

Seven-Eleven Japan's Business Model

Since its establishment in 1973, Seven-Eleven Japan (SEJ) has always closely tracked changes in society and consumer lifestyles and has taken steps to enhance its own operations to meet emerging trends. SEJ continues to implement reforms to support continued progress. This section explains the strengths of SEJ's business model.



SEJ CORPORATE PHILOSOPHY

- Modernization and Revitalization of Existing Small and Medium-Sized Stores
- Co-existence and Co-prosperity

Characteristics of Seven-Eleven Japan's Systems that support Basis of a Mutual Trust Relationship

Gross Profit Splitting Method

A system in which gross profit of a store is split between the franchisee and headquarters according to a pre-defined percentage.

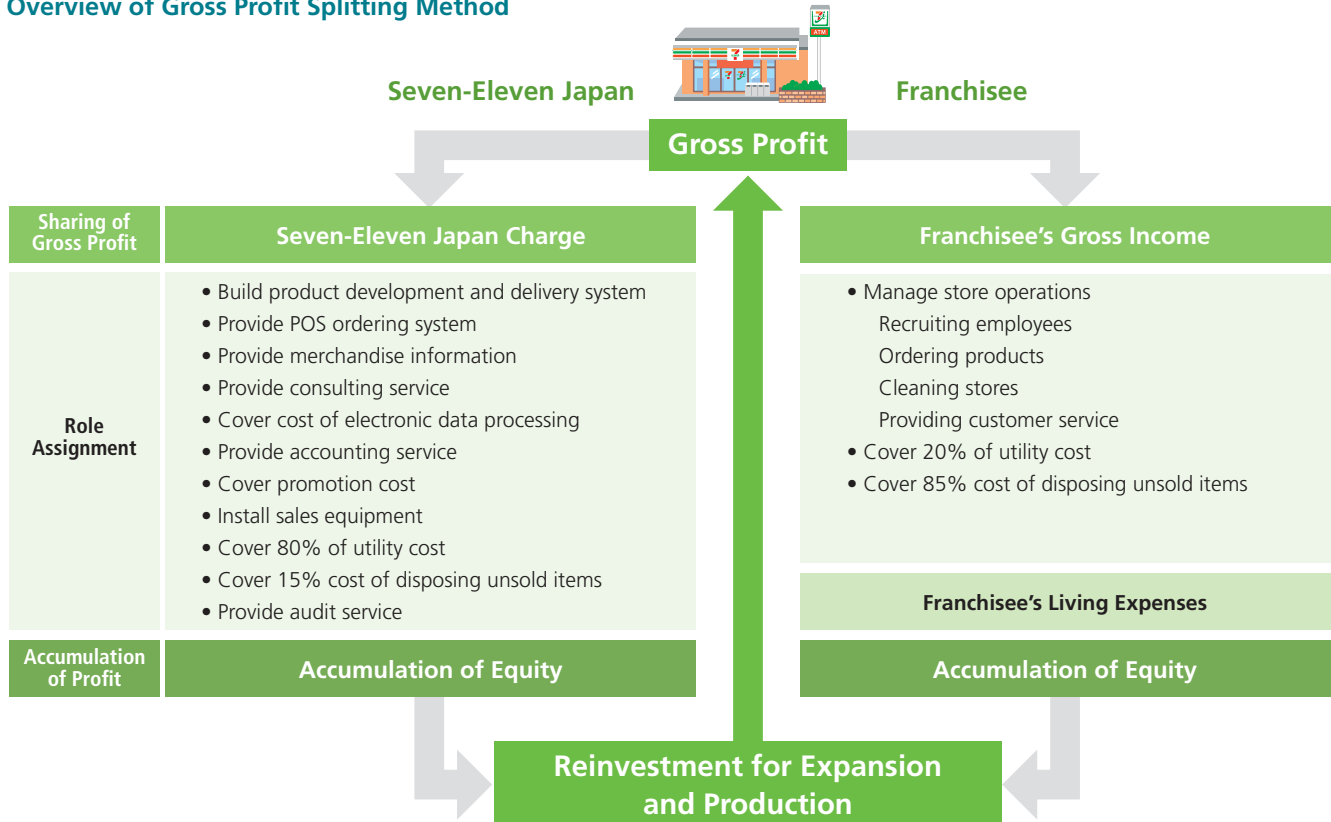
Open Account System

A settlement and financing system designed to enable franchisees to start their business even with a small amount of funds and to operate stably.

