



## Special Feature 1

# LEVERAGING GROUP SYNERGIES TO DRIVE GROWTH

Seven-Eleven Japan (SEJ) is driving the growth of the Seven & i Group. The Group's private-brand *Seven Premium* products account for approximately 20% of SEJ's total store sales of more than ¥4,000 billion. Since its launch in 2007, *Seven Premium* has posted notable growth, in part due to the strengthening of categories in which customer needs had not been effectively addressed by convenience stores, such as *sozai* prepared dishes and frozen foods. However, the development of *Seven Premium* would not have been successful without the knowledge of such Group companies as Ito-Yokado, which operates superstores, and York-Benimaru, which operates food supermarkets.

The Omni-Channel Strategy is another initiative that has been positioned as a growth driver for the Group. Under this strategy, products from the Group's diverse business formats can be ordered in a one-stop manner through *omni7*, the integrated portal site for the Group, at any time and from any location. The Group's store network, centered on SEJ's network of approximately 18,500 domestic stores in Japan, can be used to pick up orders, make payment, implement returns, and receive refunds.





## Seven Premium

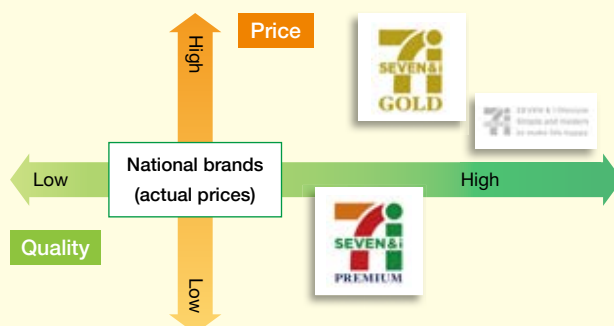
### Private Brand Offering Quality and Value

What makes *Seven Premium* fundamentally different from the private brands of other companies is the brand concept, which focuses on offering quality and value rather than simply pursuing low prices. *Seven Premium* overturned the conventional wisdom that private brands have lower prices, but their quality does not match that of national brands. We tested an entirely new concept, pursuing quality and offering products at the same price in all of the Group's business formats, including convenience stores, supermarkets, and department stores. In Japan, a consumer uses different types of stores, such as convenience stores, supermarkets, and department stores, for different purposes. There is an ongoing deflationary trend in the domestic market, and a growing number of customers are looking for high-quality products that are reasonably priced. In this environment, *Seven Premium* offers customers the convenience of being able to buy high-quality products at the same price in any

of the Group's many stores, and that convenience has been well received by large numbers of customers. Moreover, in 2010 we launched *Seven Gold*, the higher rank of *Seven Premium*, which features rigorous attention to materials and production methods and aims for quality equal to or higher than products offered at specialty stores. Sales have grown each year, and we have had hit products, such as *Golden Bread*, which opened up the premium bread market.

In the fiscal year ended February 29, 2016, *Seven Premium* sales surpassed ¥1,000 billion, making it the largest private brand in Japan. Average yearly sales per product are ¥300 million, and there are 175 products with sales of more than ¥1.0 billion a year. Our product strengths, which transcend the retail format and are certainly the equal of any national brand, are the source of this growth.

#### Positioning of Private Brands



#### Seven Premium

- Quality same as or better than that of national-brand products
- Reasonable pricing lower than actual prices for national-brand items

