

**Analysis of Competition in the Convenience Store Industry  
in Taiwan Based on Resource-Advantage Theory**

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## Abstract

Present theories of retail strategic planning and retail evolution are unsatisfactory in explaining the dynamics of retail competition. Strategic planning procedure, it is argued, follows models such as the product-mission matrix and the generic strategy. However, these theories are limited to the corporate level and do not model either the complex market situations influencing the retail industry or the dynamics of retail development. When the competition in the retail industry becomes complicated, the studies of retail development need a theory to explain both retail strategic analysis and planning and the dynamics of retail competition. Theories of retail evolution, or theories of retail institutional change, e.g., the wheel of retailing, the retail accordion theory and the retail life cycle, are more appropriate for capturing the dynamics of retail competition. These theories of retail organisation, or format change have been developed to model the retail development in Western countries but may be not suitable for explaining retail development in other countries, e.g., East Asian countries. An example of these East Asian countries is Taiwan. Since the 1970s, modern retail formats, such as the large-scale department store, the supermarket, the convenience store and the hypermarket, have transformed Taiwanese' shopping behaviour and retail operation. However, there are few English language studies related to the changes and performance of the retail industry in this market.

Resource-Advantage theory proposed by Hunt may offer an alternative framework of retail competition analysis, especially in non-Western societies.

Thus this research has three main purposes:

- To explore the applicability of Resource-Advantage theory in explaining retail competition and development
- To provide empirical evidence for Resource-Advantage theory
- To provide detail analyses of convenience store development in Taiwan

**Key words:** Resource-Advantage theory, the convenience store, Taiwan, competition

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## **Declaration**

I declare that the thesis has been composed by myself. The work is my own and has not been submitted for any other degree or professional qualification.

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# Chapter 1

## Introduction

### 1.1. Chapter overview

The purpose of this chapter is to introduce the motivation for this research, the definitions of terms used in this research and the structure of this dissertation.

### 1.2. The motivation of this research

This research has three main purposes:

- To explore an alternative theory, Resource-Advantage theory, for explaining retail development in non-western countries
- To provide empirical evidence for Resource-Advantage theory
- To provide detailed analyses of the convenience store development in Taiwan

The convenience store was first introduced in Taiwan during the late 1980s and went through rapid growth and change in the 1990s. The growth and change were particularly due to the competition among chain convenience stores. Despite the fact that Taiwanese convenience store retailers experienced strong competition, the development of this industry seldom attracts attention of English academia and the existing studies in Chinese are obsolete and lack a theoretical explanation. This research thus will provide a complete study of the convenience store industry in Taiwan, under the framework of Hunt's Resource-Advantage theory.

Resource-Advantage theory or R-A theory – is utilised here because present theories of retail strategic planning and retail evolution are unsatisfactory in explaining the dynamics of retail competition. Discussions of retail strategy have, for many years, mainly been based on the frameworks of marketing strategy. Strategic planning procedure, it is argued, follows models such as the product-mission matrix of Ansoff

(1965) and the generic strategies of Porter (1980) (Kristenson 1983; McGoldrick, 1990: pp. 90-121). However, these theories are limited to the corporate level. They do not model either the complex market situations influencing the retail industry or the dynamics of retail development.

Theories of retail organisational change - or theories of the retail institutional change termed by Brown (1987), e.g., the wheel of retailing, the retail accordion theory and the retail life cycle, are more appropriate for capturing the dynamics of retail competition. These theories of retail organisational, or format, change have been developed to model the retail development in Western countries but may be not suitable for explaining retail development in other countries, e.g., East Asian countries. Thus studies of retail development need an alternative theory to explain the dynamics of retail competition, especially in non-western societies.

R-A theory developed by Hunt (2000) is a theory of competition, which draws on several research traditions. R-A theory emphasises the following three factors on a firm's performance:

- The importance of market segments
- Comparative advantage/disadvantage in resources
- Marketplace positions of competitive advantage/disadvantage

These factors are coherent with the contents of retail strategic planning. In addition, R-A theory emphasises the influence of environmental factors on competition and the dynamics of competition. Therefore, R-A theory overcomes the drawbacks of traditional theories of retail strategy planning and retail organisational change and explains:

- The profile of a market – diversified customers
- The goals of a retailer – superior financial performance
- The process by which retailers achieve strategic goals – accumulating resources
- The influence of both external and internal factors on a retailer's performance – interaction between the retail industry and the environment



- The outcomes of industrial competition – improved productivity and economic growth

However, as Hunt himself says, R-A is a ‘work-in-progress’ and needs further empirical proof. Though some illustrations of R-A theory are provided in ‘A General Theory of Competition’ (Hunt, 2000), the theory still lacks a large-scale and systematic empirical investigation.

Thus this research proposes to explore the applicability of R-A theory to competition in the grocery retail industry and to the analysis of the convenience store industry development in Taiwan.

### **1.3. Definitions of terms used in this research**

This section explains some terms utilised in the literature review and in the retail industry in Taiwan. Other terms regarding Taiwan’s retail industry not mentioned here will be explained in the glossary.

**The general merchandise retail industry and retail formats.** The terms regarding Taiwan’s retail industry in this research follow the standards set by the Taiwanese government. Thus, instead of the grocery retail industry, the general merchandise retail industry and the grocery retail industry may be used interchangeably in the context of the grocery retail market in Taiwan. However, ‘the grocery retail industry’ will still be used otherwise.

Every retail format in the general merchandise retail industry, i.e., the department store, the supermarket, the convenience store and the hypermarket, is regarded as a sub-industry. More details regarding the definition of the industry and various formats in Taiwan will be explained in Chapter 5.

**Resources.** Based on Hunt’s definitions, resources in this research are both tangible and intangible. These resources are defined in the following table:

Table 1-1 Types of resources and examples from the retail industry

Resources	Contents (examples in the retail industry are shown in brackets)
Financial	Cash reserves (e.g., profits and retained earnings) and access to financial markets (e.g., the stock market and the over-the-counter market)
Physical	Buildings and machinery (e.g., investment in stores, raw materials, plants, equipment, and investment in distribution centres and information system)
Legal	Trademarks and licenses (e.g., retailer-brand and license)
Human	The skills and knowledge of individual employees (e.g., training programmes, knowledge of store management and visions of senior managers)
Informational	The stock of knowledge resulting from technical research and consumer, and competitor intelligence (e.g., market research from external and internal sources)
Relational	The firm's relationship with customers, suppliers and competitors (e.g., customer services and strategic alliances with suppliers and competitors)
Organisational	The firm's competences, policies, controls, routines and culture (e.g., method of operation such as franchise chains or voluntary chains, control of franchisees, routines established based on manuals, and communication inside organisation through newsletters and meetings )

*Source: Revised from Hunt (2000) A General Theory of Competition, Thousand Oaks: Sage*

**Innovation.** Innovation in this research means to provide the market with novelties.

Examples are:

- The introduction of new retail formats, e.g., the convenience store, the hypermarket, the shopping mall and Internet shopping
- The introduction of new business processes, e.g., using the Internet for completing transactions with suppliers

- The introduction of new products and services, e.g., microwave meals and home delivery services
- The introduction of new technologies, e.g., the installation of electronic Point-of-Sales systems

The above definition should be interpreted with respect to the target market in this study – Taiwan. Even though an innovation may have been introduced in another country (e.g., USA and Japan) beforehand, it is considered an innovation if it is new to Taiwan.

**Organisational learning.** Organisational learning in this research refers to retailers' improvement of operations through human resource management, training, knowledge acquisition and skill acquisition. The purpose of organisational learning is to cope with environmental change and to build new competences.

**Productivity.** Two common ratios of retail productivity are sales per employee (full-time equivalent) and sales per square foot of selling space (McGoldrick, 1990). However, this research uses an alternative measurement of productivity – sales per store - to measure Taiwanese convenience store retailers' productivity for two reasons:

- The number of stores has always been an important index for convenience store retailers to check market share and to consider when planning network expansion.
- The figure of sales per store is one of convenience store retailers' major concerns in performance check.

**Economic growth.** Traditionally economic growth means the increase of GDP, GNP, or per capita income. This research adopts the growth rate of GDP as a measure of economic growth. GDP is a combination of private consumption, government consumption, gross fixed capital formation, increases in stocks, and exports and imports. In this research, the contribution of retail trade to GDP will be examined. However, to measure the contribution of the convenience store industry

to the overall economy in Taiwan, an 'indirect approach' is utilised due to the unavailability of detailed data. The contribution in the second half of the 1990s is measured by the percentage of convenience store sales in private consumption.

#### **1.4. Methodology**

This research uses qualitative method to explore the competition in the convenience store industry, together with other retail formats, i.e., the department store, the supermarket, and the hypermarket in Taiwan. The purpose is to understand the strategic conduct and dynamics of the general merchandise retail industry in Taiwan. Data were collected through semi-structured interviews and secondary data sources, such as magazines, Master's level theses, and the Internet. Semi-structured interviews were used in order to obtain detailed information from convenience store retailers in Taiwan. Secondary data are heavily utilised in this research to understand the historical background and present development of this industry (see Chapter 5 and Chapter 6); secondary data are also used for triangulation (see Chapter 7 and Chapter 8). Details regarding research design and data collection are described in Chapter 4.

#### **1.5. The structure of the dissertation**

The contents of this dissertation are arranged as follows:

Chapter 1 Introduction

Chapter 2 Review of theories of retail strategy and retail organisational change

Chapter 3 Retail competition and resource-advantage theory

Chapter 4 Methodology

Chapter 5 The general merchandise retail industry in Taiwan

Chapter 6 The convenience store industry in Taiwan

Chapter 7 The premises of R-A theory and the convenience store industry in Taiwan

Chapter 8 The evolutionary process of the convenience store industry in Taiwan under the R-A Competition diagram

Chapter 9 Conclusion

Chapter 2 will review previous research on retail strategy and retail development, followed by a brief introduction of R-A theory. The methods of retail strategic planning under Ansoff's and Porter's frameworks and the theories of retail organisational change, especially retail cyclical theories, are mentioned here. One common problem with these theories is that they do not model the creation and accumulation of retailers' resources. These theories of retail organisational change also do not show the following factors, which are important facilitators behind the evolution of retail institutions:

- Different retailers can adopt different strategies
- Different objectives of these retailers
- The competition among different formats

The retail industry still lacks a theory better matching real retail market situations and more capable of presenting the consequence of retail competition and other environmental factors on the industry. Hunt's Resource-Advantage theory (R-A theory) is introduced as a potential solution.

Chapter 3 contains a detailed review of R-A theory and proposes several modifications. One task of this research is to apply R-A theory to the retail industry and thus examples from the retail industry, particularly the grocery retail industry, are presented here to show the suitability of R-A theory to modelling retail competition.

Chapter 4 discusses the methodology used in this research, including the motivation, research strategy, data collection procedures, and the limitations of conducting research in Taiwan.

Chapter 5 describes the development of Taiwan's general merchandise retail industry. This chapter discusses the macroeconomic environment in Taiwan and retail modernisation in this market since the 1980s. The major formats of the general merchandising retail industry, i.e., the department store, the supermarket, the

convenience store and the hypermarket are introduced. This chapter then discusses the factors behind the development of the general merchandising retail industry and the development in this market during the second half of the 1990s.

Chapter 6 outlines the convenience store industry in Taiwan to provide background information for the empirical analyses in the following two chapters. The focus is on chain convenience stores.

Chapter 7 and Chapter 8 examine the convenience store industry under Hunt's R-A theory framework. Chapter 7 discusses R-A theory's premises in the context of Taiwan's convenience store industry. Chapter 8 explains the evolutionary process of the convenience store industry in Taiwan under Hunt's R-A Competition diagram and discusses the outcomes of R-A competition in Taiwan's convenience store industry.

Chapter 9 concludes discussions of this research. This chapter summarizes the discussions regarding R-A theory's applicability to the retail industry. It also concludes the findings from the discussions of the convenience store industry in Taiwan. Finally, this chapter mentions the limitations of this research and provides future research directions.

# Chapter 2

## Review of Theories of Retail Strategy and Retail Organisational Change

### 2.1. Chapter overview

When describing retail competition, previous research has focused on modelling the following two aspects. One is how retailers react to competition, i.e., strategic planning covered in Section 2.1., and the other is the consequences of the competition, i.e., the change of retail organisations and formats over time covered in Section 2.2. This chapter will review these previous works and point out their limitations in explaining retail competition. An alternative theory for examining retail competition – Resource-Advantage theory or R-A theory - is introduced as a potential solution to these problems.

### 2.2. Retail strategy

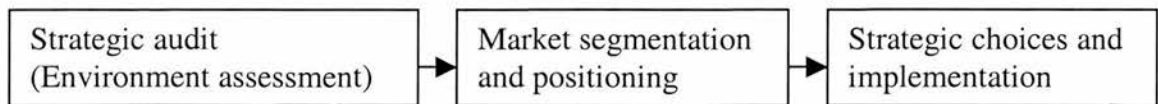
Traditionally strategy is viewed as a firm's using its existing resources to respond to the environment. As Shirley, Peter and El-Ansary (1981; cited from Knee and Walters, 1985) point out,

*'Strategy is...to define the nature of the relationship between a firm and its environment and to specify the types of business to be engaged in by the firm...'*

Knee and Walters (1985) further comments on this contention:

*'They believe that the overall strategy of any firm comprises decisions on five elements: (1) customer mix; (2) product mix; (3) geographic limits of the market to be served;(4) competitive emphasis; and (5) objectives (performance criteria)'... 'strategy is concerned with matching external opportunities with corporate resources at acceptable levels of profits and risks.'* (p.2).

