

JAPANESE ‘MINI BANKS’

Retail Banking Services through Convenience Stores

ABSTRACT

This paper analyzes how leading Japanese convenience stores (CVS) have organized themselves over the last two decades to offer services that are typical to the services of retail banks. These stores act as “mini banks” and offer services such as loan repayments, utility bill collections, online purchase payments, funds transfers and credit cards. In addition, most of the stores offer more sophisticated financial services through automated teller machines and multimedia kiosks.

The two main drivers of the evolution of “mini banks” are CVS’ strengths in strategic application of information technology and opportunities in financial sector, which resulted from a series of government initiated reforms. Leading CVS have strategically combined these two drivers in developing their “mini banks”, while exploiting their 24 X 7 advantage.

This “mini bank” model creates value for CVS in three ways. First, it generates commissions from financial transactions, and second it increases extra traffic to the stores. Finally it enhances customer loyalty through some unique services for which customers come back to a particular CVS chain. This unique model, thus, offers an interesting banking paradigm that could be replicated in other parts of the world if similar environments and opportunities exist.

1. Introduction

Japanese convenient stores (CVS) are neighborhood nerve centers where locals often hang out. These stores not only sell food, snacks and stationeries but also offer a range of services to their customers. These services include financial services that are typically offered by traditional retail banks. In recent years, these financial services have become quite sophisticated and, in some ways, have changed the structure of the retail banking industry in Japan.

To study the evolution of the CVS “mini banks”, we need to look into the underlying economic drivers that have influenced the creation of this business model. Two major drivers emerge as the main forces behind their strategies. First, a number of services in the financial sector were liberalized for competition in recent years through a series of legislative and regulatory reforms. These reforms led to a more open financial services industry where both foreign and non-financial firms can now enter and operate. Second, the leading CVS employed and managed information technology strategically to develop their internal strengths. These CVS are at the forefront of using information technology to integrate network of stores with suppliers including suppliers of various financial services. Acting as real time portals, CVS “mini banks” evolved from the strategic combination of these opportunities and strengths. Other factors that influenced the development of the “mini banks” include the CVS’ unique capability to form alliances with related as well as unrelated business, their experience in non-financial service businesses and the over all visionary leadership of their management.

The remainder of the paper is organized as follows. In Section 2 we present a brief assessment of Japan’s postwar financial system and how its structure has changed and evolved given a series of reforms

so as to support the mini-bank development. In this section we also look into some immediate implications of these reforms for the banking industry. In Section 3 we offer a short overview of CVS in Japan and the logic behind its mini-banks. In Section 4 we study the information technology initiatives of the leading Japanese CVS since IT as a core competency helps support their evolutionary growth into retail financial services. In Section 5 we present an analysis of how the leading CVS have been successful in strategically combining external opportunities and internal strengths in offering various financial services. Finally, because this an evolutionary and continuing process, in Section 6 we reach our main conclusions with a section that includes ideas for future research in this area.

2. Post War Japanese Financial System

Japan's financial system has gone through dramatic changes since World War II. *Zaibatsu*, the industrial groups that dominated the Japanese economy in the prewar period, were dismantled during the American Occupation. The US's basic reform policy was aimed at the democratization and demilitarization of the wartime economy, and it sought to eliminate economic concentration as reflected in the Anti-Monopoly and the Elimination of Excessive Concentration of Economic Power Laws passed in 1947. A series of dissolution measures, such as the forced sale of the holding companies' shares to the public, prohibited inter-corporate stockholding among *zaibatsu* firms. Also, many *zaibatsu* firms with the largest market control were reduced in size so that the concentration ratio of the biggest firms decreased greatly in most industries (Choi, 1999).

In the financial sector, to keep the securities business out of the hands of the former *zaibatsu* banks, the occupation authorities also gave Japan a Glass-Steagall type law, in Article 65 of the Securities

and Exchange Act of 1948. This article prohibited banks from participating in the domestic securities industry such as selling equity or underwriting securities (Patrikis, 1998) and securities companies from doing banking activities. This was the reason major securities companies such as Nomura, Daiwa and Nikko emerged independently after the war. The major *zaibatsu* (called *keiretsu* after World War II) banks with their vast networks of branches and large corporate client base might otherwise have totally dominated Japan's financial markets.

The sweeping changes that occurred under the Occupation had three impacts on the financial system that persisted even after reversion of sovereignty and that ultimately affected the emergence of the mini-banks. First, Japanese regulators decided to segment the financial services industry by the kinds of services and products each firm provided. A firm required a license that determined the exclusive domain where the firm could operate. Further the authorities consistently denied new participants entry into the segmented banking, securities, and insurance markets. Banking was further subdivided into categories such as long- and short-term finance. Second, the regulators restricted the price and non-price competition among participants in each market segment. Deposit rates, stock brokerage commissions, and insurance premium were all regulated. Thus particular services were offered by different firms at the same price. In addition, the regulators controlled non-price competition such as branching, operating hours, and advertising. Third, regulators restricted firms' ability to raise capital. Two policies that made raising capital particularly difficult were requirements to already have a high capital base in order to raise new funds and to disclose a substantial amount of corporate information.

Return of the Giants: From *zaibatsu* to *keiretsu*

Nevertheless, the prewar firms progressively reestablished their links with the major keiretsu financial firms. This was facilitated after independence (1951) by a revision of the Anti-Monopoly Law in 1953. The revised law authorized depression and rationalization cartels while relaxing the restrictions on stock retention, interlocking directorships, and mergers (Choi, 1999).

Japan's financial markets over the next two decades grew using indirect finance, that is they were mainly bank-based systems with deliberately underdeveloped stock and bond markets, thus limiting direct financing opportunities. The structure of banks was stable and classes of banks were segmented by function and size of customer. The system was also stable that there was no new entry, and virtually no bank failures or mergers. In essence the regulatory regime during this period guaranteed that banks would not fail, effectively protecting their management, stockholders and depositors (Patrick, 1998). But this had the effect of reducing competition and innovation by insulating management from outside pressures.

First Deregulations Phase

Therefore not all banks and their managers were prepared for new competitive conditions in the form of economic and regulatory change. The first such major change in circumstances came after the first oil crisis in the early 1970's when some steps were taken towards liberalizing Japan's financial system. Responding to internal and external pressures the Japanese Diet in 1980 passed an amendment to the Foreign Exchange and Foreign Trade Control Law. This amendment allowed some of Japan's large accumulated savings to flow across the Pacific to the United States, where it could earn a higher rate of return. This expanded the trade deficit between Japan and the United States as a weaker Yen led to more

exports supported by the flow of “exported” capital that allowed Americans to import more goods from Japan (Griswold, 1998). The Japanese government further reduced capital controls by implementing the U.S.-Japan Yen-Dollar Accord in 1984 that followed negotiations between the United States and Japan (Radin 1999). This led to a step-by-step deregulation of interest rates, the growth of an offshore Eurobond corporate funding market, and the opening of Japan to foreign financial firms.