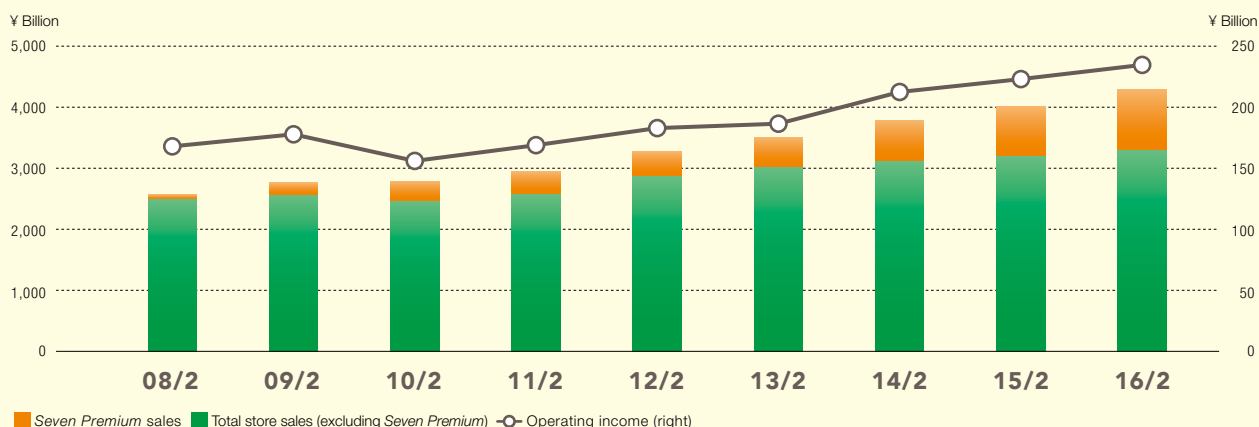
#### Seven Gold

- The *Seven Gold* products in the *Seven Premium* brand are developed to meet the needs of those who wish to try something a little tastier as a luxury
- Equal to or better than the quality of products from specialty stores and popular stores
- Reasonable pricing

#### Seven Lifestyle

- Miscellaneous goods offered under the concept of "Adding Higher Quality to Everyday Lives"
- A lineup paying careful attention to design details and ingredients

#### Total Store Sales and Operating Income for SEJ, Including *Seven Premium* Sales



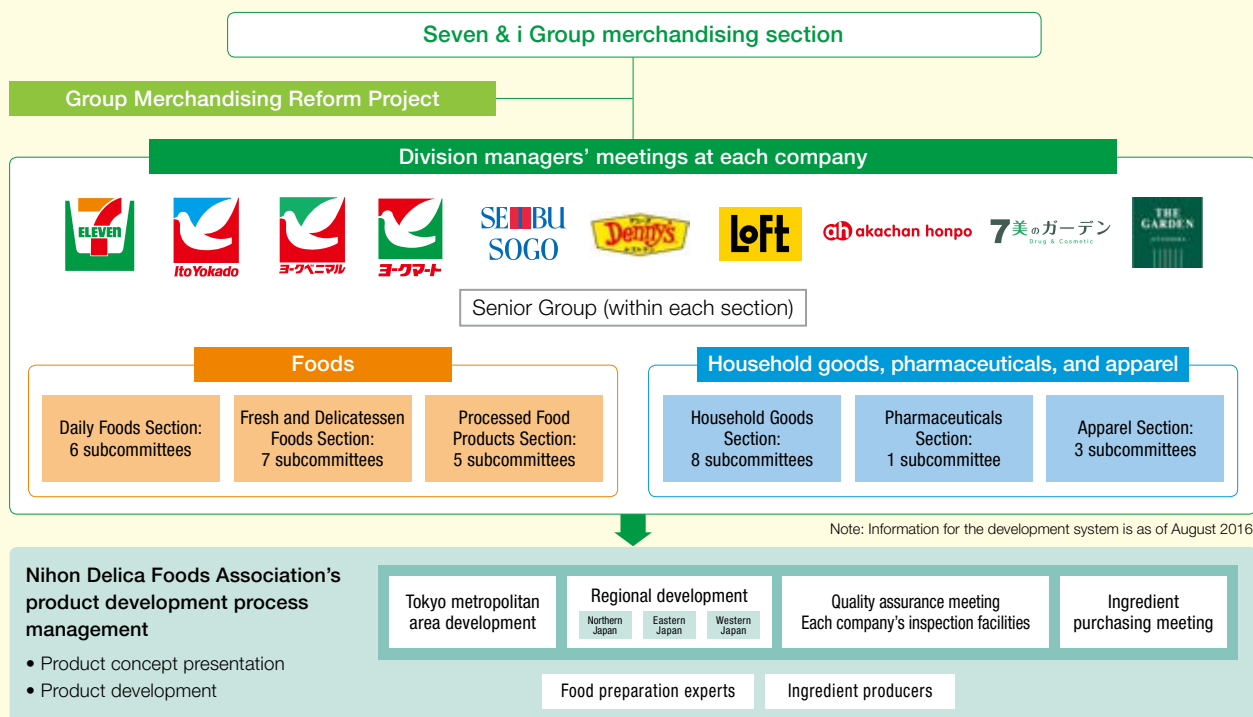
## Seven-Eleven's Product Development × Superstore's Product Knowledge

On a base of the original product development techniques cultivated by Seven-Eleven, known as team merchandising, we developed *Seven Premium* by focusing the product development and knowledge of the Group, including Ito-Yokado and York-Benimaru.