Many studies of retail strategies are based on this definition (Kristenson, 1983; Omura, 1986; Knee and Walters, 1985; Walters, 1989; Davidson, Sweeney and Stampfl, 1988; Davies and Brooks, 1989; McGoldrick, 1990; Helmes, Haynes and Cappel, 1992; Danneels, 1996). These discussions all follow the general strategic planning procedure:



When developing strategic options, these studies in general adopt two major approaches for strategic planning:

- The growth vector (the product-mission) matrix developed by Ansoff (Kristenson, 1983; Omura, 1986; Knee and Walters, 1985; Walters, 1989; McGoldrick, 1990)
- The five-forces framework and generic strategies developed by Porter (Knee and Walters, 1985; Walters, 1989; McGoldrick, 1990; Davies and Brooks, 1989).

### **2.2.1. Retail strategy based on the product-mission matrix**

Ansoff's strategic planning includes the decision schematic in strategic formulation and the growth vector matrix, or the product-mission matrix. The former is a standard strategic planning procedure: decision on strategic objective, internal and external analysis, and the decision of strategic directions. The latter has four options for a company's strategies, based on the product and market a company chooses.

Kristenson (1983) develops a model of retail strategic planning based on Ansoff's strategic planning framework. He contends that any strategic planning should consider the following three factors first: consumers' demand, a retailer's resources and environmental factors. Following the analysis of the above three aspects, he develops an 'assortment-segment-matrix' and 'the capability grid applied to retail'. The matrix provides retailers with basic strategic choices based on market segments and product assortments. The retail capability grid is a tool for retailers to determine organisational functions needed to achieve these strategic choices. By using the



matrix and the grid, retailers can set a strategic direction and make clear the resources necessary to develop along that direction.

Omura (1986) combined Ansoff's product-mission matrix with other three concepts – the corporate portfolio planning techniques, the retail life cycle, and the merchandise-market scope - and develops a model of retail strategy development. The model suggests that the strategic planning start from the environmental and internal assessment and the decision of strategic objectives. The model then suggests four common corporate strategies:

- To invest for future growth
- To manage for earnings
- To manage for immediate cash
- To disinvest

The product-and-market mix based on Ansoff's model is developed subsequently to provide detailed directions for implementing these strategies.

Knee and Walters (1985) also adopted Ansoff's product-mission matrix and developed four strategic options for retailers (p. 107):

1. *Consolidation and productivity: increased performance from the existing resource base to provide margin, volume and asset utilisation improvement*
2. *Repositioning: meeting the changing needs of existing consumers and related customer segments*
3. *Growth: expansion into related merchandise areas or trading environments or both*
4. *Diversification: expansion into new merchandise areas, new trading environments. Customer services or service products; consideration of conglomerate and international activities*

They further point out that the strategies can be ordered based on their risk. Consolidation and productivity strategies should be the priority due to its low risk. Secondly, a retailer can consider repositioning and growth. Lastly, a retailer can consider the risky strategy of diversification.

### **2.2.2. Retail strategy based on Porter's five forces model**

There are two elements in Porter's five forces: the framework of industrial analysis and the generic strategy framework. The former provides a framework to analyse external factors of a company. The latter provides a company with three strategic directions – cost leadership, differentiation and focus.

Davies and Brooks (1989) use Porter's framework in a book regarding British retailers' positioning strategy. The book starts by using Porter's five-forces model to analyse the influential factors in Britain's food retail industry. The discussion then focuses on price and image of various sectors of British retail industry, e.g., the speciality store (men's clothiers), the department store, the food retail industry and the DIY retailing. The study of the food retail industry focuses on the period between 1983-1985. The book concludes that differentiation is the key factor for British retailers seeking success in the future.

Helms, Haynes and Cappel (1992) also utilise Porter's framework of five forces and generic strategy when examining the US retailers' strategic choices. They discuss the difference of influential factors between the manufacturing industry and the retailing industry based on Porter's five forces. The study then surveys 40 retailers and concludes that most of sampled retailers pursue combination strategy of low-cost and differentiation.

### **2.2.3. Limitations of these retail strategic planning models**

Despite their popularity, Ansoff's product-mission matrix and Porter's five forces framework have their drawbacks.

Ansoff's product-mission matrix is fairly simple and highly generalised (Davies and Brooks, 1989), as are the later adaptations of this matrix (Mudambi, 1994). It is difficult to label a retailer as choosing only one specific strategy. The retail industry is highly dynamic and this framework may not model the market situations and a retailer's strategic choices correctly because a retailer may pursue multiple strategies

and it's strategic decisions are highly interrelated. One example of this problem is seen in Knee and Walters' strategic choices mentioned earlier. Knee and Walter mention that a retailer will develop these four strategies one at a time, in line with the increasing investment risk. However, in reality, a retailer may utilise several strategies at the same time or may prefer a higher risk strategy to a lower risk one. For example, a retailer may pursue growth of stores because it wants to build scale economies and improve productivity. A retailer may also diversify through a strategic alliance to reduce the risk of introducing new services; thus the risk of diversification may not be larger than, say, repositioning and growth.

Porter's five-forces of industrial analysis and the generic strategy framework are another widely used set of retail strategic planning tools. Though the five-forces is adopted in strategic analysis of the retail industry, Walters (1989) points out some determinants of Porter's five-forces framework are not applicable for this industry. For example, contrary to the prediction of Porter's framework, the bargaining power of customers does not threaten retailers' retailer-brand product development, based on the fact that the power of retailer-brand products in the UK grocery retail industry dominates consumers' purchases.

McGee (1987) also criticises the five forces as unsatisfactory in explaining retail competition. Due to the following two reasons, this framework cannot explain retailers' strategic directions in the real world:

- The simplification of retailers' strategies based on Porter's generic strategy
- The positioning of a retailer's strategy at a certain corner of the generic strategy matrix

For example, the study of Helms, Haynes and Cappel (1992) mentioned earlier shows that the majority of retailers they sampled (12 out of 20) use a combination strategy, i.e., combination of the low-cost and the differentiation strategy, instead of using a single strategy.

Previous studies of retail strategy based on Ansoff's framework and Porter's five forces contend that a retailer's strategies are confined within the retailer's environment. This view dictates a passive role of a retailer towards its environment and ignores the ability of the retailer to change its environment. These discussions also do not mention what resources a company will need when planning strategies nor do they describe patterns of resource deployment (McGee, 1987). Though McGee's discussions of strategy includes the deployment of distinctive assets in the formulation of strategy and created retail business portfolio, his framework does not explain the relationship between competition and a retailer's adoption of certain resources and strategies. This framework also does not explain the change of retailers' strategic moves over time.

Another drawback of these studies is that discussions are confined to a certain point in time and do not model the dynamics of retail competition nor changes in strategy over time. However, as Miller, Reardon and Mocorkie (1999) point out:

*'Competition is, by its nature, a longitudinal construct.... further examination of potential multiple causal loops, non-linearities, and temporal changes in patterns is needed.'*(p.118)

Some studies of retail competition try to describe the change of retail development over time (Guy, 1994; Swinyard, 1997; Millier, Reardon and Mocorkie, 1999; Clarke, 2000). For example, Swinyard (1997) discusses US retail trends in the 1990s, and Clarke (2000) describes the competitive dynamics in the UK grocery retail industry. However, these discussions are not based on theoretical frameworks and often use anecdotal evidence.

Thus the problem is how to describe retail competition using a theoretical framework and at the same time put retail strategic planning in long-term perspective. One way to show strategic movement over time is to apply the retail life cycle in the process of their strategic planning (Knee and Walters, 1989; Omura, 1986). In general, one could use the theories of retail organisational change to model strategic movement over time. The following section will focus on the discussion of this approach.

### **2.3. Theories regarding retail organisational change**

Discussions of retail strategies in Section 2.1 mentioned the application of theories of retail organisational change to guiding retailers' strategic moves (Knee and Walters, 1989; Omura, 1986). Since McNair developed the concept of 'the wheel of retailing' in 1958, many scholars have tried to explain the change of retail formats, termed as 'retail institutions' by Brown (1987, p.5), from different perspectives. Brown summarises and classifies the theories of retail format change, or institutional change, into environmental theories, cyclical theories and conflict theories, as well as several varieties of these three basic types.

Environmental theories assert that the structure of the retail system is a reflection of environmental factors, such as politics, economies, societies, technology and demographics. Innovative retail organisations and formats only appear when the environmental factors are favourable and the evolution of such organisations is in response to environmental circumstances. Although environmental theories correctly emphasise the importance of environmental conditions to retail institutional innovations, they overlook the role of entrepreneurial retailers and the influence of newcomers on the established retailers.

Conflict theory contends that the evolution of retail institutions is brought about not only by new innovative retailers, but also by the response of established retailers to these newcomers. Conflict theories look at the interaction between new and established retailers but do not include external influences. Moreover, they do not explain the origins of different retail formats (Brown, 1987).

Because of these drawbacks, we turn our focus to cyclical theories for an explanation of the evolution and development of retail formats. Cyclical theories, i.e., the wheel of retailing, the retail life cycle and the retail accordion theory are the most frequently quoted in explaining retail development.

The most famous and often quoted cyclical theory is the wheel of retailing developed by McNair (1958). The basic idea of this theory is that change of retail formats goes through the following three stages: innovation, trading up, and maturity of a retail institution. Retail companies start as low-status, low-margin, and low-price operations and then move to more elaborate formats. Finally they mature and become high-cost and high-price merchants, vulnerable to newer retail formats, which develop through a similar path. However, exception of this theory is easily found. Some retailers, such as the boutique, the convenience store, the specialty store and the vending machine, do not develop following this cycle (Brown, 1987; Omar, 1999). Moreover, retail innovation in developing countries often starts from high-end formats (Kaynak, 1979; Brown, 1987).

The retail accordion theory suggests that the development of retail formats and a retailer's product lines follow a 'general-specific-general' path. The accordion phenomenon can happen at the industry-level or at the store level for a specific retailer. In other words, the change of retail formats depends on the alternating expansion and contraction of retailers' merchandise mix, or an individual retailer may widen and narrow its inventories inside stores over time. However, the change of retail formats and a retailer's product lines may not follow the sequence mentioned because the product line expansion and contraction happen in the market at the same time, or a retailer may develop a mass-merchandise and a limited-line format at the same time. As Brown pointed out:

*'... In fact, at any one time some institutions may be in the throes of widespread inventory diversification while others are rationalising their range of goods and yet others are experiencing both....'*

A counter-example to the accordion theory is British grocery retailers' development of the superstore and the compact format store. For example, Tesco operates four formats of stores, ranging from 100 square feet to nearly 20,000 square feet.

'The retail life cycle' developed by Davidson, Bates and Bass (1976) is an adaptation of the product life cycle concept. It contends that a retail format goes through four

stages: innovation, accelerated development, maturity and decline. An innovative format appears in the market with significant competitive advantage and attracts customers' attention and patronage. The success, i.e., the growth of sales and profits, of the new format brings about imitation from competitors, and stores of the same format proliferate; this stage is characterised by rapid growth in the number of stores and the sales. The market then becomes mature and saturated and the saturation leads to the decline of sales and profits and also the decline of the format. Finally, the loss of market share and reduced profitability lead to some retailers' withdrawing from the market. However, the final stage can be prolonged by repositioning of a format or by a reversal of environmental trends. Thus the key question is whether a retail format will ever reach the decline stage, or instead maintain profitability?

Like environmental and conflict theories, cyclical theories have their drawbacks as well, such as determinism (arbitrary division of stages), preoccupation with pattern (the division of retail format development into discrete cycles), lack of firm empirical support and presupposition of a long term retail institutional equilibrium (Brown, 1987). The reality of retail format development is that different retail formats have different target markets and satisfy different needs and they co-exist in the same market. As a result, the evolution of retail formats may not develop as mentioned in the cyclical theories of retail development (Izraeli, 1973; Kaynak, 1979; Brown, 1987; Morganosky, 1997; Swinyard, 1997). A survey of apparel shopping behaviour in the USA (Rousy and Morganosky, 1996) showed that though customers' shopping choices in terms of retail formats are increasing, all formats, old and new, co-exist in the same market. These formats serve customers with different shopping needs, instead of substituting for one another as the cyclical theories describe. Another problem with cyclical theories is their neglect of regional difference.

Existing theories of retail organisational change also do not take account of international retailers' introduction of modern retail formats to a country. In many East Asian countries, e.g., Taiwan, Thailand and China, modern retail formats are introduced by international retailers and thus the retail development in these

countries does not follow the development predicted by the existing theories (Chiu, 1980). A study of retail development in Thailand (Feeny, Vongpatanasin and Soonsatham, 1996) shows that the economic boom in Thailand during the late 1980s attracted international retailers to enter this market. The hypermarket (e.g., Makro), the convenience store (e.g., 7-Eleven) and several Japanese department stores (e.g., Yaohan, Isetan and SOGO) appeared in Thailand at the same time and their development did not follow the pattern mentioned in the theories such as the wheel of retailing. Even in Japan, classified as a developed country, the evolution is not quite the same as these theories of retail institutional change predict (Tatsuki, 1995).