This liberalization gave a big boost to Japanese financial markets and financial firms. Indeed, during the 1980s, the Japanese economy went through an unprecedented expansion, now referred to as the “Bubble” economy. The Topix, the Tokyo Stock Exchange index, increased by 564% from 1982 till it collapsed in January 1990 (Nakamura, 2002). During the same period, the price of real estate increased rapidly too. A long period of high economic activities and expanding domestic economy led to high domestic consumption. Both trade and current accounts increased enormously and financial institutions experienced a huge flow of funds. This was a major reason the Japanese government, in particular the Ministry of Finance, did not initiate any key structural reforms to the financial system in the second half of the 1980’s except for the development of a futures market for government bonds and stock indices that played a role in the Bubble’s spectacular collapse (Rapp 1999).

The Financial System Reform Act of 1993 was the structural reform initiated in response to the bursting of the Bubble economy in 1990. This Act drastically deregulated the financial system by allowing financial institutions to cross lines that had previously been segregated such as banking, securities, and insurance. This paved the way for universal banking and intensified competition in consumer financial services (Tam, 2001) such as development of the CVS mini-banks. Table 1 below summarizes the major events that lead to the “Big Bang” reform.

Table 1: Major Events and Reform Initiatives Leading to “Big Bang”

December 1980	Amendment of the Foreign Exchange and Foreign Trade Control Law of 1947
May 1984	The U.S.-Japan Yen-Dollar Accord
July 1992	Securities and Exchange Surveillance Commission formed
April 1993	Financial System Reform Act comes into effect allowing financial service companies to engage in other financial services through subsidiaries
May 1993	Major banks announce figure for non-performing loans (¥8,455 billion for top 11 banks) for the first time.
November 1996	Prime Minister Hashimoto announces “Big Bang” program of financial reform

Sources: (Kuratani and Endo, 2000) and various reports the Ministry of Finance, Japan.

Big Bang Reform

The deregulation processes that were implemented between 1980 and 1993 were evolutionary in nature and were often the result of external pressures. But after the full collapse of the Bubble economy, the government was faced with a troubled financial sector and a sluggish economy and was forced to develop a more radical deregulation program for the sector. Prime Minister Ryutaro Hashimoto pledged in late 1996, the “Tokyo Big Bang” modeled on the 1975 Market Day reforms in the United States and the 1986 Big Bang in Great Britain (Nakamura, 2002).

The main goal of the “Big Bang” was a progressive financial sector reform plan to bring Japan’s financial markets and institutions up to par with those of New York and London by 2001, making them “free, fair and global” in the process. While a huge provider of global capital in the 1980s, by the mid-1990s, Tokyo greatly lagged New York and London as an international financial center. In fact, during that time it started losing market share to other prominent financial centers in Asia, notably Hong Kong and Singapore.

Furthermore, the government had other motivations in launching the “Big Bang” reforms. First, it was concerned with the return paid on household financial assets valued at ¥1,200 trillion, which was too low to support its rapidly aging population. In comparison to the real return on similar assets in the United States, it was 1 to 2-percentage points lower. The government’s restricted policy on foreign remittance and pension fund activities meant Japanese households could not take full advantage of higher yields abroad (Dekle, 1998). Second, the government was worried about the increasing number of new financial products in the United States and Europe, which had resulted from rapid globalization and innovation in information and communication technologies. Further, in 1999 Europe was about to enter into the new era of the Euro. Such major changes in world financial markets meant Japan’s financial markets needed to liberalize to prevent their possible hollowing out (Ministry of Finance, 1997). Third, during the rise and fall of the Bubble economy, spurred by many financial institutions’ mismanagement, the level of bad debt became a major issue. The government thus felt pressured to take corrective measures and to compel financial institutions and other corporations to follow better disclosure requirements. This was reinforced by demands from global markets.

The government established a new regulatory agency, the Financial Supervisory Agency (FSA), in July 1998 to oversee financial institutions and to implement of the “Big Bang” deregulation plan. FSA was spun off from the Ministry of Finance (MOF) and directly reported to the Financial Restructuring Committee (FRC), another regulatory body established in October 1998 (Anderson and Campbell, 2000). However FRC was absorbed by FSA in January 2001 and renamed the Financial Services Agency (FSA). Appendix A summarizes the key elements of the “Big Bang” reforms.

Consequences of the “Big Bang” Reform

Patrick (2001) describes the post “Big Bang” status of the Japanese financial system as follows: “the old postwar, convoy-style, highly regulated system with all its inefficiencies no longer exists. Deregulation, the Big Bang package of capital market reforms and real competition in financial market have gone a long way to the creation of a free, open, market-based financial system in which capital markets are playing an increasing role”. The “Big Bang” therefore changed the structure of Japan’s financial system far more than earlier reforms. In particular, a wave mergers and acquisitions led to the formation of large universal mega-banks (Box 1). Further a number of foreign banks and financial institutions entered the market to take advantage of the emerging opportunities (Box 2). And importantly from this paper’s perspective non-financial domestic firms entered into financial services as well.

Box 1 - Consolidation in Domestic Market

In 2000, Dai-Ichi Kangyo Bank, Fuji Bank and Industrial Bank of Japan established Mizuho Holdings Inc, which was later reorganized and renamed the Mizuho Financial Group. The following year nine leading financial institutions organized among themselves and formed three large financial groups. The Bank of Tokyo-Mitsubishi, Mitsubishi Trust and Banking, Nippon Trust Bank and Tokyo Trust Bank established Mitsubishi Tokyo Financial Group. Similarly, United Financial of Japan (UFJ) Group was established by Sanwa Bank, Tokai Bank and Toyo Trust and Banking. Finally Sumitomo Mitsui Banking Corporation (SMBC) was established through the merger between Sakura Bank and Sumitomo Bank.