To develop the best products for customers in terms of quality and price, under the team merchandising method SEJ employees work as producers. We form teams with the optimal manufacturers and suppliers for each product and raw material,

and we advance development while sharing technologies, know-how, and information. We track sales data and proceed through a cycle of repeated hypothesis formation and testing. SEJ continually pursues customer needs, and, through SEJ's marketing capabilities, we fully leverage the specialized technologies of each manufacturer and supplier in their field of strength. In this way, SEJ has created a large number of popular products, centered on daily items, such as boxed lunches and confectionery bread.

### Seven Premium Product Development Process



Note: Nihon Delica Foods Association (NDF) was formed in 1979, mainly by manufacturers of rice-based products. NDF currently has approximately 70 member companies, such as manufacturers of rice-based products, sandwiches, delicatessen items, noodles, and Japanese pickles. Members implement product management, quality management, joint procurement, and environmental measures.

However, there were limits to what could be accomplished by SEJ alone in such categories as frozen foods, seasonings, and detergents, including limits on sales volumes and the number of products. Consequently, there were also limits on the development of private-brand products. Accordingly, by bringing in the product development knowledge of Ito-Yokado, York-Benimaru, and York Mart, which sell large volumes of these product lines, we were able

to develop high-quality products that are the equal of national-brand products. Through product development that transcends the boundaries of the operating companies, we were able to respond to changes in society, such as increases in the numbers of one-person households and working women and the aging of the population, and create a new consumer trend — purchasing side dishes at close-by convenience stores. As a result, the average sales amount of

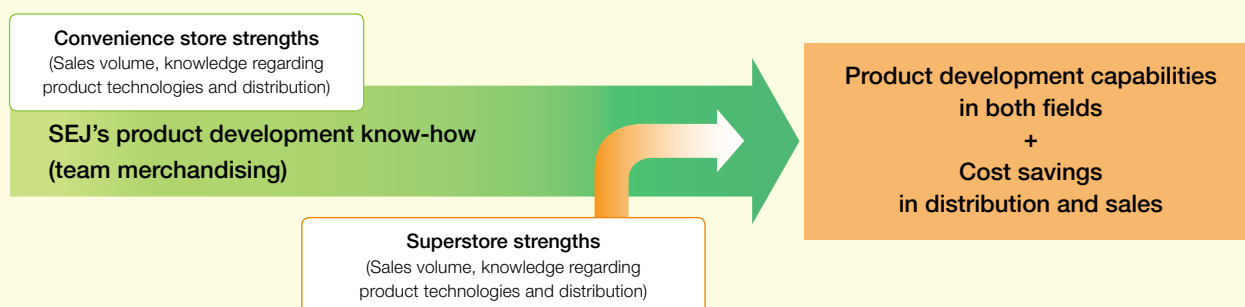




Seven Premium frozen foods has grown to nearly five times the level in 2007, when they were launched.

On the other hand, by leveraging SEJ's overwhelming sales volumes and abundant product knowledge, it became possible to develop private-brand carbonated drinks and

confectionery products, which contributed to the results of Ito-Yokado and York-Benimaru. Convenience stores and superstores led product development in their respective fields of expertise. In this way, they were able to draw on each other's strengths to create synergies.



## Consideration of the Customer's Viewpoint with the Inclusion of Manufacturers' Names

One major feature of *Seven Premium* is the inclusion of the manufacturer's name on the packaging of the product. Private brands typically display only the seller's name, but from the initial launch *Seven Premium* has also included the manufacturer's name so that customers know who made the product and can purchase it with peace of mind. At the same time, manufacturers

get their name on *Seven Premium* products, which emphasize quality and pricing. As a result of this approach, the manufacturers do their utmost in development, working with pride and using the latest technologies.

For information about the establishment of cooperative relationships with manufacturers and suppliers, please see page 48.