As Brown (1987) pointed out:

*'...It is now acknowledged that a universal model of retail development is unobtainable and although many retail innovations are transmitted from more to less economically advanced nations, the sheer variety of social, political, cultural, legal and historical forces at work within individual countries, indicates that institutional diversity rather than uniformity is the hallmark of retail evolution.'*...(p7)

For example, Kaynak and Cavusgil (1982) compare retail development in developed countries to the development in Turkey. They point out that, due to competition, new formats, e.g., the supermarket and mail order service, were normally invented by one or more incumbents recognising unnoticed opportunities in developed countries, but, in developing countries, retailers prefer the status quo and are reluctant to change. Blois, Mandhachitara and Smith (2001) investigated agglomeration of the computer retailing in Bangkok and found that the traditional agglomeration-type of transaction is still growing and does not die out, though modern retail formats are continuously introduced there. Lo, Lau and Lin (2001, p.35) pointed out that the supermarket in China, unlike in Western countries, started as high-priced and high-quality to attract tourists and wealthy Chinese in the 1980s. Even today, the supermarket is still positioned for the upper-scale market.

In addition, the existing theories of retail development do not model the following three factors, which are very important facilitators behind the evolution of retail organisations:



- Different retailers adopt different strategies
- Different objectives of these retailers
- Competition dynamics among retailers of the same and different formats

The retail industry needs a theory closer to real retail market situations and able to model the influence of retail competition on the industry and on the environment within which they compete.

#### **2.4. Resource-Advantage theory and resource-based model**

Due to the drawbacks of past theories mentioned in Section 2.3., an alternative view, relating to resource-based model, of analysing retail industry competition and retail development is introduced here. This alternative view emphasises the heterogeneity of companies and the role of a company's resources in the competition.

The resource-based model of strategy formulation (Grant, 1991) provides an alternative tool for the analysis of retail competition. This approach is useful because it reflects retailers' capabilities under the current environment characterised by intense competition, versatile markets and diverse tastes of customers (Dawson, 1995). According to Grant (1995), the greater the environmental change, the more a firm should base its long-term strategy on internal resources. Therefore, it is more secure if retailers base their strategic planning on their company's resources accumulated over time. Moreover, now retailers compete through established systems, e.g., distribution networks and strategic alliances; the systems are based on multiple resources and complex organisational co-ordination. Therefore, the resource-based model is suitable for analysing retail competition. However, some elements are still missing in the resource-based model:

- How the environment influences the choice and development of resources and capabilities. Resource-based model does not provide a framework to analyse the factors in the environment and cannot show the interaction between a company and its environment, which influence the formation of its resources and competitive advantage. Particularly for the retail industry, the market situation

has a large impact on company performance. Retailers have to consider environmental influences when allocating resources and using capabilities.

- How the company identifies key resources and develops them over time. A company has various resources; it is unclear how and when a company identifies key resources for the development of capabilities and competitive advantage. Resource-model cannot show a 'path' for retailers to 'catch up' or 'surpass' competitors in competition.

Particularly when compared with Porter's generic strategy framework, it is obvious that the resource-based model lacks a framework to analyse the environment within which companies are competing and to analyse the resources necessary in the competition.

Hunt's (2000) Resource-Advantage theory seems to have the advantages of resource-based model without the drawbacks mentioned above. Resource-Advantage theory, or R-A theory, is an alternative theory of competition and draws from eleven different research traditions such as economics, management, marketing and sociology. This approach stresses the importance of market segments, comparative resource advantage and competitive advantage. Hunt lists a series of premises as the foundation of R-A theory and points out that, under these premises, competition is an evolutionary process and leads to outcomes at firm level, at industry level and at macro-economy level.

R-A theory is currently a feasible alternative for analysing retail competition because:

- Unlike current work on retail competition, it provides a theoretical framework to analyse retailers' competition process over time.
- Unlike present frameworks of retail strategic analysis, it assumes that competition is a loop and allows retailers to review their strategies in an ongoing process, based on their resources.
- Unlike theories of retail organisational development, it models the competitive dynamic of retail companies and explains the fact that several formats and types of retail companies co-exist in a market.

Compared with existing theories of retail development, R-A theory also has the following advantage. It considers both environmental factors and firms' factors in competition. In addition, by analysing stages of retailers' competition and understanding the purposes and processes of retailers' strategic movement, we will understand the evolution of a retail industry.

In Chapter 3, the details of R-A theory will be examined and its applicability to the retail industry will be discussed.

## **2.5. Summary**

This chapter examined theories of retail strategic planning and retail organisational change. Retail strategies normally are discussed under Ansoff's or Porter's frameworks. These frameworks advocate that a company's strategic planning should be based on change of external factors but these frameworks neglect the role of a company's resources in shaping the competition and environment. These frameworks also cannot model a retailer's strategic planning over time. Theories of retail organisational change provide frameworks to observe retail development over time. These theories are divided into environmental theories, cyclical theories and conflict theories. These theories try to depict competition and evolution in the retail industry but most of them suffer from being too deterministic with respect to the environment and fail to take account of firms' influence on retail competition.

An alternative theory - R-A theory - is introduced here to explain competition and development in the retail industry. The components of R-A theory will be examined in more depth in Chapter 3.

# Chapter 3

## Retail Competition and Resource-Advantage Theory

### 3.1. Chapter overview

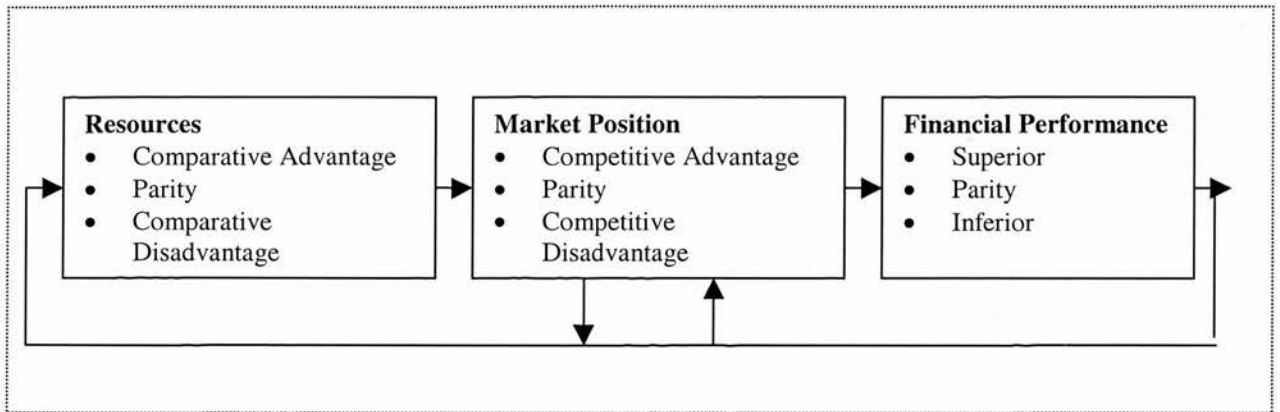
As explained in Chapter 2, numerous papers in the past tried to describe the strategic planning process and evolution of retail organisations but these theories had drawbacks. Chapter 2 suggests an alternative view of analysing retail competition and introduces Resource-Advantage theory – or R-A theory<sup>a</sup> - as an alternative theory of analysing retail competition and market development.

This chapter will discuss R-A theory in detail, based on examples of the retail industry. The examples from the grocery retail industry in the UK and the USA are heavily used and those from the non-grocery retail industry are also mentioned occasionally to enrich the contents. The purpose here is to examine the applicability of R-A theory to the analysis of the retail industry.

R-A theory of Hunt (2000) contains three main elements:

- Premises
- The process of competition (Figure 3-1)
- Outcomes of R-A competition

This chapter will discuss these three elements in sequence. First of all, the premises of R-A theory will be fully discussed. Secondly, the process of competition and its nature will be mentioned and the possible outcomes of R-A competition are discussed. Finally, the discussion focuses on the revised diagram of R-A competition.



Competitors-Suppliers

Consumers

Public Policy

**Environment components:**

Societal resources: e.g., infrastructure, capital, natural resources, formal education, and labour force skills

Societal institutions: e.g., culture, the rule of law, moral codes

Suppliers: e.g., their dependability and competences

Consumers: e.g., their tastes and preference

Public policy: e.g., patent, trademark, and antitrust policies.

**Figure 3-1 The Resource-Advantage Competition Diagram**

Source: Hunt and Morgan (1997) 'Resource-Advantage Theory: A Snake Swallowing Its Tail or a General Theory of Competition?', *Journal of Marketing*, Vol. 61, Oct., p. 78

**3.2. Premise of R-A theory**

This section discusses the premises of R-A theory. The purpose is to examine whether the nature of the grocery retail market fits the premises of R-A theory, before the process of R-A competition is further applied to the discussions regarding the grocery retail competition.

**3.2.1. Demand**

R-A theory contends that both inter-industry and intra-industry demands are heterogeneous:

*'Consumers' tastes and preferences differ greatly within a generic product category and are always changing.'*... (p.108)

In the context of the grocery retail industry, retailers face increasingly diversifying and changing consumers' tastes (Dawson, 1995), i.e., grocery retailers do not face a homogeneous market. Therefore, grocery retailers develop and sell several price and quality ranges of products at the same time and design different retail formats catering to different consumers' needs and preferences; for example, British supermarket – Sainsbury's – develops different formats based on different customers' shopping needs (Table 3-1).

Table 3-1 Different store formats of Sainsbury's stores

Store type	Purpose of the store formats	Size of stores
Sainsbury's largest stores	<ul style="list-style-type: none"> <li>• Largest store format</li> <li>• Offering extended food and non-food products for one-stop-shopping</li> </ul>	Over 45,000 square feet
Sainsbury's supermarkets	<ul style="list-style-type: none"> <li>• offering core product range to meet most main shopping occasions</li> </ul>	22,000 – 45,000 square feet
Sainsbury's town and city centre stores	<ul style="list-style-type: none"> <li>• offering opportunities for top-up and single meal shopping</li> </ul>	Averaging 15,000 square feet
Sainsbury's Central	<ul style="list-style-type: none"> <li>• located in city-centres</li> <li>• for weekly, daily and top-up shopping</li> <li>• offering fresh food, grocery and food to go</li> </ul>	10,000 square feet
Sainsbury's Local	<ul style="list-style-type: none"> <li>• for daily and top-up shopping as well as snacks and sandwich lunches</li> </ul>	3,000 square feet
Internet shopping	<ul style="list-style-type: none"> <li>• Providing convenient shopping over the Internet</li> </ul>	-

Source: [www.j-sainsbury.co.uk/media/press\\_questions5.htm](http://www.j-sainsbury.co.uk/media/press_questions5.htm)

R-A theory's contention regarding heterogeneous and intra-industry demand implies that identifying these segments most suitable for developing market offerings should be viewed as an entrepreneurial capability that affects firm performance. A good example is George, the clothing brand introduced by the British grocery retailer – ASDA. ASDA expanded its non-food product ranges to clothing by introducing George; the sales of George won ASDA one of the largest clothing retailer's market share by volume<sup>b</sup>.

The substantially heterogeneous demands in most industries also lead to diversity of business-unit financial performance. For example, Marks & Spencer's group financial record from 1998 to 2001 shows the different performance of the retailer's three major retail businesses: general (non-food), foods and financial services (Table

3-2). Table 3-2 also indicates that from 1999, the percentage of foods sales in total sales increased from 37.82% in 1999 to 40.80% in 2001, while the general product sales were declining.

Table 3-2 Marks & Spencer's group financial records from 1998 to 2001 (Unit: £m)

Year	1998	1999	2000	2001
General	4,811.4	4,765.1	4,629.6	4,413.5
Foods	3,157.1	3,110.3	3,201.3	3,299.1
Financial Services	274.8	348.6	364.6	363.1
Total turnover	8,243.3	8,224.0	8,195.5	8,075.7

Source: *Group Financial record, Annual report & financial statement 2001, Marks & Spencer; www.marksandspencer.com*

Another example is the different performances among different retail businesses of Metro, the German retail group. In 1999, Metro's cash & carry and consumer electronics businesses made 77.4% of operating profits, while its food retailing and department store businesses reported a loss (IGD, 2001).

### **3.2.2. Consumer information**

R-A theory contends that consumer information is imperfect and costly and there are two methods of informing consumers about products: trademarks and advertisement. Trademarks not only provide product information but also serve as a mechanism to maintain quality.

Information here includes 'availability, characteristics, benefits, and prices of all products in the market place' (pp.109-110). R-A theory points out that when facing imperfect information, consumers often use trademarks as a mechanism to reduce search costs, which are 'costs to consumers in effort, time, and money of identifying satisfactory goods and services' (p.110) and often considerable. Trademarks, as Hunt quotes from Chamberlin (1933/1962), are 'any sign, mark, symbol, word or words which indicate the origin or ownership of an article as distinguished from its quality' (p.110). Thus trademarks here are similar to the concept of brands defined by Kotler (2000) and the concept of corporate identity (CI) suggested by Christensen and Askegaard (2001, p.295). Hunt further points out that trademarks, licenses and

patents, are three societal mechanisms, i.e., methods for members in a society, to inform consumers about attributes of marketing offerings and thus reduce consumers' search costs.

