-made formula for carrying on business which in similar circumstances has proved to be successful.

More research is required to collect data and insight in the field of generating sales in the retail industry, knowing to respond to the market is crucial. Comparing and studying how different 7-Eleven works with segmenting in the market and other franchises will help immeasurably in developing the new strategy for a more successful franchising business.

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