## Continual Product Renewal

The Group believes that customer standards are constantly changing. In other words, even if a product currently satisfies customers, there is a substantial possibility that it will no longer satisfy customers in a year, which means that we must continually change our products. In accordance with that belief, each year we renew about 50% of our existing *Seven Premium* products, even if they are recording favorable sales. We research customer opinions through the "Premium Life Enhancement Committee," a website community that invites customers to participate. Based on those opinions, we strive to achieve ongoing improvement by creating test products and conducting monitoring trials until we are satisfied. Due to these initiatives, *Seven Premium* continues to record growth in sales. For example, new genre alcoholic beverages, which have been on sale since 2009, have been renewed each year. Annual sales volume

has increased from 52.0 million units to 76.3 million units, and we have sold a cumulative total of 450 million units.

Dedicated production facilities are a strength of SEJ, and moving forward we will respond to changing customer preferences, such as for more-delicious products, by expanding production at these facilities, including those for *Seven Premium* products. For boxed lunches and other daily items, SEJ's dedication extends not only to ingredients and recipes but also to facilities. At the dedicated production facilities of cooperating manufacturers, we are maintaining quality by having them manufacture only for SEJ. The technical capabilities accumulated at the dedicated production facilities of SEJ will also be applied to *Seven Premium* in the future. In this way, we will advance the development of products that customers will continue to enjoy.

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## Omni-Channel — Another Growth Driver

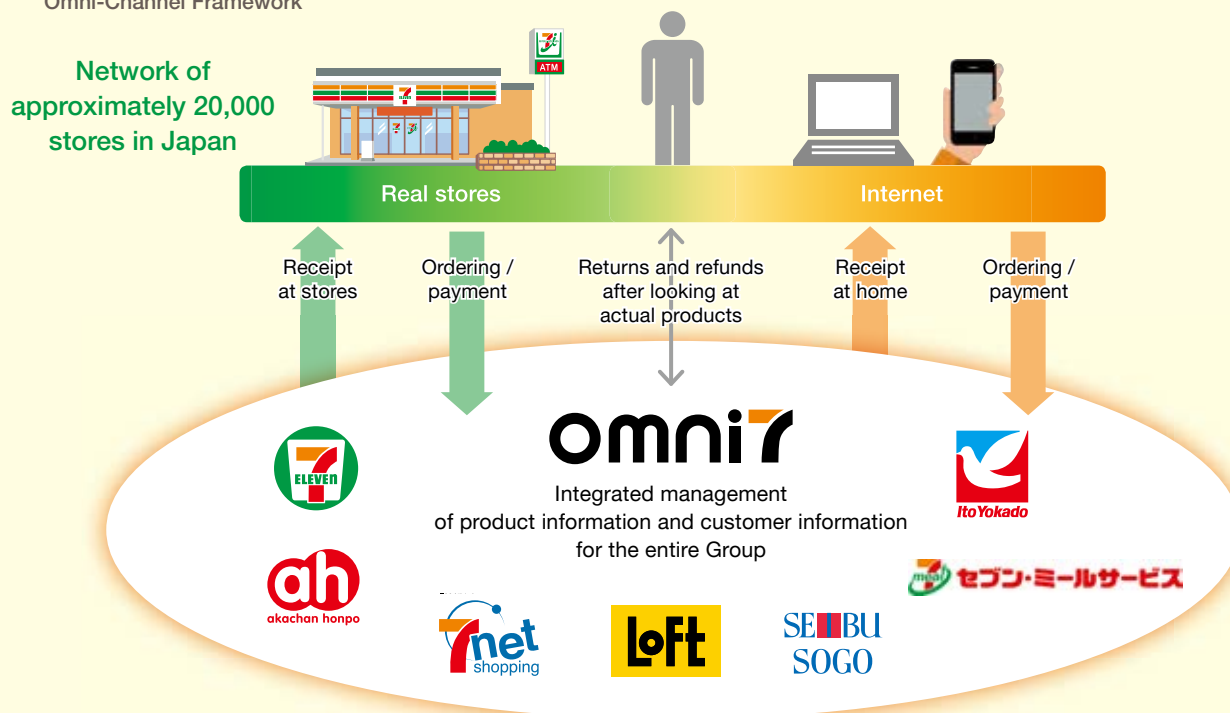
While *Seven Premium* leverages Group synergies with a focus on products, the Group's Omni-Channel Strategy leverages Group synergies with a focus on customer behavior and network infrastructure. Omni-Channel refers to a retail format for integrating multiple sales channels, such as real stores and online stores, to enable customers to place orders, and receive products, as well as handle refunds for product returns from all customer contact points. The Group has the advantage of a network of real stores that extends over a wide range of formats, from convenience stores and superstores to food supermarkets, department stores, and specialty stores. By merging real stores and Internet-based services, the Group aims to advance its sales areas, products, and customer service to realize an Omni-Channel retail format for providing services that meet the needs of each individual customer. The grand opening of *omni7*, the Group's integrated portal site, was held in November 2015.