Hunt also concludes that 'the role of trademarks in market-based economies is that they are quality control and quality enhancing institutions' (p.113). Wileman and Jary (1997) and Jones and Morgan (1994) suggest a similar view.

Wilkins (1994) provides an evidence of the contentions here, as well as Davies (1993, pp. 49-50). In the article '*When and why brand names?*', Wilkins mentions the value of trademarks for consumers:

*'...if the good is bottled, packaged, or if its attributes are not readily apparent for other reasons, how then does the consumer obtain information? The brand name informs the consumer. Consumers who buy a trademarked product know that if they like the product, then they can make a repeat purchase and obtain a standardised, expected quality' (pp. 20-21)*

*'The trademark has another major advantage to the consumer. Inherent in the trademark is a built-in incentive for the producer to uphold quality standard.'....(p.21)*

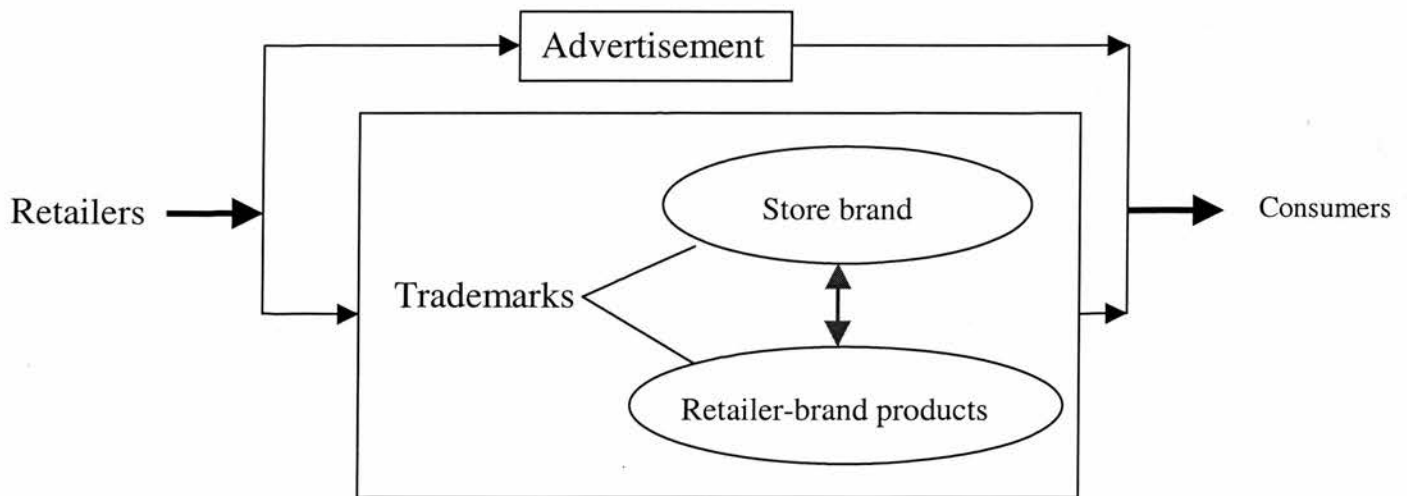
R-A theory's assertion regarding consumer's information is also supported in a study of Moir (1990; pp. 99-101). The study points out that consumers are imperfectly informed, particularly on product prices, and consumers' overcoming the imperfection of information bears costs. Many grocery shoppers are time and information starved customers (Davies, 1993; Corporate Intelligence on Retailing, 1996; Christopher, 1997). These consumers have limited time and money to shop for groceries and rely on grocery retailers to offer information and services. Therefore, product labels and brands provide consumers with mechanisms for checking product quality.

In the retail context, trademarks have two types of meanings: retailers' store band and retailers' own brand products. By offering a positive store image, retailers raise consumers' awareness of retailers' stores and the projection of a positive store image on retailer-brand products means that retailers reduce consumers' search costs by



offering satisfactory products under the store brand (store name, or the brand of a retail company). An example of a retailer meeting these needs is Tesco. Tesco ensures the product quality of retailer-brand products through the organisational associations between the store name, 'Tesco', and its products (Aaker, 1996). On the other hand, retailer-brand products also serve as a strategic tool to affirm the quality of retailers' offerings and enhance retailers' store brand image (Laaksonen, 1994). By developing premium range retailer-brand products and providing a quality guarantee mechanism, British grocery retailers, such as Tesco, Sainsbury's and Marks & Spencer, try to establish the 'quality store' image. North American retailers such as Loblaw and A&P also use upscale retailer-brand products to enhance image (Fitzell, 1992; p.77).

Hunt mentions that advertisement is also an efficient means to inform customers about product offerings. Many British grocery retailers use TV commercials to inform consumers their promotions and other offers. An example is Tesco's series of TV commercials to convey its business philosophy: 'Every Little Help'.



**Figure 3-2 How retailers inform customers of market offerings**

Hunt's explanation of consumer information is based on the phenomena in the manufacturing industry and the discussion here applies Hunt's concept to the retail industry with a minor revision. Figure 3-2 summarises how retailers communicate with consumers, as explained in this section. Retailers use advertisement and trademarks to inform consumers of their product offerings. Trademarks relate to a retailer's store brand and retailer-brand products. A retailer's store brand and retailer-brand products have mutual influence; in other words, a retailer uses its store brand to assure the quality of retailer-brand products and at the same time, premium quality retailer-brand products enhance the retailer's store brand.

### **3.2.3. A firm's objective and a firm's information**

These two premises describe R-A theory's contentions regarding the nature and types of information utilised by firms, firms' financial objectives and how firms achieve their financial goals.

R-A theory asserts that the firm's primary objective is superior financial performance under conditions of imperfect information. The information includes extant and potential market segments, competitors, suppliers, shareholders and production technologies and is often expensive. Financial performance is primary because 'prolonged inferior performance threatens the firm's survival and prevents the accomplishment of secondary objectives' (p.123), e.g., social causes and being a good citizen.

'Superior' here means 'more than' and 'better than' and implies that firms seek a level of financial performance exceeding that of some referents. The referent for comparison can be the firm's own performance in a previous time period, the performance of rival firms, an industry average, or indices of a stock market; the indicators may be accounting profits, earnings per share, return on assets and return on equity. The following statements made by the Chairman and the Chief Executive in Tesco's 2001 annual report<sup>c</sup> provide examples of Hunt's assertion:

*'The Tesco Group achieved outstanding full year results. Group sales have risen by 11.9% to £22.8 billion and underlying pre-tax profits are up by 12.0% to £1,07, with*

*adjusted diluted earnings per share increasing 11.1% to 11.31 pence.*'(Tesco Chairman, John Gardiner)

*'This year we have delivered strong results, made good progress with our transformation from a domestic to an international retailer and achieved sales growth that is gaining momentum – delivering the fastest organic growth rate of any major international retailer.'* (Tesco Chief Executive, Terry Leahy)

These two statements imply that Tesco uses the following indices to show the improvement of performance, compared with its own past financial results and with other international retailers:

- Sales
- Pre-tax profits
- Adjusted diluted earnings per share
- Organic growth rate

R-A theory also points out that different firms in different societies may employ different indicators and referents of financial performance. In the retail context, this means that retailers in different countries may use different indicators. For example, retail companies in some countries are privately owned businesses, e.g., Aldi in Germany, while in some countries, e.g., USA and UK, many retailers are publicly listed companies. The privately owned companies may have limited disclosure of their financial performance and thus the comparison of some financial indices is not possible. Under these circumstances, alternative indicators may be used. Thus retail companies operating in different environments naturally will have different sets of criteria for performance check.

R-A theory mentions that a firm's actions of seeking superior financial performance are limited by imperfect information and agency problems. Due to imperfect information, the maximisation of financial performance is constrained and managers seek superior, not maximum, financial performance instead. Hunt's argument here is that firms, or managers, do take actions to improve the firm's financial indicators but they cannot know some alternative actions that will lead to even higher performance. The information is imperfect possibly due to unexpected reasons, e.g., dynamic market situations and changing environment.

Some examples in the retail industry explain Hunt's assertion here. For example, ASDA was in merger talks with Safeway but later was acquired by Wal-Mart. We will not know whether the merger with Safeway would have brought better financial performance for ASDA or not. Some unexpected change in the environment also prevents managers from having perfect information and thus influences performance. For example, the terrorist attack in the USA in September, 11, 2001 influenced American consumers' shopping behaviour and resulted in retailers' different performance (Table 3-3)<sup>d</sup> immediately after the attack. Such an event could not be predicted in advance but had influence on retailers' performance.

Table 3-3 September 2001 same-store sales results of selected American retailers

Retail companies	Change of sales (%)
Wal-Mart	Up 6.3%
Sears	Down 6.7%
Federated	Down 12.9%
Saks	Down 11.5%
Gap	Down 17.5%
Target	Up 0.2%

*Source: company reports; quoted from [money.cnn.com/2001/10/11/companies/storesales](http://money.cnn.com/2001/10/11/companies/storesales)*

Other issues such as agency problems, ethical issues and the moral concerns of owners, managers, and subordinate employees may also prevent firms from maximising financial performance. Some ethical and moral concerns may interfere with firms' profit pursuits because firms sense their social responsibility and value the contribution of their employees. The income statement of John Lewis explains that a firm may sacrifice profits to nurture its relationships with employees. David Young, the Finance Director of John Lewis Group, revealed in 2000/2001 annual report that the group retained £58million of annual profits as Partnership bonus<sup>e</sup>. Tesco also has a similar scheme. In 2000, it retained £44million, 0.21% of its Group turnover (excluding VAT), for employee profit sharing. Therefore, retailers may retain profits to benefit their employees, instead of exploiting employees. Another example is presented in retailers' sense of social responsibility. Retailers may give up profits and get involved in social or community activities. For example, Safeway, the US supermarket retailer, donated more than \$80million to the community in

1999<sup>f</sup> and Sainsbury's, the UK supermarket, invested £14million in support of community activities during 2000/2001 accounting year<sup>g</sup>.

### **3.2.4. Resources**

R-A theory's contentions concerning resources include the following three points:

- Resources can be tangible and intangible
- Resources are heterogeneous across firms and imperfectly mobile
- Resources are not necessarily owned by the firm, but just available to it

#### **3.2.4.1. Types of resources**

Resources are tangible and intangible entities available to a firm that enable it 'to produce efficiently and/or effectively a market offering that has value for some market segments' (p128); resources include financial, physical, legal, human, organisational, informational and relational (Table 3-4):

Table 3-4 Definitions of resources and examples from the retail industry

Resources	Examples in the retail industry
Financial: cash reserves and access to financial markets	A retailer's retained earnings, capital from the stock markets
Physical: plants, raw materials, and equipment (subsidiaries and other investment)	Investment in stores, raw materials, equipment inside stores, plants, and investment in information systems and distribution centres
Legal: trademarks, patents and licenses	Retailer-brand products, retailers' store brand and licenses for selling specific products
Human: the skills and knowledge of individual employees, including entrepreneurial skills	Training and visions of senior managers
Organisational: controls, routines, cultures, and competences (know-how <sup>h</sup> ) – a competence for entrepreneurship	<ul style="list-style-type: none"> <li>• Method of operation such as chain store</li> <li>• Control of franchisees</li> <li>• Routines established based on manuals</li> <li>• Communications inside organisation through newsletters and meeting</li> </ul>
Informational: knowledge about market segments, competitors, technology	Market information from external and internal sources
Relational: relationships with competitors, suppliers and customers	Customer services and strategic alliances with suppliers and competitors

Source: Revised from Hunt (2000) *A General Theory of Competition*, Thousand Oaks: Sage

Barney (1991) and Grant (1995) suggest a similar definition and classify resources into the following categories (Table 3-5).

Table 3-5 Barney's and Grant's classification of resources

Barney's classification of firm resources	Grant's classification of firm resources
<ul style="list-style-type: none"> <li>• Physical capital resources</li> <li>• Human capital resources</li> <li>• Organisational capital resources</li> </ul>	<ul style="list-style-type: none"> <li>• Financial resources</li> <li>• Physical resources</li> <li>• Human resources</li> <li>• Technological resources</li> <li>• Reputation</li> </ul>

*Source: Barney (1991) Firm resources and sustained competitive advantage. Journal of management. Vol. 17, No. 1, pp. 99-120; Grant (1995) Contemporary Strategy Analysis. 2<sup>nd</sup> Edition. Cambridge: Blackwell.*

The retail business has different nature from that of the manufacturing business. Normally a large proportion of transactions in the retail business includes services (Helms, et al., 1992), which are intangible. Nooteboom (1986) in McGoldrick (1990) mentioned:

*'(Manufacturing) industry provides a utility of form, while retailing provides a utility of time and place.'*...

The difference between the retail business and the manufacturing business described above is also evident in the definition of retail trade and manufacturing provided by the Economic Census of the USA (1997)<sup>1</sup>:

*'The Retail Trade sector comprises establishments engaged in retailing merchandise, generally without transformation, and rendering services incidental to the sales of merchandise.'*

*'The Manufacturing sector comprises establishments engaged in the mechanical, physical, or chemical transformation of materials, substances, or components into new products....'*

*'Establishments in the Manufacturing sector are often described as plants, factories, or mills and characteristically use power-driven machines and materials-handling equipment....'*

Many retailers' success is based on intangible resources. Though Marks & Spencer suffered competition in the British retail industry and consumers' de-valuing its brand, it enjoyed huge success in the past. This success was based on its strong R&D capability and close relationship with suppliers, which are intangible and long-term (Davies, 1993). Therefore, perfect competition based on the study of the manufacturing industry and the tangible factors such as land, labour and capital, may not be sufficient for describing retailers service creation.