Guaranteed Minimum Gross Income System

A system to guarantee franchisees a certain amount of franchisee's gross income.

Overview of Gross Profit Splitting Method



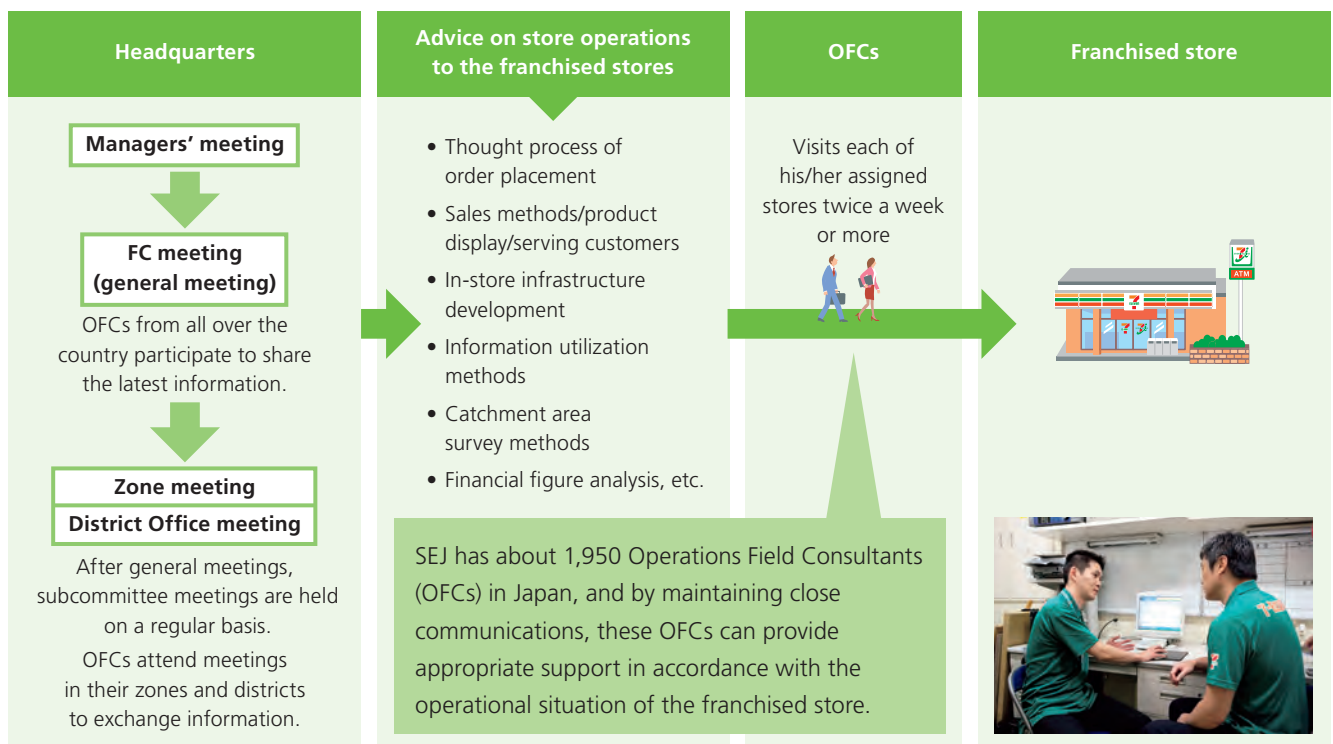
Notes: 1. Gross profit is equal to net sales minus net cost of goods sold, which is calculated by subtracting costs of inventory loss, disposal of merchandise, and rebates from gross cost of goods sold.
 2. Franchisee's gross income is equal to income, which is the remaining balance after deducting the Seven-Eleven Japan charge from gross profit on sales.