Box 2 - Entry of Foreign Firms

Foreign banks have been doing business in Japan for decades. Citibank and HSBC have been in Japan since the 19th Century. But although they supposedly had equal rights with their domestic counterparts, their operations were in fact limited since Japanese bank regulations restrained economically significant competition through products and prices. The “Big Bang” reform removed this barrier and opened the financial sector to the foreign banks at a time when domestic competitors were weak due to the economic malaise that followed the Bubble’s collapse and especially the bad loan problem. Nabor (2001) points out two other aspects that favored the foreign banks after the “Big Bang” reform. First, it allowed competition. For the first time foreign banks could make full use of their comparative advantages such as financial strength, efficient organizational structures, superior IT technology, strong risk management systems and global networks. Second, deregulation of corporate finance and the restructuring of *keiretsu* cross-shareholdings stimulated investment banking activities where foreign banks are most competitive compared to Japanese rivals. Third, foreign firms have extensive experience in the financial restructuring necessitated by the bad loan overhang and related problems.

Table 2: New Types of Banks in Japanese Market

Bank	Launching Date	Activities	Promoters and Partners
Japan Net Bank	Oct., 2000	Internet Banking	Sumitomo Mitsui Banking Corporation Fujitsu Nippon Life Insurance am/pm convenience store chains
IY Bank	May 2001	ATM Convenience Stores as outlets Money Transactions	Ito-Yokado Seven Eleven Japan
Sony Bank	June 2001	Internet Banking ATM Savings, loans, financial products for individuals	Sony Corporation Sumitomo Mitsui Banking Corporation JP Morgan am/pm convenience store chains
eBank	July 2001	Internet Banking Mobile Phone Banking	Japan Telecom Co. Ltd. Itochu Group Mitsui Marine & Fire Insurance

Source: Authors compilation from various news media.

Ito-Yokado (IY), the largest supermarket chain, and its subsidiary Seven Eleven Japan (SEJ), the largest convenience store (CVS) chain in Japan established IY Bank. It is the first non-branch Japanese bank granted such a license. Besides SEJ, Lawson and FamilyMart, two other leading CVS chains have been providing some financial services for a while and, have now started to offer an additional range. In fact, Lawson has recently revealed its plans to apply for license to open its own banking service it called “Convenience Bank” (Lawson Annual Report, 2003).

These efforts are based on the fact that Japanese CVS have been early adapters of information technology (IT). Indeed for the leading CVS it is now a core competency in that they have used IT strategically to link stores, franchise owners and management before their counterparts in other developed countries. Moreover, all the leading CVS have been providing financial services like collecting utility bills, selling money orders, collecting insurance premium based on the efficiency of their IT systems and their links to various suppliers. Therefore both their IT infrastructures and experience in financial payment services gave these leading CVS the strength and capability to efficiently begin offering an expanded array of consumer financial services when the “Big Bang” reform opened the doors for non-financial firms to enter into financial services. In the rest of this paper we examine how these CVS have combined their strengths and opportunities in the now deregulated financial system to develop what we call “mini-banks”. However to better understand the related efficiencies, benefits, and competencies, it is helpful to first understand the large Japanese CVS basic business model.

3. Japanese Convenience Store Industry

Japanese convenience stores (CVS) are significantly different from their counterparts in other developed countries. Since they began expanding rapidly about 30 years ago, these stores increasingly became neighborhood nerve centers where locals meet. In spaces typically no larger than 100 square meters (1079 square feet), these tiny stores now carry as many as 3,000 different items, including video games, CDs and books. They also provide a range of services like utility bill payment, insurance premium payment, courier services, payment for online shopping, Automated Teller Machines (ATM), etc. To support these activities, these stores heavily depend on robust information systems and logistical infrastructures.

CVS were first introduced in the USA about 70 years ago. The first one in Japan, My Shop, was established in 1969. However, it was in 1974, when Ito-Yokado Co. Ltd. bought the license from the Southland Corporation of the United States to launch Seven-Eleven Japan that the CVS business really took off in Japan. Since then the number of stores has continued to grow, reaching 10,000 in 1980 and over 20,000 in 1992. Today, there are more than 38,000 such outlets in the country. Indeed, Japan has, by far, the highest number of CVS per capita as compared to any developed country. In a population of 120 million people, there is about one CVS per 3,300 residents. This number is even lower in the major urban areas and despite, Japan's decade long recession, the number has kept increasing.

In the 1990s large CVS have enjoyed relatively better performance than general merchandise stores (GMS). While GMS have experienced declining sales due to increased competition and the economic downturn, CVS sales have risen from ¥3.89 trillion in 1993 to ¥6.18 trillion in 1998. Though they fell

slightly in 1999 to ¥6.13 trillion, they again increased to ¥6.71 trillion in fiscal year 2002 despite general deflation (Rapp and Islam, 2003).

Yet competition among the large CVS and against other retail sectors has recently intensified, so that the time is past when the CVS sector as a whole can enjoy good growth. Future success requires deploying better merchandising strategies, offering more services (e.g. financial services), making greater use of IT, having superior strategic site selection, and providing better franchisee and staff development.

Four chains comprising of 76% of CVS sales dominate the industry. The top three are discussed in this paper. The fourth is the result of a merger of Sunkus and Circle K. As of February 2003, the combined company had slightly more stores but lower sales than FamilyMart.

Leading Japanese CVS

Seven-Eleven Japan (SEJ) is the largest CVS in Japan by sales and by number of stores. It is not a nationwide store but is heavily concentrated in the greater Tokyo (Kanto) region with a strong presence in Osaka too. SEJ has no plans to enter new geographic areas. It is a 50.6%-owned subsidiary of Ito-Yokado (IY), the number two (by sales) but most profitable supermarket chain in Japan. The US-based 7-Eleven is managed relatively independently, although IY and SEJ jointly hold 72.5% of the shares and have pushed it to introduce more food and service items.

SEJ claims their per store and per square meter sales are at least 50% higher than any major competitor, and it is generally recognized that it has achieved this through flexibly supplying its stores with a wide variety of goods and services, especially with different food items during the day in response

to its clients' actual consumption patterns. In turn it appears to be using its greater efficiency to further increase market share. In 2003 fiscal year, SEJ opened 627 new stores and publicly stated its intention to break through the 10,000 mark by mid 2003 (Seven Eleven Japan, Annual Report, 2003).

Lawson, the number two CVS and headquartered in the Osaka area, is the only chain operating in every ken (province) in Japan. The company was established in 1975 as a subsidiary of Daiei, Inc, Japan's largest but almost bankrupt GMS. Lawson's shares were listed on the Tokyo Stock Exchange in July 2000. Preoccupied with its own troubles, Daiei has been reducing its shareholding, making the company more independent, though it has come increasingly under the influence of Mitsubishi Corporation.

Lawson has its own brand and tries to capitalize on it by identifying itself with the quality of its product. In addition, it has organized itself to cater to a particular customer segment that is health conscious. For this reason it launched a line of completely new stores called "Natural Lawson" where it only sells naturally grown foods products. The staff members of these stores are qualified to give advice on eating well. Apparently this strategy is working for Lawson and it has reported many customers come from a considerable distance just to shop there (Nipponia, 2001).