The biggest feature of *omni7* is the Group's overwhelming base of customer contact points in real stores, where the Group has a network of roughly 20,000 stores in Japan, centered on SEJ, and about 22.0 million customer visits per day. Due to such

factors as the increase in one-person households, it is difficult for some customers to receive deliveries at home, but these customers can now receive deliveries at convenience stores, and they can easily return products and receive refunds. This convenience can only be offered by the Group, which has one of the largest store networks in Japan. We believe that *omni7* will become a new shopping experience that integrates the Internet and real stores.

For the Group, the Omni-Channel Strategy is not limited to simply capturing growth in the e-commerce market. The ultimate objectives of the strategy are to utilize network infrastructure for the integrated management of product information and customer information across a wide range of business formats and to enhance item-by-item management, which is the essence of Group marketing. With customers as a starting point, the Omni-Channel Strategy combines the convenience of Internet sales and the peace of mind of real stores and integrates a wide range of business infrastructure. The strategy has been positioned as the driver of growth for the Seven & i Group.

### Omni-Channel Framework





## Growth Roadmap

We are aiming to increase *omni7* sales to more than ¥400.0 billion in the fiscal year ending February 28, 2017, and to more than ¥1,000 billion in the fiscal year ending February 28, 2019. These sales targets include both e-commerce sales and webrooming sales. Webrooming refers to the practice of examining product information on the Internet before evaluating and purchasing the product in a real store. This trend will provide significant motivation for customers to visit real stores and should lead to increases in the frequency of customer store visits. In addition, we are also seeing the generation of synergies. Up to this point, data shows that 40% of customers who visited a 7-Eleven store to pick up a product from *omni7* have also purchased another product.

Targeting the future success of *omni7*, the biggest key will be differentiation achieved through appealing original products that cannot be purchased anywhere but from the Group. *omni7* fully showcases the Group's development capabilities and systems, which have been strengthened through the development of *Seven Premium* products. Seven & i Holdings, the holding company, principally handles overall promotion and revenue/expense management for the Omni-Channel Strategy as well as the formulation of system-related plans. We have also established departments responsible for promoting the Omni-Channel Strategy at core operating companies. In these ways, we are

promoting close cooperation and advancing the strategy throughout the entire Group. In addition, in the basic functions of product development and distribution, we have established dedicated project teams, with members who are responsible for product development or distribution in Group companies.

To support growth in sales, we plan to expand the number of items handled to 3.8 million by the end of February 2017 and to 6.0 million by the end of February 2019. Currently, we are only handling products from Group companies, but in 2017 and thereafter, we will aim to address customer needs and offer services that are an accepted part of daily life by drawing on the capabilities of external companies that are appealing to customers.

### Wide Range of Products that Reflect the “Close-By, Convenient” Principle

In November 2015, SEJ installed tablet terminals for the ordering of products at about 6,000 stores. As a result, the number of Christmas cakes ordered online in 2015 increased to seven times the previous year's level. Previously, because of the limitations on space in stores, there was not sufficient space for inventories of seasonal event-related items. However, orders can now be placed through *omni7*, including the products of department stores and specialty stores, and as a result we will be able to make a full response to the growing tendency of consumers to focus on the intangible aspects of the purchase experience, rather than focusing just on the product characteristics. In addition, many customers made additional, unplanned purchases of Christmas hors d'oeuvres when purchasing cake, leading to an increase in the average spending per customer. The installation of customer service tablets in all stores was completed in July 2016.



Omni-Channel Strategy: Sales Plan