STRENGTH 1 Franchise System

Under the franchise system, business operations are divided between the headquarters and franchised stores. This system promotes co-existence and co-prosperity between SEJ and franchisees.

Aiming to “modernize and revitalize small and medium-sized retail stores,” SEJ is implementing an original franchise system. SEJ and franchisees are on an equal footing, and there is a clear division of roles. The gross profit splitting method is used for the division of profit. As a result, the focus is not on increasing sales but rather on increasing gross profit, fostering co-existence and co-prosperity among all parties.

Store Support through the Visits of OFCs



Contract Type of Franchised Stores

	Type A (4,263 stores)	Type C (9,344 stores)
Type of ownership		
Land and buildings	Franchisee provides	Seven-Eleven Japan provides
Sales equipment, computers, etc.	Seven-Eleven Japan provides	
Contract period	15 years	
Utilities	Seven-Eleven Japan 80%; Franchisee 20%	
Seven-Eleven Japan charge (royalty)	43% of gross profit	An amount calculated on a sliding scale based on gross profit
Incentive system for multi-store operations	5-year incentives and 15-year contract renewal incentives (reductions in franchise charge) offered When one franchisee operates 2 or more 7-Eleven stores, a 3% incentive charge is applied to the second and subsequent stores. When franchisees that have operated a 7-Eleven store for over five years open a new 7-Eleven store, the “incentive for stores open over five years” is applied to the new store from the beginning of its operation.	
Cost of disposing unsold items	Seven-Eleven Japan 15%; Franchisee 85%	
Minimum guarantee	19 million yen (franchisee's annual gross profit)	17 million yen (franchisee's annual gross profit)

Notes: 1. Number of stores are as of February 29, 2012.

2. The condition for the Seven-Eleven Japan charge (royalty) and minimum guarantee applies to stores that are open for 24 hours a day.

3. Gross profit is equal to net sales minus net cost of goods sold, which is calculated by subtracting costs of inventory loss, disposal of merchandise, and rebates from gross cost of goods sold.

STRENGTH 2 Store Network

High-density, concentrated store openings are the foundation of high-value-added products and services.

Through the use of the market concentration strategy, SEJ has been able to establish a distribution system and implement product strategies that leverage the distinctive features of high store densities. Moving forward, SEJ will continue working to open stores with a focus on quality. For example, SEJ will carefully consider the sites for new stores in accordance with strict conditions, thereby steadily enhancing profitability on a store-by-store basis.

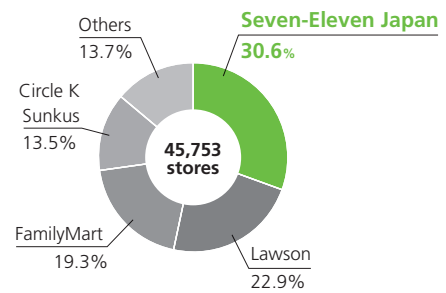
Merit of Market Concentration



As of February 29, 2012, Seven-Eleven Japan operates 7-Eleven stores in 39 of 47 prefectures in Japan.

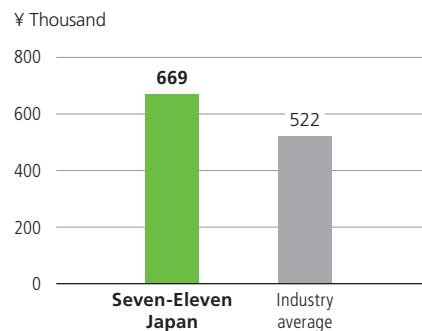


Share by store numbers



(as of February 29, 2012)

Average daily sales per store for FY2012



Note: Industry average is the average of three major listed convenience store chains.