R-A theory is better than traditional theories of economics, e.g., perfect competition theory, in explaining retail competition. Traditional economics theories are not ideal for explaining competition in the retail industry because they are based on the manufacturing industry and focus on the function of tangible resources in competition. In contrast, R-A theory considers the contribution of intangible resources in competition, through it originated in the manufacturing industry.

#### **3.2.4.2. Nature of resources**

Hunt (2000), as well as Verona (1999), points out resources are both:

- Heterogeneous across firms: every firm has an assortment of resources that is at least in some ways unique.
- Imperfectly mobile: firm resources are not commonly, easily, or readily bought or sold in the marketplace.

Heterogeneity of resources indicates that each firm has some unique resources. Imperfectly mobile means resources are not readily transacted in the market. This assertion is supplemented by Grant's (1995) view regarding a firm's capabilities:

*'...it is important to recognise that capabilities cannot be integrated directly. Capabilities can only be integrated by integrating the knowledge of individual persons. This is precisely why higher-level capabilities are so difficult to perform....' (p. 131)*

Grant also points out these two natures, i.e., heterogeneity and immobility, determine the sustainability of competitive advantage.

### **3.2.4.3. Possession of resources**

Resources are not necessarily owned by the firm, but may be simply available to it. Hunt emphasises intangible assets and points out that the relationship involved in relational resources, e.g., reputation, is never owned by firms, but only available to them for the purpose of producing value for some market segments. Hunt adopted Falkenberg's (1996) view that 'a firm's resources include physical assets, valuable paper and behavioural assets – routines and competencies of the people involved,...., which are located not only inside, but also outside the firm and behavioural assets are the main source of wealth creation.' (p.129)

An example of Hunt's assertion is retailers' relationship with their suppliers. Many retailers integrate their supply chains and establish long-term relationships with their suppliers based on trust and commitment (Christopher, 1997). The past success of St. Michael brand of Marks & Spencer and survival of some British textile manufactures during the 1980s was due to Marks & Spencer's close and long-terms co-operation (Tse, 1985).

Though the co-operation is purely based on trust and commitment, the relationship between retailers and suppliers no doubt plays an important role in the success of own-brand development. In the development of premium own-brand products, many British retailers also establish long-term co-operation with their suppliers but most of these retailers do not own these suppliers, e.g., Northern Foods. A second example is retailers' co-operation with various partners; retailers establish competitive advantage through strategic alliances or partnerships to provide services and products, which were not offered traditionally by grocery retailers. Many British retailers establish partnerships and joint ventures with banks (such as Tesco with the Royal Bank of Scotland and Safeway with Abbey National) or petrol companies (such Safeway and BP). Retailers also try to retain customers through different schemes such as loyalty cards and various member clubs, e.g., Sainsbury's Reward Card and Little Ones Club ([www.sainsburys.com](http://www.sainsburys.com)).



### 3.2.5. The role of management

Hunt compares the views of perfect competition and R-A theory regarding the role of management. Perfect competition holds a short-term view regarding the role of management and defines that managers should determine price and quantity of market offerings under a standardised production function. Different from perfect competition theory, R-A theory focuses on senior management. It emphasises that the role of management has strategic meaning and is more creative and proactive.

Hunt asserts that management should include the following functions:

- To recognise and understand current strategies
- To create new strategies and select preferred strategies
- To implement the strategies selected
- To modify strategies through time

An example of managers' strategic role is the acquisition of Debenhams in 1985 by Burton's<sup>j</sup>, the clothing retail group. Burton's key managers convinced shareholders that marketing and managerial skills of Burton's managers would improve Debenhams' performance (Burt and Marks, 1986). In this example, Burton's strategic move is due to top management's decision to diversify into other retail businesses; managers play a proactive role in the future movement of a company or a group.

The manager's decision about strategic choices will influence a firm's performance. As a report in the Independent (Valley and Cope, 1996) points out:

*'...Since Sir Ian MacLaurin took over as the chairman of Tesco in 1973, he has transformed the company from a down-market, discount retailer to the equal of Sainsbury's both in market share and quality.... And ASDA became one of the best-performing stocks in the Footsie last year (1995) under Archie Norman's recovery programme, which includes gimmicky promotional schemes such as singles nights, pet stops and brolly patrols.'*

Another example is ASDA's entry into furniture retailing (Walters, 1988). Under-resourced management and managers' being unable to foresee the downturn of demands caused its losses and failure of furniture retail business.

Strategies emerge over time and include the identification of:

- Market segments
- Appropriate market offerings
- The resources required to produce the offerings

Strategies sustaining firms' superior financial performance should be based on resources with which firms have comparative advantage over competitors. Hunt emphasises creation and selection of strategies and managers' capability to modify during the competition process. The senior managers' duty is to create strategies using resources advantageous for firms.

### **3.2.6. Competitive dynamics**

R-A theory asserts that competition is an evolutionary process and the actions of a firm are disequilibrium-provoking, i.e., firms' actions cause the imbalance in resources and competitive advantage among competing firms. Unlike the neo-classical theories, R-A theory contends that competition is provoked by a firm's innovation and thus environmental factors, especially industry structure, only influence, not determine, a firm's conduct and performance.

Hunt further asserts that all firms in an industry will have diversified strategies due to different resource assortments owned by these firms; firms will target different market segments and/or compete against different competitors.

As Davies (1993) pointed out:

*'In fact there can be as many successful retailers as there are dimensions along which a retailer can be distinctive.'*...(p. 102)

The process of R-A competition allocates resources efficiently and generates increases in productivity; the process and outcomes are explained in more detail later in the competition process. Based on the premises of R-A theory, firms pursue comparative resource advantage to obtain competitive advantage in market positions and achieve superior financial performance. This view is similar to Porter's (1976) explanation about strategy:

*'The strategy of the firm is its search for a comparative advantage in its industry. The firm not only sets its price and quality but simultaneously determines a large number of other parameters of its competitive posture within its industry.'* (P.71)

Omar (1999) mentions that retail competition is multidimensional competition and more competitive than other aspects of marketing. Leading retailers must seek innovations in marketing or in products to upgrade their competitiveness; at the same time, retailers falling behind will look for innovation to create competitive advantage and change their market positions.

### **3.3. Process of competition**

Based on the premises discussed in the previous section, Hunt defines the competition as R-A competition and explains the nexus and nature of R-A theory in the following order:

- The process of competition is evolutionary
- How the process leads to innovation and organisational learning
- R-A theory and firm diversity

R-A theory defines competition as disequilibrium-provoking. It is the constant struggle among firms for comparative resource advantages, which lead to market positions of competitive advantage in some market segments. This comparatively advantageous market position then results in superior financial performance for firms with competitive advantage. The superior financial performance is the firms' primary goal.

During the process of competition, firms and consumers have imperfect information. Various environmental factors - termed as 'institutions' by Hunt - and entrepreneurship affect economic performance. The process of competition then leads to developments in two aspects:

- Innovation and organisational learning within a firm
- Relative market positions and financial performance

The competition also results in firm diversity, increasing level of productivity and economic growth for the whole industry and economy.

Competition in the grocery retail industry can be regarded as R-A competition. Retailers continuously rationalised their operations and introduced different services and marketing tools to establish competitive advantage<sup>k</sup>. This process coincides with the process of resource accumulation and pursuit of competitive advantage in certain market segments described in R-A theory.

An example of this process is the development of the British grocery retail industry after the World War II. In Britain, the self-service supermarket was introduced after World War II; from the mid-1960s through the 1970s, British supermarkets competed through cutting price. In the 1970s, the supermarket extended their product range to include more fresh foods and started using EPoS systems. During this period, Marks & Spencer introduced chilled products; the success of Marks & Spencer's chilled food products later attracted manufacturers and other grocery retailers to develop similar products. The 1980s saw the development of the superstore format and the widespread introduction of own branded products. During the 1990s, grocery retailers introduced customer loyalty schemes and various services, such as petrol filling, financial services and homeshopping. At each different stage, British grocery retailers introduced different innovations to improve their services and performance.

### **3.3.1. The Resource-Advantage Competition diagram**

Hunt demonstrates the process of competition using the Resource-Advantage Competition diagram (Figure 3-1, p. 23).

According to the diagram, the process of competition can be explained as a cycle; this view is similar to McGoldrick's view (1999) of the retail growth cycle. The continuous process of this diagram, when used in analysis of an industry in a long-term perspective, helps understand the process of resource creation and accumulation and dynamics of competition.

Under the Resource-Advantage Competition diagram, comparative resource advantage leads to different market positions of competitive advantage and then market positions of competitive advantage result in various financial performances. Financial performance then provides firms with feedback to estimate whether a firm utilises its resource efficiently/effectively and to decide the firms' further movement. The whole process is influenced by five environmental factors:

1. The societal resources on which firms draw, e.g., infrastructure, capital, natural resources, formal education and labour force skills
2. The societal institutions, e.g., cultural, the rules of the law, moral codes
3. The actions of competitors and suppliers, e.g., the entry of a new competitor and the dependability and competences of suppliers
4. The behaviours of consumers, e.g., change of customer's tastes and preferences
5. Public policy, e.g., patent, trademarks and antitrust policies

An example of the environment's influence on a retailer's performance is ASDA's decline in the 1980s (Walters, 1988). ASDA had periods of growth and decline throughout its company history. It was very successful before the 1980s and is one of the top four grocery retailers in Britain in 2002. However, it tumbled during the second half of the 1980s due to its long neglect of environmental change.

Through out the 1960s and the 1970s, ASDA experienced rapid development of its large-scale stores through the following appeals, accompanied by the advantage of regional monopoly, low unemployment and increasing car ownership:

- A wide choice of branded merchandise
- Convenience (one-stop-shopping)
- A distinctive low price

However, from the 1970s, consumers became more responsive to merchandise offer, in-store ambience and services but ASDA was not able to follow consumers' change and to become more innovative as its competitors did. Competitors were beginning to use design consultants to improve in-store ambience while ASDA's stores suffered from poor layout designs and being under-spaced. Meanwhile, competitors introduced wide ranges of retailer-brand products with higher margins but ASDA was quite slow in terms of retailer-brand product development. The retailer-brand sales in ASDA stores accounted for less than 10% in the late 1970s and less than 30% in the 1980s. In contrast, the retailer-brand product sales of retailers such as Sainsbury's, Tesco and Safeway accounted for over 30% of their packaged grocery turnover from the late 1970s through the 1980s (Burt, 1992).

Another example is Co-op's loss of its leading position in the UK grocery retail market after 1964 due to the government's change of policy (Davies and Brooks, 1989; p.217). Co-op used to benefit from its own manufacturing and strong retailer-brands and was able to offer competitive prices inside stores due to the cost and price advantage. However, Co-op's economic advantage disappeared after British government lifted the Resale Price Maintenance in 1964.

### **3.3.2. The pros and cons of the diagram**

The advantage of this diagram is that it outlines the influence of environmental factors on competition process. It also has the following advantages:

- To outline the key success factors, i.e., strategic resources, in the industry
- To demonstrate the market position of a specific company
- To demonstrate a company's financial performance, relative to its competitors

Therefore, this framework is viable for analysis at the industry-level to understand competition dynamics and key success factors in the industry. It is also viable for analysis at company level to help a company understand its strength of resources, market positions and financial performance, compared with its competitors'. However, this diagram inherits the problem of resource-based model of strategy analysis. The resource- or competence-based model is weak in foreseeing the necessary resources, with which firms will build competitive advantage in the future (Drejer, 2000). This diagram has the same drawback; it provides a framework to analyse the industrial posture and a firm's market position, but does not suggest future directions of development. Unlike theories of retail strategies based on Porter's generic strategies and Ansoff's product-mission matrix, the R-A Competition diagram can only suggest that resource creation must be through proactive innovation and generative organisational learning. Therefore, the revised R-A Competition diagram is not viable for providing suggestions regarding a firm's future resource creation.

### **3.3.3. Nature of R-A theory: an evolutionary theory of competition**

To define R-A theory as an evolutionary theory, Hunt adopts the view of Dosi and Nelson (1994) that 'an evolutionary theory should explain the movement of economic variables through time'. Hunt adopts three indicators (Dosi and Nelson, 1994; Hodgson, 1993; quoted from Hunt, 2000) to prove R-A theory evolutionary.

- Units of selection should be fairly durable and heritable
- Mechanisms that do the selecting must be a on-going selection process that involves a 'struggle for existence'
- The criteria of selection, adaptation and variation should be the survival of the 'fitter', not necessarily the 'fittest'

### **3.3.3.1. Durable and heritable resources and ownership**

Hunt points out that R-A theory is evolutionary because:

- Both firms and resources are heritable and durable
- The ownership of firms can be passed on to heirs and resources constitute the entities being inherited.