FamilyMart (FM) is the third largest CVS in terms of sales (2/2003). Stores are primarily in greater Tokyo and Nagoya, Japan's third largest metropolitan area. The company was established in 1981. Formerly a member of the Seibu Saison group, it has been considered part of the Itochu group since 1998.

FamilyMart typically does not compete in the low-cost market; instead it forms alliances with manufacturers to produce exclusive high end products for its stores. It also differentiates itself from

other chains by focusing on excellent customer service and the cleanliness of the stores. To implement this strategy, FamilyMart launched a program called Store Staff Total System (SSTS) in spring 2000. This is a systematic program that focuses on attracting, educating, motivating and remunerating store staff. Table 3 summarizes key data for the leading Japanese CVS. For detailed information about each store chain please see Appendices B, C and D.

Table 3: Key data for leading Japanese CVS¹

	SEJ	Lawson	FM
Total store sales (¥ billions)	2,213	1,291	932
Revenue (¥ billions)	424	239	217
Operating income (¥billions)	156	34	28
Number of stores in Japan ²	9,690	7,625	6,013
Average daily sales per store (¥ thousands)	656	489	474
Gross Margin (%)	30.5	30.3	28.3

¹Fiscal years ending last day of February in the following calendar year (here February 2003).

²At fiscal year end.

Note: company reports vary in terms of the year they cover; so sometimes the 2002 annual report will cover FY 2002 ending February 2003 and sometimes this will be called the 2003 report and the fiscal year 2003. SEJ in particular seems to now refer to the year ending 2003 as FY 2003.

Sources: (Rapp & Islam, 2003)

4. Information Technology in CVS

The Japanese CVS are pioneers in the strategic use of information technology. Led by industry leader Seven Eleven Japan (SEJ), all leading CVS depend heavily on robust information technology infrastructures to strategically manage their network of stores across the country. Ishiwaka and Nejo (1998) report that during 1997-1998, the information system of SEJ was the world's largest network in the global retail industry. In 2003, SEJ managed almost 10,000 stores and still maintains one of the world's largest information systems in the retail industry. The next section discusses SEJ's major IT initiatives that underpin its mini-bank initiatives. Since the two other leading CVS, Lawson and FamilyMart, are typically followers in implementing IT initiatives, we limit our discussion to SEJ, the industry standard setter in strategically employing IT in Japanese retailing.

SEJ's Integrated Information Systems

SEJ realized the importance of IT from the very beginning of its operation. Since then it has aggressively invested in introducing state-of-the-art IT to create a competitive advantage. Rapp (2002) notes Ito-Yokado (IY) and SEJ have used IT to dramatically change many aspects of the way retailing is done. The core of SEJ's IT infrastructure is a robust information system network, which it calls Integrated Information System (IIS). In November 1997, SEJ introduced its Fifth Generation IIS, which links all its stores, headquarters and suppliers through satellite telecommunications and an integrated services digital network (ISDN) (SEJ, 2003). SEJ has developed different generations of IIS over the past two decades through an evolutionary process.

First Generation IIS

In 1978, SEJ linked all its stores with headquarters through a simple integrated information system. The main purpose of this system, which SEJ calls its First Generation IIS, was to establish an efficient ordering mechanism. This was achieved by installing an Electronic Ordering System (EOS) that allowed store managers to place orders directly to the headquarters by using in-store terminals. Subsequently headquarters combines orders from all the stores and sends them to particular suppliers through ordinary mails. Unfortunately government regulators, at that point of time, did not allow different businesses to connect to one another using information systems. The First Generation IIS improved work efficiency but was limited to slow and sometime unreliable telephone lines. In addition, all the suppliers were outside the IIS.

Second Generation IIS

In 1982, SEJ was the first CVS to introduce Point of Sales System (POS) in Japan. POS, which was connected to IIS, was introduced to collect sale-related information. Part of the information, such as price and product codes, were obtained from the bar code. Other information such as customer age, their gender, etc. was manually recorded by the sales clerks while taking payments. Information from the POS system was directly sent to the headquarters where managers would analyze which products were selling well, and which were not, at each store. Only the products that were selling well were ordered for individual stores. This process of elimination, which SEJ termed as “item-by-item control” continued until each store ended up displaying plenty of items, but only items that were expected to sell well in that store.

The Second Generation IIS had two other notable developments. First, it introduced a new compact Electronic Order Booking (EOB) terminal that replaced the bulky EOS of the First Generation. These liquid crystal display terminals had advanced features and reduced order input time. Second, with a change in government regulations, SEJ was allowed to link its IIS to suppliers so orders could be placed directly without using the slow postal service. These two developments significantly reduced order-placement time.

Third Generation IIS

Competition among Japanese CVS intensified in the mid 80s. SEJ was losing its market share. To safeguard its competitive position, SEJ endeavored to further improve its IIS by replacing the Second Generation with the Third Generation within two years. As part of this process, SEJ installed personal computers in the stores capable of graphical display. This helped store managers to analyze sales data more efficiently and effectively. In addition, the new interactive POS was capable of collecting more information about customers and helped to further develop customized products. With the new POS, store managers could directly access the server at the headquarters and retrieve information. In other words, it was the first time communication between stores and headquarters became truly two-way.

Fourth Generation IIS

In the early 90s, SEJ introduced its Fourth Generation IIS. The main feature of this IIS was a high-speed integrated services digital network (ISDN) lines for data communications. This ISDN based IIS was built on client-server technology. Other notable features of this IIS were Graphic Order Terminals (GOT) and Scanner Terminals (ST). GOT that replaced EOB had a larger and brighter screen with graphical capabilities. To improve the ordering process further, SEJ installed Scanner Terminals in the

stores. Store managers were able to monitor ordering process using ST. Finally, the POS terminals were further improved and became much easier to handle.

Fifth Generation IIS

The Fifth Generation of IIS was in place in June 1999 after about two years of deployment. This system was jointly developed by 12 companies, such as Nomura Research Institute (NRI), NEC, and Microsoft. SEJ invested approximately 60 billion yen in the project. This is the first time that SEJ used satellite telecommunications besides an integrated services digital network (ISDN) that linked all its stores, headquarters and suppliers. The new IIS is capable of handling vast multimedia data at a higher speed than before. It also cuts down data communication cost by about 20%. In addition to POS, special sensors installed in the stores also collect customer data for the system. The more advanced POS are capable of collecting a wide range of information about each customer. Moreover, warehousing and data mining tools help managers to relate different information about customers and provide predictive capabilities for forecasting their buying behavior.