Sources: Current Survey of Commerce (Ministry of Economy, Trade and Industry), Public information from each company

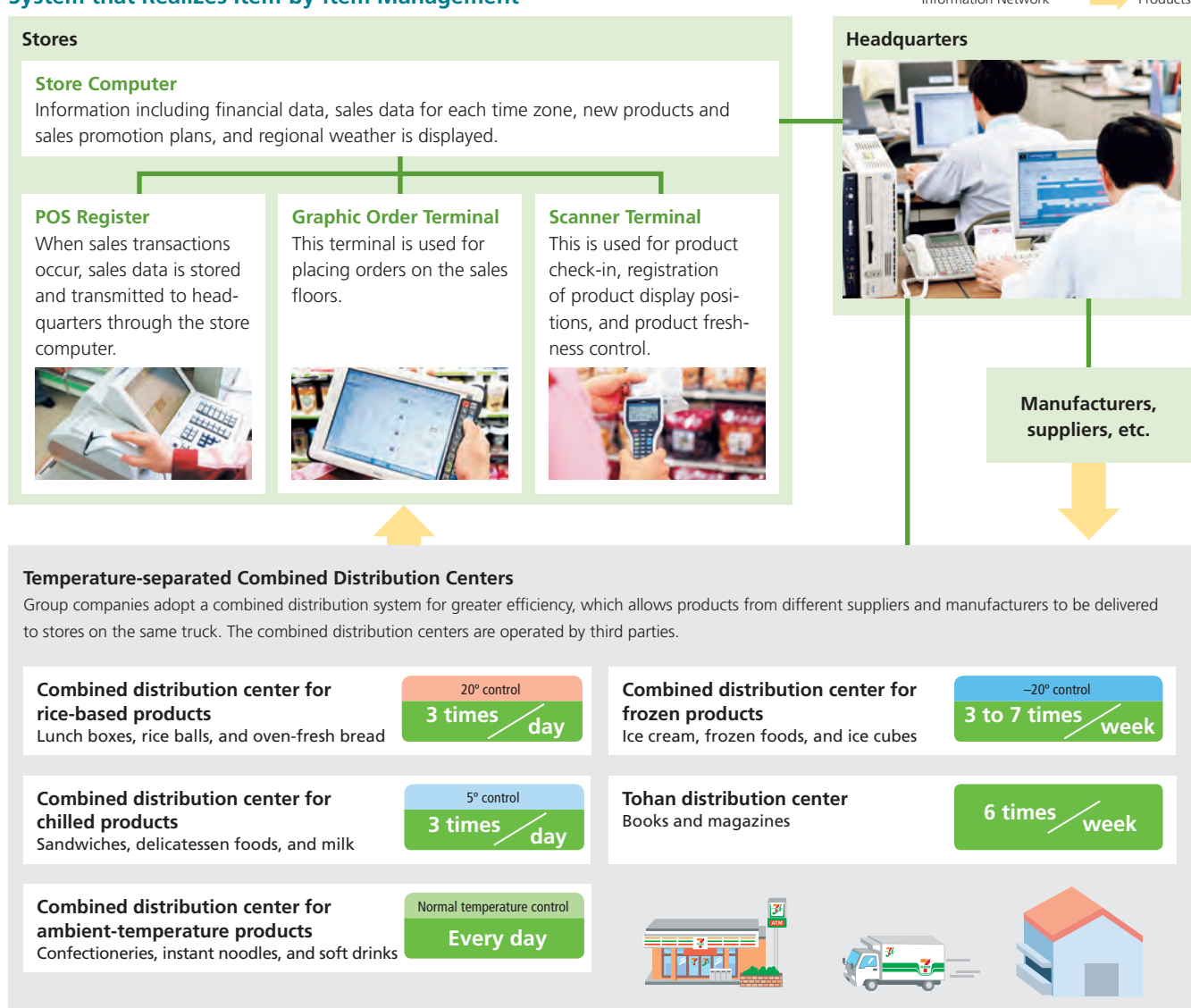
➡ For further information regarding SEJ's store-opening initiatives, please refer to the Corporate Outline 2012 on pages 16, 17, and 33.

STRENGTH 3 Item-by-item Management

To implement item-by-item management, SEJ is building original information systems and distribution networks and is working to maximize the efficiency of store operations as well as profits.

SEJ has built one of the world's largest information networks, which links stores, headquarters, combined distribution centers, and suppliers. In addition, SEJ has established a combined distribution system that is managed by third parties. This is a practical system that offers logistics advantages for customers, franchised stores, and suppliers.

