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Retail. Diversification

Japan's convenience stores limber up in effort to spur growth

Chains are launching services such as 24-hour gyms as they battle to halt declining footfall

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Slathered in oil, priced at ¥180 and delivering just over 245 calories in a few bites, the *Famichiki* fried chicken square is the undisputed king of fast food at FamilyMart — and a revered weapon against rival Japanese convenience stores.

Its next line of attack, however, will not be deep-fried. Instead, the group is placing its bets on in-store gyms where customers can burn off their *Famichiki* calories.

The first 24-hour FamilyMart gym, which adds to an average Japanese convenience store's 2,500-strong product line-up that includes golf-themed comics, chocolate eclairs, Californian chardonnay, dried squid flakes and bento lunch boxes, opened in the Tokyo suburb of Otanagahara in February.

Over the next five years, FamilyMart — Japan's second-biggest convenience store chain with revenues of ¥3.1tn ($29.5bn) — plans to open 300 Fit & Go gyms in a challenge to its two largest competitors, Seven & i Holdings and Lawson.

FamilyMart's move into fitness highlights powerful trends that are transforming Japanese retail.

They are creating fresh opportunities, say analysts, for the mighty *konbini* (convenience stores) to seize an ever greater share of consumer spend.

"Current social patterns — the rise of working women, the ageing population — are a strong following wind for the convenience store industry," said Sadanobu Takemasu, chief executive of Lawson, the third-largest operator with ¥2.6tn sales and 14,000 stores. Rural depopulation is also on their side, with a *konbini* often the last shop standing in many communities.

"There are people who think Japan can manage with nothing but ecommerce and convenience stores. The big dry goods like toilet paper would come online," he added. "All the day-to-day goods would come from the convenience store."

But, say analysts, even the *konbini* face the challenge of population decline. Footfall at stores open for more than a year has fallen for 24 months in a row, the longest period since the Japan Franchise Association began compiling the statistics in 2004.

Seven & i Holdings, Japan's largest operator and owner of 7-Eleven, this month said operating profits to the end of February rose 7 per cent year on year to ¥392bn, but with much of that growth driven by overseas revenues. The company is targeting only a 1 per cent increase in operating profits at its domestic *konbini* business this year.

The answer to lower footfall is more revenue per customer. Having achieved dominance of their own industry through consolidation, the *konbini* are moving into other sectors, taking on supermarkets, coffee shops, drug stores and fast-food chains.

FamilyMart's rivals also plan new offerings: launderettes, bike-sharing stations, night-time self-service outlets and pharmacy counters are on the list of impending rollouts. Still, Lawson and 7-Eleven have been more cautious about services such as gyms that need extra floor space or staff.

"We're expanding bicycle sharing, parcel-delivery lockers and our own vending machines, bearing in mind the need not to burden our stores," said Minoru Matsumoto, an executive at Seven & i.

The gym concept, said FamilyMart's general manager of new business, Hiroaki Tamamaki, arose from the fact that many suburban stores are single-storey standalone buildings, often with the capacity for a gym to be built on the roof.

Since the first *konbini* opened in the late 1960s, they have expanded through a franchise model to 55,000 stores and their role in Japanese daily life has steadily grown. Last-minute groceries, umbrellas and emergency toothpaste are still core offers, but so too are concert tickets, dry-cleaning drop-off, online shopping pick-up and the ability to pay utility bills and parking fines over the counter.

As FamilyMart's Mr Tamamaki explained: when convenience stores first started selling bento lunch boxes 20-odd years ago, they were seen as a shoddy, stale alternative to one prepared at home. "But then we began to resolve these issues. The bento gradually evolved. The contents improved. Now, there are three deliveries of fresh bento a day, and the delivery times keep getting shorter."

According to the JFA, a new convenience store opened in Japan every six hours during 2017; at 47m visitors a day, their combined daily footfall is equivalent to more than one-third of Japan's population.

Despite their massive expansion, executives do not think the *konbini* have reached their limit. They plan to expand store numbers and services at home, as well as increasing overseas operations.

The challenge, according to Sho Kawano, a retail analyst at Goldman


Signs of pick-up as US businesses take on more debt
Japan's convenience stores limber up in effort to spur growth

Sachs, is that while gyms and other services are helpful at the margins, they may struggle to replicate the effects of two sales revolutions that historically transformed the fortunes of the *konbini*: tobacco and coffee.

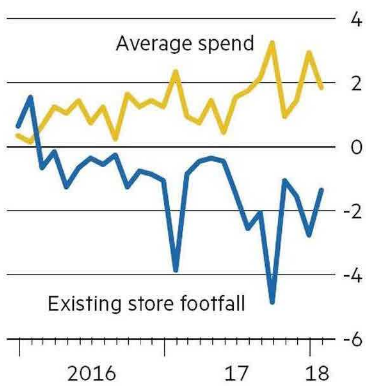
The former arose from a requirement for a special ID card to use cigarette vending machines — most people never bothered to get a card and the *konbini* found themselves with a massive influx of customers. The addition of freshly ground coffee machines producing good coffee at half the price of Starbucks was another boon.

"The convenience stores' biggest challenge is the absence of a new category big enough to give the whole industry a lift," said Mr Kawano, who added that even the ready-to-eat likes of the *Famichiki* had yet to prove their power to transform.

"Each group is investing more in its fast-food offering, but there has been nothing revolutionary, no game changer."

Selling more to fewer consumers

Year-on-year percentage change



Japan's convenience sector keeps opening stores