SEJ's IT initiatives have paid off enormously in terms of its market share, profit margin and store management and above all its bottom line. Like SEJ, Lawson and FamilyMart have invested in IT infrastructure. However their introduction and implementation of specific technologies and tools have generally followed SEJ. For this reason we limit our discussion to SEJ in this section.

A key strategy for leading Japanese CVS has been to continually add services to attract traffic, even if these services do not contribute directly to profits. The store ideally wants a customer to buy some food items for immediate consumption, food items and magazines for later use and a toiletry item while

making payments and using the shipping services (Rapp and Islam, 2003). In the following section, we discuss a set of financial services that leading CVS have started providing by utilizing their integrated systems in deregulated Japanese financial market. These in turn have gradually evolved into the new mini-banks.

5. Combining strength and opportunity: Evolution of CVS Mini-Banks

Competition among the leading CVS has intensified in recent years. This means it is absolutely necessary for the stores to continuously strive to satisfy customers' needs to retain them and build lasting customer loyalty. Failing to do so could be adverse, as customers can always find a different store where they can get the products or services that they need. To safeguard itself from this situation, CVS not only sell merchandise, but also provide a variety of services that take strategic advantage of their strength in IT use. This strategy has been working well since they first started collecting third party payments in the late 80s. However, the financial sector, which has been deregulated through a series of reforms over the past two decades, has opened a new door for the CVS. The leading CVS are now harnessing opportunities in the financial service sector and their strength in IT use. Other factors also play a catalytic role in the evolutionary process of new financial service development. These include: past experience in handling financial services, knowledge about the customers that visit CVS on a regular basis, round the clock opening hours, presence in virtually every neighborhood in the country and their strong alliances with suppliers and strategic partners.

A leading Japanese CVS now offers financial services like utility bill collection, third party e-commerce purchase payment collection, insurance premium collection, foreign exchange services, loan

repayments, credit cards, etc. In addition, customers can access their bank accounts by using in-store ATMs or multimedia kiosks (MMK) to conduct various transactions. All these financial services are typical to retail banking services. Thus we call this new array of services provided by CVS a Japanese “mini-bank”.

The evolution of the Japanese “mini-banks” has three major implications for the CVS. First, by establishing “mini-banks”, CVS are creating value through economies of scope that are crucial in successfully exploiting information technology. Simplistically broadening a firm's activities can lead to diseconomies of scope, as the failed conglomerates have demonstrated time and again, unless the marginal costs of providing more offerings is small compared to the fixed costs of independently setting up the service (Rapp and Islam, 2003). Second, “mini-bank” services not only generate commissions and fees, but they also increase sales through impulse purchases. Lawson President Kenji Fujiwara told in a news conference in April 2001 that “We estimate that each ATM will increase our sales by an average 10,0000 yen per store per day” (Naito, 2001). Finally, these services will tie a segment of customers to a particular CVS chain, thereby creating value through increased customer loyalty.

We can categorize the evolution of the “mini bank” into three distinct levels based on the sophistication of their services. The level of sophistication, at any point of time, is the result of the two major drivers, internal strengths in IT use and opportunities in a deregulated financial environment. We will analyze the levels of “mini-bank” sophistication from this perspective.

“Mini Bank” Sophistication Level I

In this beginning stage, the CVS begun collecting utility bills for the power, gas, telephone and water companies. SEJ was the first CVS to collect bills for Tokyo Electric Power Company in 1987. Other chains followed SEJ and started forming alliances with the regional utility companies to provide similar services. Since then this has been a win-win strategy for utility companies and the CVS. The former can reach their customers after regular office hours with low marginal costs and the latter receives commissions from the transactions and the benefit of increased store traffic. These services also bring a great convenience to customers who are typically “workaholic” urban professionals. The CVS “Mini banks” then started selling money orders after deregulation in 1995. Though selling money orders seems a simple business process, it is significant from the perspective of the CVS handling a real money transaction rather than collecting bills as before. In that sense, it was a paradigm shift for the “mini banks”.

During this early stage, SEJ used its Third Generation IIS. This system allowed stores to access the headquarters’ servers directly and to transfer data over the telephone and lease lines. SEJ used this two-way communication channel to process utility payment data. In most cases, data was sent to the headquarters on floppy diskettes. This sometimes took a full week to send the data. Moreover, telephone and lease lines were also slow in transferring large volumes of data.

In the beginning of the 1990s, however, SEJ replaced the Third Generation with the Fourth Generation IIS. This system used high-speed ISDN lines, which made data transfer faster and cheaper. While SEJ was unable to provide additional financial services using this state-of- art system at that time, since financial regulators had not yet allowed non-financial firms to enter the financial services business,

it was an important change as existing services could be handled more efficiently. This raised the level of “mini bank” sophistication in that it gave the CVS the necessary understanding of handling financial data that created a solid platform on which higher levels of sophisticated financial services could be introduced later.

“Mini Bank” Sophistication Level II

In late 1996, Prime Minister Hashimoto announced the “Big Bang” reform for Japan’s financial system. This five-year long deregulation process gradually opened the Japanese financial market to competition. The most significant change for the CVS was the opening of financial services to non-financial firms. This ushered in a new era for the “mini banks” and they started offering more and more sophisticated services.

In April 1998, the foreign exchange law was relaxed and non-financial firms could enter into foreign exchange, and SEJ started offering foreign exchange transaction services. SEJ could handle real time data for foreign exchange transactions since they had high-speed ISDN lines as part of its Fourth Generation IIS. Other CVS with similar capabilities followed SEJ. However, none of the chains, including SEJ, introduced foreign exchange transactions in all of their stores, as demand was not high in places outside the cities with no tourist interests.

Besides foreign exchange, the other types of financial services the “mini banks” in Sophistication Level II started to provide are automated teller machines (ATM), multimedia kiosks (MMK) and credit cards. The “Big Bang” financial sector reform slowly opened these financial services to the non-financial firms in the late 1990s and at the beginning of the millennium. However, CVS essentially needed to have

high-speed networks to support such services. SEJ with its Fourth and Fifth Generation IIS was perfectly suited to do this whereas Lawson and FamilyMart often relied on third parties for support. The next section describes each of these Level II financial services launched by the leading Japanese CVS.

Automated Teller Machine (ATM)

ATMs are considered bank branches bank under Japanese banking rules. So, leading CVS chains, other than SEJ, formed alliances with one or more banks to install ATMs in their stores. The banks thus control the ATMs. Since IY and SEJ wanted to control the services available through their ATMs, they decided to establish their own bank.