System that Realizes Item-by-item Management



Advantages of Temperature-separated Combined Distribution System

Under SEJ's combined distribution system, products from different suppliers and manufacturers are loaded onto the same truck and delivered to stores. With temperature-separated combined distribution, products are maintained at the appropriate temperature from supplier and manufacturer to store, facilitating the efficient delivery of fresh products to stores.

➡ For further information regarding information and distribution systems, please refer to the Corporate Outline 2012 on pages 22 and 23.

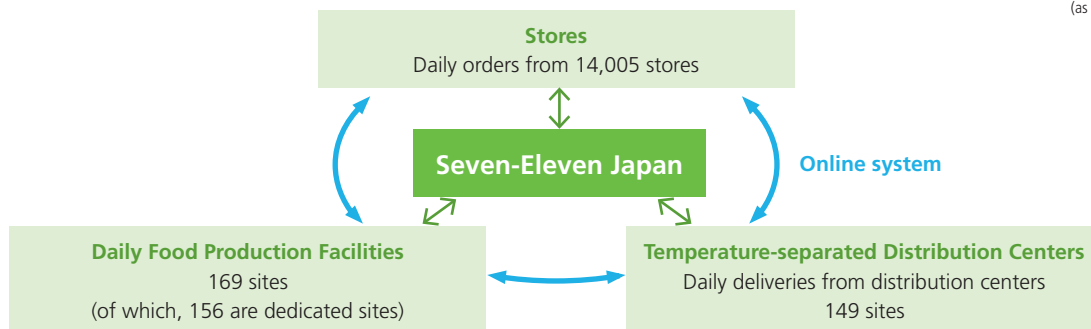
STRENGTH 4 Original Products

SEJ's ability to differentiate its operations from those of competitors is the result of a lineup of more than 1,000 original products. This lineup, which is SEJ's greatest strength, is the key factor behind strong store loyalty.

SEJ is working together with the Nihon Delica Foods Association* to develop original daily food products, which are SEJ's core product. SEJ places a high priority on ensuring that the production facilities and distribution centers for its original daily food products are used only by SEJ. This enables SEJ to differentiate itself in the areas of product development, food safety management, and quality control.

* Nihon Delica Foods Association: Established in 1979, centered on manufacturers of rice-based products. Currently, about 80 companies are participating in the association, including makers of rice-based products, bakery products, delicatessen items, noodles, and Japanese pickles. The association is implementing initiatives in such areas as product development, quality control, joint procurement, and environmental countermeasures.