Heritability means that the ownership of firms can be passed on in succession and resources also can be inherited in the process. Durability means firms survive and build history; for example, some retailers – such as Sainsbury's in the UK and the Hudson and Dayton Corporation (renamed as the Target Corporation in 2000) in the USA - have over 100 years of history. In other words, a firm, as an entity, is perpetual and long lasting and its existence is not influenced by the leaving of any single manager, though it will adjust to the change of market situation from time to time. Some resources such as brands are also durable, if maintained properly. For example, the brand of the Hudson's Department Store, owned by the Target Corporation, was changed to Marshall Field's in 2001. However, Hudson's brand has been a household word in Michigan, the USA, for over 100 years and customers found it hard to accept the new brand (Avery, 2001; Bodipo-Memba, 2001).

Hunt mentioned that a resource can die because of the following three reasons:

- The failure to reinvest
- The failure to understand
- The failure to respond to a changed environment

A typical example of this assertion in the retail industry is the history of Marks & Spencer (Tse, 1985). The name of the company reflects the names of its founders – Michael Marks and Thomas Spencer. Soon after the establishment of the Marks & Spencer Limited in 1903, two founders died in 1903 and 1907. The business was passed on to Michael Marks' son, Simon Marks. In 1926, Marks & Spencer became a publicly listed company and registered St Michael brand. From 1917 to 1985,



Marks & Spencer went through the management of five chairmen and was monitored by public capital markets. The Marks family continuously dominated the business until 1983, when Lord Rayner became the vice-chairman and the Chief Executive Director of the company.

Since the creation of St Michael, Marks & Spencer and St. Michael have been strong brands in Britain, until the company suffered fall of sales and the trouble in the Board in the late 1990s (Hollinger, 1999). Therefore, we can conclude that Marks & Spencer's operation and the company's brands are durable and heritable. However, the failure to respond to environmental change and failure to re-invest caused the decline of Marks & Spencer's performance since the late 1990s.

### **3.3.3.2. On-going selection process**

Competition among firms is an on-going and never-ending selection because the diversified firms in the market always attempt to pursue superior financial performance and better market positions through different ways. These firms' continuous adjustment keeps the market dynamic all the time.

### **3.3.3.3. Criteria of selection**

The result of competition is the survival of the 'locally fitter', not 'universally fittest'. In the context of the retail industry, a retailer may not adopt strategies similar to competitors' but still have a strong hold in a niche market. For example, the British grocery retailer, Wm Morrison is the fifth-largest supermarket chain in the UK. Unlike other grocery retailers, it does not offer a loyalty scheme or have e-commerce expansion; however, owing to lower-price offers and high quality fresh produce, it has its strong market position in the North of England and the most loyal customers in the industry (KeyNote, 2001; p.21). Its market share in Yorkshire, where its headquarters are based, is leading its competitors in 1999, though it is only number five at national level (Burt and Sparks, 2000). Another example of a 'locally fitter' chain is Waitrose introduced below.

Hunt particularly explains the view of the ‘locally fitter’ in R-A theory;

- R-A competition encourages firms to neutralise or surpass competitive advantage of particular advantaged rivals and thus ‘does not focus on rivals superior in some absolute sense. For example, Waitrose’s size is relatively small in terms of operational scale and sales, compared with the top three retailers, i.e. Tesco, Sainsbury’s and Asda, in the UK grocery retail market (Table 3-6). However, it emphasises quality of its offers and thus holds a special niche market position (Knee and Walters, 1985; Davies, 1993).

Table 3-6 Sales and geographical coverage of sampled British grocery retailers

Company	Operation scale	Sales (unit: £000)	
		1992	1999
Waitrose	South East Britain	1,117,889	1,753,500
Tesco	Nation-wide	7,097,400	17,158,000
Sainsbury’s	Nation-wide	9,202,300	16,433,000
Asda	Nation-wide	4,529,100	8,198,300

Source: KeyNote (1995) Market Report: Own Brands 1995.

KeyNote (2001) Market Report 2001: Own Brands. 2001

- The existence of advantaged firms having access to a resource that places them in marketplace positions of competitive advantage will encourage disadvantaged firms to give ‘birth’ to new resources. Since the 1980s, British retailers have been proactive in retailer-brand product development. Retailers such as Marks & Spencer and Sainsbury’s are famous with building strong retailer-brand successfully. However, their market leading positions in retailer-brand products are gradually eroded by other retailers such as Tesco, especially after the launch of Tesco’s Finest range – a premium retailer-brand. Sainsbury’s response to Tesco’s Finest is to introduce ‘Be Good To Yourself’ and ‘Taste the Difference’. These two new brands received a positive response from the market. ‘Be Good to Yourself’ had over £100million pounds sales in 2000 and is one of the UK’s top 20 consumer brands. By creating new brands, Sainsbury’s regains some of its retailer-brand market. Sainsbury’s also tries to develop a new luxury store format to upgrade its market image. The new store will include an in-store wine merchant, a Starbucks coffee bar, and a bakery of Baker & Spice (Key Note, 2001).

- That some advantaged firms succeed in a particular market segment does not imply that such firms would be equally advantaged or survive in other segments if the environment changes. For example, Marks & Spencer's success in Britain did not guarantee the same result in Canada and France (Brown, 1987).

The assertion of the 'locally fitter' allows firms, with the creation of its own special resources, to be superior in a specific geographical region or a niche market, thus this assertion may provide an explanation for why one retail format is strong in one market but not in other markets.

### **3.3.4. Main elements of the R-A Competitive diagram**

There are three main elements in the R-A competition diagram:

- Comparative resource advantage
- Market position of competitive advantage
- Financial performance

The relationships among these three elements are cause-effect, as shown in Figure 3-1. Hunt has explained the nature of resources and the definition of superior financial performance in the premises. The discussion here will focus on the ways to sustain comparative resource advantage, the way to determine market positions and the determination of market positions.

#### **3.3.4.1. Comparative resource advantage**

To establish superior market positions of competitive advantage, firms must seek and sustain a comparative resource advantage. The life span of competitive advantage is influenced by the life span of strategic resources, which is determined by external and internal factors.

**Internal factors.** Comparative advantage in resources may be dissipated or invalidated due to the following reasons:

- **A firm's failure to reinvest.** A firm with sustainable competitive advantage should continue reinventing the strategic resources and thus prolong the life span

of the competitive advantage. Firms that fail to do so will be surpassed by competitors.

- **The presence of causal ambiguity.** Hunt mentions that sometimes firms fail to achieve superior financial performance due to causal ambiguity. They are not able to recognise the link between their competitive resource advantage and market positions. Superior financial performance is the result of a complex combination of a company's strategies and decision; thus a firm's failure to find a key success factor causes casual ambiguity. A firm's failure to recognise the key success factor will lead to the discontinuous superior financial performance. Thus comparative resource advantage which leads to a firm's competitive advantage may dissipate due to this causal ambiguity.
- **A firm's failure to adapt.** If a firm fails to modify, sell, relinquish or abandon a resource or resources when facing the changed environment, it may lose its comparative advantage in resources and competitive advantage. This condition links resources-based advantage with the external factors. As Hunt points out:

*'an asset that is a resource in one environment can become a nonresource in another if it no longer contributes toward the creation of value in the firm's market offerings' (pp.140-141).*

*'Entities constitute resources contingently' (p.141).*

Therefore, the nature of a firm's attribute, i.e., whether it is a resource, nonresource, or contra-resource for a firm depends on a firm's competitive position, environment, and how the attribute fits with the firm's total assortment of resources.

Grant (1991) suggests similar views regarding the dissipation of competitive advantage of resources and further mentions that the 'commitment to upgrading the firm's pool of resources and capabilities requires strategic direction in terms of the capabilities that will form the basis of the firm's future competitive advantages' (p.132). Therefore, a firm's establishing resources and capabilities can be regarded as an evolving process. A firm will elaborate previously built resources and builds new resources and capabilities towards its strategic direction at the same time. This

evolutionary process must be observed over the long term. For example, Tesco has a sequential development plan for its e-business SBU. In the preliminary stage, it established a website to promote Tesco corporate image and products and at the same time offered trial online grocery shopping in limited areas. Next, it co-operated with Siemens to provide Internet gateway services, sponsored school computer education programmes and thus accumulated a potential customer base for its ISP services and online shopping. In 2000, it further planned to open Internet cafés attached to its grocery stores and, through these cafés, also to educate its customers how to surf online. The following step is likely to be its Internet service division and the establishment of an independent e-business SBU. Therefore, Tesco's e-business can be regarded as a process of resource and capability evolution.

Grant further concludes that 'to the extent that capabilities are learned and perfected through repetition, capabilities develop automatically through the pursuit of a particular strategy' (p.132). To build future competitive advantage, a firm may invest internally or acquire resources outside the organisation. There are two concerns when a firm tries to build resources or capabilities for future development. Firstly, a firm may face limited capability, e.g., capital, to invest on the new resources. Secondly, whether a firm invests internally or acquires resources from outside, it needs some time to 'internalise' these resources and to build up organisational routines. However, the rapid change of the external environment and competition may give it limited time and therefore an alternative is to build strategic alliances with other organisations that can help the firm achieve the strategic goals more economically in terms of time and capital. For example, to offer finance services, the British retailers do not have expertise in opening a bank and thus these retailers team up with existing banks.

**External factors.** As mentioned earlier, the five environmental factors, such as changes in societal resources, societal institutions, and actions of consumers, government, suppliers, or competitors, influence competition and a firm's comparative advantage in resources. This influence is evident in retail competition since the level of turbulence in the environment influences the retailer's decisions of establishing competitive advantage and strategy (Dawson, 1998). Hunt uses three

examples to exemplify the influence of external factors on a firm's comparative advantage and the evidence can be found in the retail industry:

- Changes in consumer tastes and preferences in a market segment can turn a resource into a nonresource or contra-resource, e.g., consumer's change of brand perception led to Marks & Spencer's sales decline.
- Governmental actions can destroy the value-creating potential of a resource through laws and regulation, e.g., the example of Co-op in Section 3.3.1.
- Changes in patents, trademarks, franchising and other laws can destroy a resource's comparative advantage, e.g., Tesco's failure in the lawsuit with Levis in 2001 destroyed Tesco's chance of benefiting from parallel import

Hunt further explains in which way environmental factors will influence a firm's comparative resources and competitive advantage by pointing out competitors' possible actions and then explains how firms can sustain their competitive advantage. Competitors' actions may neutralise a resource's comparative advantage:

- By purchasing the same resource as the advantaged competitor's
- By imitating the advantaged competitor's resource
- By developing a strategically equivalent resource
- By developing strategically superior resources.

The effectiveness of these actions and the time it takes for them to neutralise a specific competitor's resource advantage successfully depend on certain characteristics of the marketplace offering and certain characteristics of the resources producing the offering (p.142).

Hunt points out that the key characteristic of marketplace offerings for firms' maintaining comparative resources is ambiguity. Two kinds of ambiguity bring about great uncertainty and thus make the attempts to neutralise a competitor's comparative advantage difficult. First of all, competitors may know that consumers in a specific market segment prefer their rival's offerings; however, there may be great ambiguity as to precisely which attributes of the offering are making it perceived to be superior. Secondly, it may be ambiguous as to which resources are

being used and the precise nature of the resources that produce the highly valued attributes.

Resource characteristics that affect the sustainability of comparative advantage are:

- **Mobility:** resources, such as brands, which are intangible and must be developed over time and can not be neutralised through acquisition or in a short period of time
- **Complexity and interconnectedness:** resources that are socially complex or involve combinations of many resources, i.e., capabilities, and that competitors find difficult to gain access to a critical component
- **Mass efficiencies:** resources that require 'critical mass' before they can be utilised effectively
- **Tacitness:** non-codifiable skills that are gained through 'learning by doing'
- **Time compression diseconomies:** resources, such as reputation, which take time to be acquired

Grant (1991) has similar views about a firm's resource sustainability and points out four determinants of a firm's sustainability of competitive advantage: durability, transparency, transferability and replicability. Barney (1991) also points out that resources are sustainable and competitors will not decode and imitate them easily if:

- These resources are established due to a firm's unique historical conditions.
- These resources are socially complex.
- These resources contain causal ambiguity.

However, Hunt creates an erroneous argument. When mentioning internal factors, which influence comparative resource advantage, he points out that the causal ambiguity between resources and market positions may lead to the dissipation of comparative resource advantage because firms are unable to recognise the source of their advantageous market positions and superior financial performance. However, when mentioning how to maintain resources as sustainable advantage against competitors, Hunt suggests that ambiguity is the key to sustain competitive advantage.

One possible explanation for this erroneous argument is that firms reduce the ambiguity of resources to insiders but maintain the high ambiguity to outsiders. To reduce the ambiguity of resources inside organisations, firms may use some organisational control mechanisms such as a low separation rate, mentor systems, manuals, intra-organisational newsletters and regular training programmes to build a special corporate culture, retain employees' loyalty and maintain the consistency of operations.

Manuals, training programmes and mentor systems maintain the standards and consistency of a firm's operations. In the retail industry, the standardisation of operation at store level is particularly important since normally the turnover of employees in this industry is high. At corporate level, intra-organisational newsletters convey and repeat a firm's business philosophy and directions to employees. In addition, mentor systems and a low separation rate ensure that employees will have a deep understanding of their company's operation and the operation remains smooth and consistent over time.