To support this development in 1999, the five leading CVS, city banks, IBM Japan and other investors established a new company called e-Net to install ATMs in the CVS. The five leading CVS in the alliance are: FamilyMart (FM), Circle K, SUNKUS, Three F and MINISTOP.¹ Similarly, Lawson formed alliances with the four major banking groups and several major regional banks to form LAWSON ATM Networks in May 2001. Lawson owns 65%, Mitsubishi Corp owns 5%, and the banks that actually own the ATMs each own 5% of the venture. These ATMs can be linked to Loppi, Lawson's multimedia kiosk to provide a variety of financial services.

Because SEJ and its parent company IY wanted to operate their own ATMs in their stores, they wanted to establish their own bank. But they had to wait till May 2001 to actually launch IY Bank, when

1) In July 2001, Circle K and SUNKUS, the fourth and fifth largest CVS chains in Japan at that time, merged to form C&S. The new company, as were its predecessors, are controlled by Uny, a mid-size GMS.

the Financial Services Agency (FSA) permitted non-financial firms to enter banking services. As such IY Bank became the first bank in Japan without conventional branches. It operates entirely online through its ATMs, the Internet, and telematics (discussed later). By April 2003, SEJ was operating close to 5000 ATMs among the fourteen thousand ATMs in Japan in CVS that were jointly operated by SEJ, Lawson and FM. The penetration rates of these ATMs in their stores were 53%, 35% and 100% respectively.

Credit Cards

SEJ, Lawson and FM have launched credit cards through affiliated companies. JCB, Japan's indigenous competitor to Visa and MasterCard, markets a card jointly with SEJ and IY. IY's wholly owned card company called IY Card Service, was established in October 2001. FM uses a "smartcard technology" that provides both point awarding and credit card functions. Besides JCB, FM's partners are C Itoh, Toyota Finance, PIA, and NTT Data.

Lawson established LAWSON CS Card Inc, a joint venture with Mitsubishi Corp (20 % owner) and Credit Saison Co Ltd (30 % owner) to launch its credit card business in February 2002. As of February 2003, LAWSON PASS, the name of the credit card, had 1.1 million users.

All three leading CVS have integrated credit cards with the stores' point programs. Customers receive points for all purchases, not just those at the issuing CVS. The cards thus serve two purposes of building customer loyalty and providing revenue from financial services. It also collects valuable information about the customers, which the CVS can use for marketing and product development purposes.

Multimedia Kiosks

Lawson is the CVS leader in multimedia kiosks (MMK) services. It launched its Loppi (Lawson Online Shopping Print and Pay Information) MMK in early 1998 and completed putting one in every store by that October. Lawson sourced Loppi, in terms of development and manufacture, from IBM. Loppi has two specific features: an entertainment element for purchasing event tickets or downloading game software and an information platform that provides data on events, the weather, and the like. The system also supports payments, including payments to financial institutions on loans and is thus part of the mini-bank operations. Logically Lawson has thus recently linked the Loppi network directly with the ATMs and started offering financial services like billing settlements and repayment of loans from financial institutions. Sales through Loppi terminals were ¥118 billion in 2002, up from ¥40 billion in 2000. A major part of the revenue comes from the mini-bank billing settlement services.

FM launched its MMK, called Famiport, in May 2001. These kiosks are made by a Toyota-Fujitsu joint venture using a software platform, e-plat, developed by a Toyota-NTT Data joint venture. The ordering and payment system connects to a communications and computer center run by Toyota. NTT Data handles the actual settlement in conjunction with e-net.

SEJ has not been so successful when it comes to providing financial services using its MMK. It installed 1,200 MMK in its stores by mid-2002. However, it replaced all of these at the end of 2002 with cheap multifunctional copiers. These copiers are made by Fuji-Xerox Co and are capable of printing different types of tickets. But unlike Lawson and FM SEJ owns and controls the ATMs in its stores, so it may well enhance the capabilities of its ATMs to offer a variety of financial services that its competitors are providing using MMKs.

Therefore a “mini bank” sophistication Level II, the leading CVS started offering financial services that were not possible before the “Big Bang” financial reform. Although the strength in IT infrastructure played a positive role, it was the opportunities in a deregulated financial system that led to these added and more sophisticated financial services.

Naturally credit cards and ATM services were established financial services available in Japan long before the CVS launched theirs. Further MMKs were introduced initially to provide services such as downloading games on CDs, selling concert tickets, printing digital photos, applying for cellular phones, and requesting hotel reservations. It was only later given deregulation that they were linked to the CVS ATM network to provide financial services. In other words, while MMK is now an advanced channel for financial services, it has not emerged independently from the evolution of the CVS and their mini-banks. From this perspective, even though using MMK to provide financial services is a pioneering initiative like most of the services at sophistication Level III of the mini banks, the MMK itself emerged within level II and then became part of the mini-bank evolution.

“Mini Bank” Sophistication Level III

In recent years, leading CVS have begun to provide a set of innovative financial services. As opposed to financial sector reform, which was the main driver of the level II sophistication, IT and especially wireless based technology is the main driver of these newer sophisticated services. Some of these emerging CVS financial services are reviewed below.

e-Money

CVS chain am/pm started accepting Edy (for Euro, Dollar and Yen) electronic money (e-money) in November 2001. In fact, am/pm is one of the first stores of any kind to accept e-money in Japan. BitWallet, a 25-member consortium headed by Sony, NTT DoCoMo and Toyota developed Edy. Users of Edy only need to place the card within 10 centimeters of an Edy sensor to have the money debited. The process takes only 0.2 second. Because the money is stored on the card, it is not necessary to check a bank computer or database. The in-store terminal communicates with the Edy center once or twice a day to settle transactions. Edy cards use integrated circuit (IC) technology and can be charged from special terminals. Since August 2003, am/pm started installing Edy-charging terminals in its stores. Other leading CVS, including Lawson and C&S have recently started using Edy on a test basis (Utsunomiya, 2003).

Japan is considered to be the leading potential market for e-money because though it is a wealthy advanced economy, it is still a cash dominated society and consumers equate the cards with credit cards, which they use sparingly. In Japan, credit cards account for only 6% of consumer spending, whereas in the US it is 25%.

e-Brokerage

In September 2003, Lawson announced its strategic alliance with Nikko Cordial Securities (NCS) to offer securities services through its Loppi multimedia kiosks. Under the proposed alliance, Lawson and NCS will leverage their complementary resources and know-how to build a security- brokerage business model using multimedia terminals and offering services through ATMs at each other's branches. The alliance initially plans to use the Loppi to offer services like opening new trading accounts, trading of securities and government bonds, stock price quotes, and account maintenance. The two companies plan

to file a joint business model patent application for a securities brokerage business based on this basic agreement. The alliance would give rise to the largest securities brokerage network in Japan and is expected to attract more investors by presenting them with a wider range of channels through which they can trade securities.