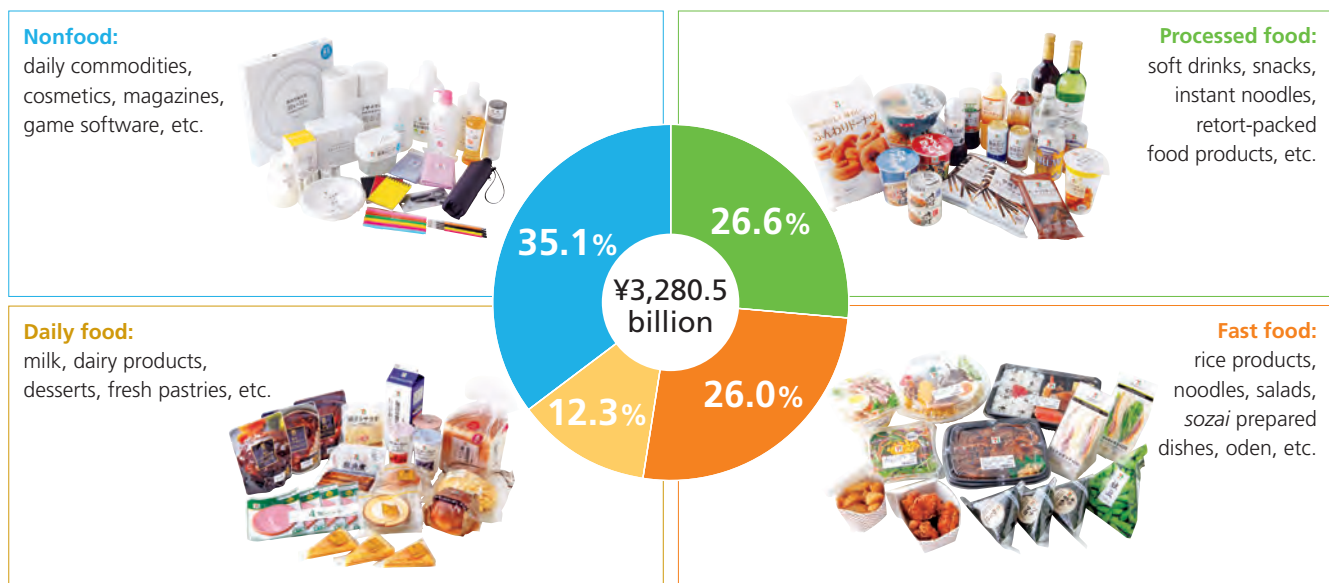
Original Product Development Framework



(as of February 29, 2012)

Product Assortment that Reflects Customer Needs

<p>Products recommended by headquarters</p> <p>Approx. 4,800</p>	<p>Products carried at a store</p> <p>Approx. 2,800</p>	<p>New products introduced per week</p> <p>Approx. 100</p>	<p>Products replaced annually</p> <p>Approx. 70%</p>
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➡ For further information regarding SEJ's product development system, please refer to the Corporate Outline 2012 on pages 20 and 22.

STRENGTH 5 Service Development

SEJ is aiming to meet customer needs with an expanded range of services and to increasingly offer “close by convenient stores.”

To make its stores a part of the daily lifestyle infrastructure, SEJ has expanded its range of services that are useful in daily life. A diverse range of SEJ services contributes to growth in the number of customer store visits. These services include ATM services, the acceptance of bill payments, meal delivery services, and ticket services provided with the use of multi-function copiers.

Services that Realize “Close by Convenient Stores”


Seven Bank ATM



Total number of transactions: **655 million***

* Fiscal year ended March 31, 2012

Meal delivery service utilizing Seven-Meal



- Ordering
 - in store
 - by phone
 - by fax
 - through the Internet
- Receiving
 - in store
 - at home (delivery)

Sales volume: **¥10 billion**

Payment acceptance service



Total number of transactions: **358 million**

Service available from multi-function copiers



- Tickets for entertainment events
- Administrative services (local government services)
- Expressway bus tickets
- Sports promotion lottery ticket service

Sales volume of ticket service: **¥65.1 billion**

Message from Ryuichi Isaka, President of Seven-Eleven Japan Co., Ltd.

Striving to be an “irreplaceable” part of the daily lives of customers.

In 2011, we recognized anew the important role of “close by convenient stores.” In particular, we worked together with franchise owners and suppliers to restore operations as rapidly as possible following the March 11 earthquake. I believe that this experience has further reinforced the solidarity of the 7-Eleven chain of stores.

There are ongoing changes in Japan’s social environment, such as the aging of the population and the increase in working women. At the same time, however, there is also a decline in the facilities available for the provision of life support services, such as small and medium-sized retail stores, bank branches, and government service offices. As a result of this trend, I believe that convenience stores will increasingly be called on to provide “close by convenient services.” It is important to always be aware of “what is needed in the sales area,” and to continue to work in accordance with a cycle of hypothesis and verification.

Three years ago, we began to use the slogan “close by convenient” for our stores. Over this period, we have made steady progress in developing awareness among our employees, and the

cooperative initiatives among departments are operating with a high degree of effectiveness. For our employees, this experience of achieving objectives through a process of trial and error has become an asset with both tangible and intangible aspects. As a result, I believe that we have established a system that will enable us to strive over the medium term for a record-high level of average daily sales per store—¥700,000.

“Contributing to local communities through the franchise business” is the starting point of our business, and we believe that increasing the satisfaction of franchisees, our most important stakeholders, will drive SEJ’s further growth in the years ahead. Moving forward, we will work together with franchise owners to realize “close by convenient” stores and to further enhance the 7-Eleven chain’s presence.