To ensure competitive advantage remains tacit from outsiders, firms may utilise the approach of (Grant, 1995):

- Reducing mobility, e.g., building strong and positive brand image
- Retaining the complexity of resources, which competitors cannot imitate
- Building mass efficiency, e.g., retailers' building economies of scale
- Being a first mover

#### **3.3.4.2. Market positions of competitive advantage**

How efficiently and effectively firms utilise their resources then decides their relative marketplace positions of competitive advantage and disadvantage.

Hunt illustrates marketplace positions of competitive advantage and disadvantage in the competitive position matrix (Figure 3-3) which shows nine possible competitive positions for the various combinations of a firm's relative resource-produced value for some segments and relative resource costs for producing such value. In this



matrix, the relative resource cost is equivalent to cost advantage in the resource-based model of Grant and relative resource-produced value is equal to differentiation advantage. Grant (1991) explains that there are two sources of competitive advantages: cost advantage and differentiation advantages. These two advantages decide firms' relative market positions. As mentioned in Chapter 2, firms may utilise cost and differentiation advantage at the same time in their strategies (Helms, Haynes and Cappel, 1992). This assertion is parallel to Hunt's matrix here.

Hunt points out, to achieve superior financial performance, a firm should occupy one of three cells, i.e., 3, 2 and 6, in the matrix. Firms positioning in these three cells will obtain superior financial returns.

		Relative Resource-Produced Value		
		Lower	Parity	Superior
Relative Resource Costs	Lower	1 Indeterminate Position	2 Competitive Advantage	3 Competitive Advantage
	Parity	4 Competitive Disadvantage	5 Parity Position	6 Competitive Advantage
	Higher	7 Competitive Disadvantage	8 Competitive Disadvantage	9 Indeterminate Position

Cell3: competitive advantage in resources produces superior value at lower cost. Firms achieving this competitive advantage will stand in the best position.

Cell2: efficiency advantage because lower resource costs produce a market offering of parity value.

Cell6: effectiveness advantage because parity costs produce superior value

Firms in cell 4, 7 and 8 will have competitive disadvantage and try to shift their position to Cell 2,3,6.

### Figure 3-3 The Competitive Position Matrix

Source: Hunt and Morgan (1997) 'Resource-Advantage Theory: A Snake Swallowing Its Tail or a General Theory of Competition?', *Journal of Marketing*, Vol. 61, Oct., p. 78

However, problems of this matrix arise from the definition of relative resource costs and relative value. Resources in R-A theory include tangible and intangible resources, and intangible resources often are difficult to be measured by some



traditional mechanisms, e.g., accounting reports. This dilemma is explained by Hunt's quote from Gummesson (1995) regarding intangible resources:

*'Thus, the value of many organisations "can not be correctly assessed from traditional information in the balance sheet and the costs and revenue statements of the annual report".' (P.129)'*

Davies and Brooks (1989) studied the change of store image of the British grocery retailers between 1980 and 1985 and concluded that store image influences a retailer's financial performance. Under these circumstances, store image is a comparative resource advantage for the leading grocery retailers. But the formation of store image is based on a bundle of attributes, especially intangible attributes, over time (McGoldrick, 1990). Therefore, it will be difficult to quantify the costs for a retailer to create attributes that contribute to the total image.

Besides, using resource costs may be a conflict with Hunt's assertion of the locally fitter in R-A competition. Hunt asserts that entities may survive not because they are superior in an absolute sense. An example from the retail industry is Waitrose, the British supermarket retailer targeting the upper-market. Compared with competitors, though a company such as Waitrose mentioned in Section 3.3.3.3 may be relatively disadvantageous in terms of the company size and resource costs, it still survives in its own niche market. In the context of international retail markets, this conclusion also implies that, though a retailer, compared with a international retailer, may be relatively disadvantageous in terms of size and operation costs, it may still succeed in its local market.

The conflict with the assertion of the locally fitter also appears in determining resource-produced value. Since some firms may only have operations in some certain geographical areas or focus on certain niche markets, the target markets among different companies may be different. Therefore, the comparison of value creation among firms will be difficult since there is no consistent foundation for comparison. In the grocery retail industry, retailers may target different demographic groups and cater to customers' different needs; it will be difficult to compare customers' perception of value if these customer groups have different needs in

shopping. For example, Kwik Save has a different niche, compared with Sainsbury's and Waitrose's - Kwik Save positions at low-cost/low prices, while Sainsbury's and Waitrose position in high quality - but they may deliver similar value to their target customers. Another example is the comparison of Harrods and Marks & Spencer. Both are department stores but have different store image and market presence. It would be difficult to compare the values Harrods and Marks & Spencer brought to customers or compare Harrods' and Marks & Spencer's market positions in general.

The dynamics of retailers' value creation also makes the determination of resource-related value difficult. As Wileman and Jary (1997) indicate:

*'... Tesco customer's experience of the brand is a combination of all the products she buys there (range, price, quality, etc.), the shopping environment and the service level. Not only that, but 30% of the product lines, or 5000 lines, change every year. Within one key value-added store brand category, ready-to-eat meals, there are 20 new product introductions per quarter. In-store staff turnover runs at around 30% a year.'*(p.40)

Thus Hunt's model of determining market positions should be re-considered and an alternative way of deciding market positions is needed.

One solution of these problems is referred to R-A theory's premise regarding to superior financial performance. Hunt mentions that:

*'Both the specific measures of financial performance and the specific referents used for comparison purposes will vary somewhat from time to time, firm to firm, industry to industry, and culture to culture....'*(p.124)

As indicated above, since different markets have different indicators, thus the market positions of competitive advantage should be decided by the most frequently adopted or the most important indicator in a specific market.

### **3.4. Outcomes of R-A competition**

Hunt asserts that, during the competition process, innovation and organisational learning are natural outcomes. The competition also leads to firm diversity, the increase of productivity and economic growth of the society as a whole. In other words, competition results in innovation, organisational learning, firm diversity, improved productivity and economic growth.

#### **3.4.1. Innovation and organisational learning**

Hunt describes the nature and functions of innovation as such:

*'...innovation...can (1) result from the quest for superior financial performance, (2) produce growth in output of extant firms, and (3) produce growth in output by adding new firms....' (p. 186)*

He further explains firms' motivation for innovations:

*'...firms must have the rational expectation of rents to be earned from innovations that contribute to their efficiency and/or effectiveness.'...(p.214)*

Therefore, firms innovate not only due to the pressure from competition but also due to the expectation of future rents, i.e., innovation can be a firm's self-motivated behaviour.

Doyle (1998) defines innovation as 'developing and delivering products or services that offer benefits which customers perceive as new and superior' (p.198). Davies (1993) mentions there are two sources of innovations in the retail industry: 'market driven innovation', e.g., brand extension including retailer-brand, or 'technology driven innovation', e.g., introduction of information systems. The former provides a retail company with a facility to add more value to its market offerings and the latter contributes to decision making effectiveness (Walters, 1988).

Thus innovation in the retail industry may include the following aspects:

- The introduction of new retail formats, e.g., the convenience store, the hypermarket, the shopping mall and the Internet shopping

- The introduction of new business process, e.g., the Internet platform for completing transactions with suppliers
- The introduction of new products and services, e.g., ready-to-eat meals and home delivery services
- The introduction of new technology, e.g., introduction of the Electronic Point-Of-Sales (EPoS)

The retail innovation provides examples of Hunt's descriptions regarding the nature, function of innovation and motivation for it in R-A competition. The following two examples of British grocery retailers illustrate innovation that helps retailers achieve better performance. A survey of IGD (1995) among British grocery retailers shows that IT<sup>1</sup> applications have a wide range of benefits to retailers. All retailers in the survey agree that the EPoS helps them reduce costs and increase labour efficiency, and over 60% of retailers think the EPoS improves their revenue. Another example is the introduction of various formats by the same retailer. British retailers, as mentioned in Premise 1 in section 3.2, introduced different store formats at the same time, to create more sales from their operations.

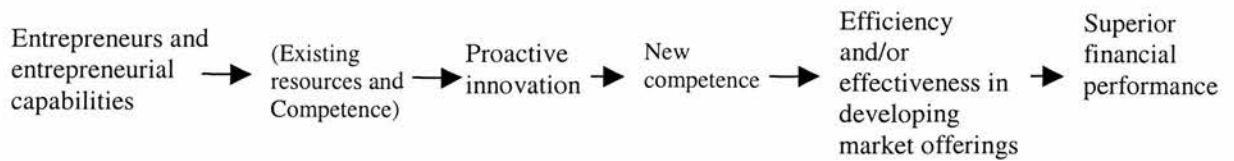
#### **3.4.1.1. Proactive innovation**

Hunt classifies innovations of R-A theory into proactive innovation and reactive innovation.

Proactive innovation in R-A theory has three meanings (Hunt, 2000; p.213):

- A firm's market research department identifies a previously un-served market segment and tailors a market offering for it.
- A firm's R&D department develops a market offering and the firm then finds a market segment for it.
- A firm engages in continuous process improvements, as in total quality management (TQM) programmes.

Proactive innovation comes from entrepreneurial actions that spot opportunities, and develop substantially market offerings. Hunt points out how entrepreneurship leads to superior financial performance:



Hunt mentions competences as ‘higher-order’ resources that are composed of distinct packages or bundles of basic resources, which are capabilities in Grant’s (1995) term. They are important sources for firms to create proactive innovation, which produces efficiently and/or effectively valued market offerings and should be a ‘renewal competence’ to keep R-A competition dynamic. The development of Tesco’s e-commerce business unit mentioned in Section 3.3.4.1 provides evidence for this assertion. The development required the establishment of relationships with Siemens for acquiring technical capability and with customers for building future customer base. The online shopping service requires at least the support from its physical stores, a good online shopping interface, a marketing campaign to promote online shopping services and a good distribution network. The requirements mentioned here are basic resources for Tesco. The combination of these resources then created a new competence – online shopping service – for Tesco. In addition, the online shopping service provides consumers with alternative way of shopping and it is particularly beneficial for customers with time and mobility restrictions. Therefore, the service ‘re-news’ or ‘upgrades’ consumers’ shopping behaviour.

Proactive innovation enables firms to produce renewal<sup>m</sup> competences, based on entrepreneurship in:

- Anticipating potential market segments (un-met, changing, and/or new needs, wants, and desires)
- Envisioning market offerings that might be attractive to such segments
- Foreseeing the need to acquire, develop, or create the required resources, including competences, to produce the envisioned market offerings.

Therefore, entrepreneurship in Hunt's term is similar to Barney's (1991) view of human capital resources, i.e., experience, judgement, intelligence, relationships and insight of individual managers and workers in a firm. Thus human capital is important to create proactive innovation and maintain/create competitive advantage. This assertion is evident in innovative firms' frequently renewing their competences. For example, Walmart and ASDA established mutual visit programmes and the 'store buddying' scheme to swap ideas of retail operations between the two retail companies".

### **3.4.1.2. Reactive innovation**

Reactive innovation occurs when firms with comparative disadvantage sense their inferior financial performance and market positions.

For firms with competitive disadvantage, there are three reactive innovations to neutralise and/or leapfrog the advantaged competitors:

- Imitating resources
- Finding an equivalent resource (substitution)
- Finding (creating) a superior resource, which Hunt considers parallel to Schumpeter's 'creative destruction'.

The time required for reactive innovation depends on whether:

- An advantaged firm's resources are protected by societal institutions or public policy, e.g., patents and trademarks
- There is causal ambiguity
- The resource is socially complex, interconnected, tacit, or has mass efficiencies or time compression diseconomies. For example, Wileman and Jary (1997) mentioned that the success of British leading grocery retailers' retailer-brand development lies on these retailers' long-term partnerships with their suppliers. The relationships are normally long-term and hard to duplicate quickly.

Imitation and substitution are basic for disadvantaged firms who want to survive competition. However, it is the third kind of reactive innovation that contributes to economic growth and 'renewal' of the society. Therefore, Hunt particularly mentions the contribution of a disadvantaged firm's finding superior resource and leapfrogging competitors. The third kind of reactive innovation, i.e., finding a superior resource to leapfrog, will provoke the imbalance in resources and competitive advantage, change the competition dynamics and facilitate economic growth for the whole society:

*'By leapfrogging competitors, firms realise their objective of superior returns, make competition dynamic, shape their environments, and renew society.'*(p.145)

An example in the retail industry is Tesco's Clubcard. Christopher (1997) mentioned how Tesco's innovation of Clubcard helped Tesco surpassed Sainsbury's and became the leading supermarket in Britain:

*'...According to independent research, Tesco's sales had (for the first time) surged ahead of Sainsbury to become Britain's leading retailer of packaged goods. Clubcard had delivered a 2 per cent increase in Tesco's market share, with a 1 per cent increase in household penetration ...'*(p.15)

### **3.4.1.3. Organisational learning**

Another outcome of R-A competition is organisational learning. Based on Hunt's discussion, R-A theory includes two kinds of organisational learning:

- Collecting market information from external and internal sources, e.g., market research and dissecting competitors' products
- Comparing a firm's performance with its competitors' performance and studying the cause of the gap.

R-A theory regards the process of competing as an important mechanism for firms to learn how efficient and effective they are. Hunt quotes Hayek's (1945) assertion and points out that 'competition is a knowledge-discovery process' (p.146).