Telematics²

FamilyMart and to some extent Three F and C&S have joined Toyota's G-BOOK, a subscription information network designed to link people, cars and society anywhere, anytime. It is primarily aimed at providing interactive information services via vehicle-mounted wireless communication terminals. It can be accessed through PCs, PDAs (personal digital assistants) and cell phones. G-BOOK can also be used to link various G-BOOK compatible functions (e.g., to use a cell phone to determine a vehicle's location or operating status.).

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- 2) The French word *télématique* was coined in the 1970s to denote the combination of *télécommunications* and *informatique* 'computing'. By the end of the 1970s 'telematics' was also making its appearance in English. In 1979, for example, it was glossed by *The Economist* as "the new vogue word for the high-growth industries of telecommunications, computers, microchips and databases". During the 1980s *télématique* and its cognates (particularly in the other Romance languages such as Italian and Spanish) came to mean something quite close to the English term 'information technology' - but with a greater emphasis on the involvement of telecommunications, as well as simply computers and their applications.

Telematics, then, is perhaps best defined as the discipline, which has emerged from the coming together of the electronics, communications and information technologies. The subject matter of telematics thus extends over a broad spectrum: from the fundamentals of electronics, telecommunications and information engineering, to the application of these technologies in areas such as the design, implementation, use and evaluation of services at a distance via networks. However in the industry, telematics often refers to automobile telematics which encompasses intelligent transportation systems, global positioning navigation systems (GPS), traffic data, intelligent highways, and toll collection.

By August 2002, FamilyMart and Three F have installed more than 4,000 and 650 E-Towers respectively in their stores. These E-Towers are linked to G-BOOK. One of the major features of G-BOOK is an electronic account settlement function that accepts major credit cards and prepaid cards. This function enables online settlement of such transactions as payment of basic service fees, purchasing of fee-based services and other e-commerce transactions. As of August 2003, Toyota had 50 vehicle models with links to the G-BOOK system.

Lawson's "Convenience Banks"

In March 2003, Lawson and The Hokuriku Bank, Ltd. (HBL) announced the development of bank branches that also offer convenience store facilities reversing the previous business model. Trial stores opened in Tokyo and Toyama City in July 2003. This alliance will spawn "Convenience Banks," providing always-available banking services. This new banking paradigm will utilize some existing HBL branches, remodeled to equip them with convenience store services. The Lawson counters and the Loppi multimedia terminals will bridge the gap left after regular banking hours. The alliance would also explore a joint Lawson/HBL card combining the functions of a bank cash card and LAWSON PASS (Lawson's own credit card).

Lawson plans to develop similar joint stores with nationwide financial institutions, such as regional banks, credit associations and credit unions.

In level III mini-banks, CVS are challenged by new technologies. In cases of emerging technologies like e-money and telematics, CVS are participating in technology-based consortia where their role is rather passive. Typically these technology-based consortia are pioneers in introducing an

emerging technology and like to include CVS in the consortia since through the CVS they can reach Japanese society faster than via any other channel. With close to forty thousand stores across the country operating 24 X 7, the CVS have the largest continuously operating consumer oriented physical retail networks in Japan. We expect therefore this trend to continue and “mini banks” to be at the forefront of employing emerging technologies in providing retail financial services.

The other notable aspect of CVS at this advanced level is their own initiatives to launch “mini bank” ventures such as Lawson’s e-brokerage and “convenience bank”. These ventures can be considered natural extensions of their strategy to develop more sophisticated “mini banks.” We predict this trend will continue as well. Table 4 summarizes the different levels of CVS “mini bank” development.

Table 4: Evolution of CVS “mini banks”

Features	Level of “Mini Bank” Sophistication		
	Level I	Level II	Level III
Period	1987 to 1996	1997 to 2001/2002	2001/2002 to now
Financial Services (“Mini Bank” Services)	a) Utility Bill Collection -power -gas -telephone -water b) Money Order Sale	a) Automated Teller Machine (ATM) b) Foreign Exchange Transaction c) Multimedia Kiosks	a) e-money b) e-brokerage c) telematics d) “convenience bank” (Lawson)
Japanese Financial System	Controlled System	“Big Bang” Reform (1997-2001)	Competitive Open System
Information Technology Use	a) Point of Sales b) Electronic Ordering System c) Telephone and Lease line based network. d) ISDN lines – early 90s	Satellite Communications	a) Short Range Wireless Technology (Bluetooth) b) Integrated Circuit Cards
Primary Drivers	Utility Companies to reach customers	Deregulated Financial System	Innovation in wireless and communication technology

Why should the “mini banks” be successful in the future? From our study, we found there are a number of positive and unique aspects that will play an influential role. First, CVS “mini banks” can offer retail bank services more cheaply than many banking counterparts among traditional retail banks. This is because the costs of the “mini bank” services are incremental costs to the CVS especially in terms of space and IT whereas in the case of traditional banks it is not. Secondly, CVS are very good at collecting lots of information about their customers. This is done through a number of mechanisms such as inputs from the sales clerks who check out products or services from electronic sensors installed in each shop and from their “point rewarding” and credit/debit cards. CVS use this customer information in selecting products and services that they should carry or offer in a particular store as well as to develop new products and services. With the advances in data warehousing and data mining technology, CVS will be able to further differentiate and appeal to different characteristics of the customers and to create and offer customized financial services in their “mini banks”. Citigroup has successfully employed this customer life cycle modeling in the United States and is adapting it in other countries including Japan. The main objective of this strategy is to “cross sell” financial services to customers throughout their lives by carefully studying their life cycle development (Rapp, 2002).

Third, leading CVS have been very successful in forming alliances to provide services and develop new products. In recent years, they have entered into e-commerce initiatives through such alliances (Rapp and Islam, 2003). This is particularly important when it comes to introducing a new financial services channel or product because through alliances, each individual participant can bring their resources into the value chain and minimize both investment and risk through joint collaboration. CVS with their wide experience in managing alliances of this sort will be in an advantageous position compared to traditional retail banks that are used to always offering their own proprietary products. Because one mini-bank goal

is to increase CVS customer traffic and retailing service volume, they do not need to always offer their own product.

Of course, Internet banking may flourish further in Japan to such an extent that most of the financial services that “mini banks” provide will become available through the Internet or mobile phones using the Internet or proprietary networks. This may then lead to a decrease in demand for the retail banking services provided by the “mini banks”. At the same time one must recognize that currently about 75% of B2C Internet transactions are handled via the CVS.

6. Conclusions

From their modest beginnings with utility bill payment collection, CVS “mini banks” have grown tremendously over the past two decades in terms of the number and types of services they provide. Now a typical “mini bank” offers many if not most of the services provided by their traditional counterparts in the retail banking industry. In some cases, such as in employing new technologies, “mini banks” are actually ahead of traditional retail banking in Japan.

This unique retail financial services model is based on the simple strategic principle of harnessing external opportunities with the internal strengths (core competencies such as in IT). Since such simple strategic principles often prove difficult to apply in a real competitive business world, it is important to study and monitor the CVS “mini banks” and their evolutionary development.

Future studies could examine several interesting areas such as how they are organized and how they form and maintain alliances. There is also their impact on the future evolution of Japanese financial services. Finally, how might the “mini bank” model be replicated in other parts of the world to bring its 24 X 7 convenience, efficiency, and customer orientation to the widest possible audience?

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Key Elements of the Big Bang Reform

1. Expansion in the choice of instruments for investors

- Enhancements to investment trusts (Dec 1998)
- Full liberalization of securities derivatives (Dec 1998)
- Smaller minimum investment lots for stocks (Jul 1997)
- Improved access to trading and quotation information (Dec 1998)

2. Expansion of the options in corporate fund-raising

- Introduction of new corporate bond products (Dec 1998)
- Promotion of medium-term notes (May 1997)
- Promotion of asset-backed securities (Sep 1998)
- Facilitation of listing and initial public offering (Sep 1998)
- Revision of listing standards (Dec 1998)
- Deregulation of unlisted and unregistered equities market (Sep 1997)

3. Allowance for financial institutions to provide a wider variety of services

- Elimination of business restriction on securities companies (Dec 1998)
 - Liberalization of brokerage commissions (Oct 1999)
 - Promotion of asset investment business (Dec 1998)
 - Allowing banks to issue straight bonds (Oct 1999)
 - Promotion of competition across business boundaries (Mar 2001)
 - Allowing insurance companies to enter the banking business (Oct 1999)
 - Allowing banks to sell insurance products (Oct 2000)
 - Allowing holding companies (Mar 1997)
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4. Creation of an efficient market

- Review of security exchanges operation rules (Dec 1998)
- Improvement in clearing and settlement system (Dec 1998)
- Reduction of settlement risk (Dec 1998)

5. Creation of a fair market

- Formulation of fair trading rules (Dec 1998)
- Strengthening the penalty for violation of rules (Dec 1998)
- Regulations to prevent conflicts of interest (Dec 1998)
- Establishment of the system of dispute settlement (Dec 1998)
- Enhanced disclosure system (Mar 2001)
- Review of securities taxation (Apr 1999)

6. Improving the stability of financial system

- Capital adequacy requirements for security firms (Dec 1998)
- Enhanced disclosure for financial institutions (Dec 1998)
- Rules for bank subsidiaries and insurance subsidiaries (Dec 1998)
- Framework for the protection of customers in the event of failures (Dec 1998)

Source: Hoshi and Kashyap (2001), pp.291-293

Appendix B

Seven-Eleven Japan, Basic Financial Data, 1995-2002¹

<u>1995</u>	<u>1996</u>	<u>1997</u>	<u>1998</u>	<u>1999</u>	<u>2000</u>	<u>2001</u>	<u>2002</u>	
1477	1609	1741	1848	1964	2047	2140	2213	Total store sales (¥ billions)
239	263	287	309	337	358	366	401	Revenue (¥ billions)
95	103	109	115	137	144	151	158	Operating income (¥ billions)
6373	6875	7314	7732	8153	8602	9060	9690	Number of stores (Japan) ²
662	669	676	678	681	675	..	656	Sales per store (¥ thousands) ³
29.9	29.9	29.8	30.0	30.3	30.3	30.4	30.5	Gross margin (%)

1 Fiscal years ending last day of February in the following calendar year. Excludes stores in Hawaii.

2 At fiscal year end. 3 Average daily sales.

Sources: SEJ Corporate Outline; Brief Summary Results FY 2001; Semiannual Report for the 6 months ended 31 Aug 2002. Brief Summary Results FY 2002. Also, note that to achieve commonalty all years reported end at the end of February in the following year, though SEJ is now reporting Fiscal Years ending in the February of that year.

Appendix C

Lawson, Basic Financial Data, 1995-2002¹

<u>1995</u>	<u>1996</u>	<u>1997</u>	<u>1998</u>	<u>1999</u>	<u>2000</u>	<u>2001</u>	<u>2002</u>	
885	985	1094	1157	1221	1275	1286	1291	Total store sales (¥ billions)
..	..	304	302	291	280	256	239	Revenue (¥ billions)
..	..	..	34	40	41	36	35	Operating income (¥ billions)
5683	6252	6649	7016	7378	7683	7734	7625	Number of stores (Japan) ²
..	..	..	482	483	486	489	489	Sales per store (¥ thousands) ³
..	..	..	30.0	30.3	30.3	30.3	30.3	Gross margin (%)

1 Fiscal years ending last day of February in the following calendar year. Excludes stores in Shanghai.

2 At fiscal year end. 3 Average daily sales.

Sources: SEJ Company Outline; Lawson 2001 and 2002 Annual Reports. Summary Financial Result 2003. Again note for commonality differences in FY reporting among and between companies.

Appendix D

FamilyMart, Basic Financial Data, 1995-2002¹

<u>1995</u>	<u>1996</u>	<u>1997</u>	<u>1998</u>	<u>1999</u>	<u>2000</u>	<u>2001</u>	<u>2002</u>	
543	635	710	758	783	843	899	932	Total store sales (¥ billions)
129	147	151	148	147	176	196	217	Revenue (¥ billions)
19	22	26	27	28	24	24	28	Operating income (¥ billions)
3965	4496	5039	5286	5546	5813	5825	6013	Number of stores (Japan) ²
491	488	486	484	481	478	479	474	Sales per store (¥ thousands) ³
29.0	28.9	29.0	29.3	28.9	28.4	28.5	28.3	Gross margin (%)

1 Fiscal years ending last day of February in the following calendar year.

2 At fiscal year end. 3 Average daily sales.

Sources: FamilyMart, "Summary of Selected Financial Data" (2001, 2002 and 2003). Again note for commonalty differences in FY reporting among and between companies.