Here Hunt omits the discussions regarding firms' proactive role in organisational learning during competition. His discussion focuses only on an organisation's



learning after competition. However, organisational learning also plays a positive role in creating the market and keeping the market dynamic. Senge (1992) in Pemberton and Stonehouse (2000) points out there are two kinds of organisational learning:

- Adaptive learning: centring on evolutionary changes in response to developments in the business environment and which are necessary for survival of an organisation. This is similar to Hunt's view regarding organisational learning.
- Generative learning: building new competences, or identifying and creating opportunities based on leveraging existing competences, to generate new business opportunities. For example, a retailer spots an unsatisfied market segment and introduces a new retail format.

Another concern with Hunt's discussion of organisational learning is that he does not mention how a firm learns. The contention of Jones and Hendry (1994) in McHugh, Groves and Alker (1998) may provide an answer; they point out that organisational learning emphasises human resource management (e.g., optimal utilisation of the expertise), training (e.g., mentors and various training programmes), knowledge and skills acquisition (e.g. market research). In the context of the retail industry, these mechanisms will mean the efficient utilisation of employees and employment policy, training programmes, and the acquisition of market information.

In other words, these are mechanisms through which a firm and its members learn. The human resource management here is analogous to the human capital resources mentioned in Section 3.4.1.1. Therefore, human resource is a key success factor in competition.

#### **3.4.1.4. Revision of the roles of innovation and organisational learning**

Based on the above discussion regarding innovation and organisational learning, this research argues that the roles of innovation and organisational learning in the competition process should be further examined. Innovation and organisational learning are also the 'starting points', i.e., the catalyst, of competition, not just the outcomes of competition, because innovation that creates firms' new resources, or

capabilities, will provoke the imbalance in resources among retailers and trigger competition. As Christopher (1997, p. 97) points out:

*'Innovation and timely new product development is a vital source of competitive advantage in any market.'*

Further evidence of innovation being the catalyst of competition is witnessed in monopoly. Under the structure of monopoly, where no competition exists, innovation for efficiency and effectiveness improvement still happens due to intra-firm factors. This claim can be explained by the quote of Begg, Fischer and Dornbusch (1997). They quoted Schumpeter's argument and mention that technical advances in monopoly may cause the price reduction and output expansion (p.143-144):

*'A large monopolist with steady profits may find it much easier to fund the research and development necessary to make cost-saving breakthroughs. Second, and completely distinct, a monopolist may have a greater incentive to undertake R&D.'*

*...Schumpeter argued that these two forces – greater resources available for R&D and a higher potential return on any successful venture – tend to make monopolies more innovative than competitive industries....'*

Then what kind of innovation causes competition and what sort of innovation is an outcome of competition? According to the definitions of proactive and reactive innovations, proactive innovations happen due to intra-firm factors and reactive innovations are firm's response to competition. Therefore, proactive innovation is the catalyst of competition and prompts imbalance in resources and competition, while reactive innovations are motivated by competition. In addition, though the third category of reactive innovation is the response to a market position of competitive disadvantage, it triggers the race to acquire strategic resources and should be regarded as proactive innovation as well.

As to organisational learning, it should be the source of a firm's capability, which is the pool of comparative resources. As Venora (1999) points out:

*'Since capabilities are composed of knowledge, their 'wellspring' is learning that takes place within the organisation. Specifically, learning is triggered by problem-solving strategies stimulated by gaps between (a firm's) potential and effective performance.'*(p.133)

The statement contains two meanings. One is that learning occurs due to the gap of a firm's potential and effective performance. This is similar to Hunt's assertion. The other is that learning will facilitate a firm's resource creation. Under these circumstances, learning plays a proactive role in building resources and capabilities. As mentioned above, organisational learning can be further divided into adaptive learning and generative learning. Based on the definition of Senge (1992) in Pemberton and Stonehouse (2000), adaptive organisational learning is similar to Hunt's definition of organisational learning, while generative organisational learning is one of the triggers of competition because it causes imbalance in resources in the market.

In summary, the argument here shows that proactive innovation and generative organisational learning trigger competition, while reactive innovation and adaptive organisational learning are the outcomes of competition and endogenous. Therefore, the roles of innovation and organisational learning are multifaceted and not as simple as mentioned by Hunt, i.e., endogenous outcomes of competition.

### **3.4.2. Firm diversity**

R-A theory asserts that firm diversity is endogenous because of the following five reasons:

- Every firm is a unique entity in time and space (Chandler, 1990; quoted from Hunt, 2000). Because of the history in obtaining and deploying resources, firms differ from their rivals.

- Heterogeneous demands imply that serving different market segments in the same industry will lead to firms with different sizes and scopes.
- Different assortments of resources, owned or available to firms, may be equally efficient or effective in serving some market segments.
- Firms differ because they create competence in different ways. Some firms may decide to conduct some activities, which facilitate the creation and accumulation of resource, inside the organisation rather than contracting them out. These firms will apply different methods to conduct these activities and thus are different from each other.
- When firms providing some market segments with services have a comparative advantage in resources that competitors can not imitate, find substitutes for, or leapfrog with an entirely new resource, there will be firm diversity in the very important area of financial performance.

Two examples from the British grocery retail industry supporting these claims are explained below. The first example is from Burt and Sparks (2000); the market share figures of the leading British grocery retailers vary from region to region due to the evolution of the industry and different regional origin of these companies. The other example is illustrated by the different reputation of different food retailers due to their different historical background. For example, Marks & Spencer is famous for its product development capability, while ASDA is well-known for its low price offers because it insists on offering customers 'Permanent Low Prices Forever'.

R-A theory asserts that firms combine heterogeneous and imperfectly mobile resources and that intra-industry demands are heterogeneous. Therefore, 'firm effects' will dominate 'industry effects' for a firm's financial performance. Porter (1976) suggests a similar view and points out:

*'Common observation suggests that the firms in an industry often differ from one another in their degree of vertical integration or diversification, the extent to which they advertise and brand their product, whether they are full-line or narrow-line sellers, whether they are multinational in operation, and so forth. ...'(p.76)*

### **3.4.3. Productivity**

Improved productivity is another outcome of R-A competition. Productivity refers to a ratio of output to input. Productivity in the retail industry means the contribution of a unit of input, e.g., employees, space used, stock and customer credit, to an unit of output such as sales volume and sales (McGoldrick, 1990; Knee and Walters, 1985; Reynolds, 1985). McGoldrick (1990) points out two common measurements of productivity in the retail industry are 'sales per employee' (full-time equivalent) and 'sales per square foot of selling space'. The improved productivity is evident in the British retail industry. Reynolds (1985) studied the productivity of British food retail companies from 1970 to 1982 using three different denominators based on labour hours and concluded that the productivity over the surveyed period increased between 7.9% and 9.1%, in the food retail industry, depending on the denominator used.

R-A theory suggests that the increases in productivity can result from increases in either efficiency or effectiveness. Efficiency is increased when a firm produces a market offering at reduced resource costs that is perceived by consumers in a market segment as equivalent to the firm's previous offering. Hunt points out there are three sources of cost reductions:

- Substituting lower cost resources for those of higher costs, e.g., self-service substituting for counter service in the supermarket
- Developing a new organisational competence, e.g. ECR (effective customer response)
- Improving an existing competence, e.g., utilisation of the EPoS.

The productivity of R-A theory not only focuses on resource cost-reduction, i.e., efficiency-enhancing aspect, but also value enhancement, i.e., effectiveness-enhancing aspect.

Effectiveness is increased when a firm, at the same resource costs, produces a market offering with attributes that consumers perceive to be worth more than a previous offering. Effectiveness enhancement may come from:

- Being able to substitute a higher-quality resource for one of lower quality, e.g., development of premium retailer-brand products
- Outsourcing a key component from a supplier who has superior competence in producing it, e.g., British grocery retailers' petrol station services
- Improving an existing and in-house competence for making a key component, e.g., adding more services in a retailer's financial products

Thus the increased productivity of R-A theory not only refers to a firm's cost reduction but also value enhancement. In the retail context, value enhancement can be explained as retailers' differentiation and adding more services into their traditional offerings. For example, the introduction of the self-service supermarket not only reduced retailers' labour costs but also gave shoppers more control, which enhanced customer satisfaction. Another example is that British grocery retailers provide more services by introducing petrol stations. The introduction and expansion of petrol stations not only adds one more service into the grocery retailers' product portfolio, but also enables these retailers to run this service at lower costs (Table 3-8; Corporate Intelligence on Retailing Research, 2000).

Table 3-8 Leading Grocery retailers: Number of outlets with petrol forecourts, 1992-1996

	1992	1993	1994	1995	1996
Tesco	157	179	219	247	275
J. Sainsbury <sup>①</sup>	106	137	161	173	179
Safeway	46	72	98	125	136
ASDA	97	102	106	117	124
Wm. Morrison	34	40	50	59	59
Sommerfield	12	13	14	14	16
Other <sup>②</sup>	19	27	37	46	54
Total of above	471	570	685	781	843

<sup>①</sup> Includes Savacentre

<sup>②</sup> Includes Co-ops.

Source: Corporate Intelligence of Retailing (1998) *Grocery Retailing in the UK*, p. 59

#### **3.4.4. Economic growth**

R-A competition not only leads to improvement of firm-level and industry-level performance, but also results in the change at macro-economy, i.e., economic growth.

Economic growth in the neo-classical models is the annual change of percentage in the total output of a nation over time and usually measured as the annual rate of increase in a nation's real GNP or real GDP. Adopting the view similar to the neo-classical theory's, Hunt defines economic growth as the increases in per capita income (p.184). He further explains the source of economic growth in R-A theory:

*'...economic growth is endogenous to,....,the process of competition.'...R-A theory views economic growth, that is, increases in per capita income, as the normal, natural outcome of vigorous, R-A competition. The constant struggle for comparative advantages in resources leads not only to increases in the efficient allocation of scarce, tangible resources but also – and more important - to innovations that result in the creation of new tangible, intangible, and "higher order" resources that drive economic growth.'*(p.184)

Two common indices for incomes in the national accounts are GDP and GNP. In the retail context, this assertion means that the retail trade will contribute to the growth of GDP or GNP. The calculation based on national statistics of the USA provides evidence for Hunt's assertion regarding economic growth (Table 3-9).

Table 3-9 The change of retail trade composition of the US GDP over the 1990s in real (1996) dollars

	1990	1995	1997	1998	% of change from 1990 to 1998
Total GDP (billion dollars)	6,707.9	7,543.8	8,144.8	8,495.7	26.65%
Retail Trade (billion dollars)	559.5	641.4	739.2	795.7	42.22%
Retail trade/total GDP (%)	8.34%	8.50%	9.08%	9.37%	-

Source: U.S. Bureau of Economic Analysis (2000) *Statistical Abstract of the United States, the 120<sup>th</sup> Edition*. 'Gross Domestic Product in Current and Real (1996) Dollars by Industry: 1990 to 1998', p. 452

Table 3-9 shows that, from 1990 to 1998, the contribution of the retail trades to total GDP in the USA increases from 8.34% to 9.37%. The table also shows the overall growth of the retail trade is faster than the growth of total GDP (42.22% vs 26.65%). Thus Table 3-9 indicates that the change of the US retail market contributes to the US economic growth. In other words, competition in the US retail market plays a positive role in the economic growth (Agrawal, Findley, Greene, Huang, Jeddy, Lewis, and Petry, 1996; Swinyard, 1997)

Hunt contends that R-A theory provides justification for competition-led economic growth due to the following four factors:

**Technology is a resource.** This assertion is against the claim that technology is exogenous and a factor not controlled by the industry. R-A theory contends that technology is also a resource; under these circumstances, the introduction and utilisation of technology is influenced by firms' conduct. Hunt defines a specific technology as a competence, i.e., advanced resource, and a pattern or a routine that describes the process of combining inputs to produce valuable market offerings. Because some resources are replicable but some are protected by mechanisms, e.g., patents or complexity, some technology will be replicable but some remain tacit. For example, many British grocery retailers followed Tesco and launched their own loyalty cards. However, not every loyalty card can be equally successful as Tesco's, e.g., Safeway cancelled its loyalty card scheme. Therefore, though the technology used for maintaining the loyalty card scheme may be duplicable but the factors to make the Tesco Clubcard scheme successful remain tacit.

**Innovation.** R-A theory identifies two kinds of innovation: proactive and reactive. Hunt's assertion is that firms improve their performance continuously through proactive and reactive innovation, as discussed in Section 3.4.1. The improvement leads to industrial level improvement and then macroeconomic level improvement. The innovation can be a birth of a new resource, e.g., online shopping, or an incremental improvement, such as retailers' continuous improvement of distribution systems.

**Expectation of superior financial performance.** R-A theory asserts that firms have expectation of superior financial performance, which leads to firms' innovation. This innovation leads to the improvement of productivity and thus contributes to economic growth.

**Public policies, e.g., patents and trademarks.** Societal institutions and public policies such as the patent systems and trademarks facilitate or inhibit competition-



induced economic growth. Patent systems extend the life span of the advantage produced by an innovation and thus foster efficiency/effectiveness because such protection ensures the financial rewards from the investment in R&D. Trademarks facilitate economic growth because they reduce consumer search costs and encourage firms to maintain high quality market offerings.

### **3.5. Revised diagram**

The discussion in Section 3.3 and Section 3.4 shows that the development of the retail industry in general fits the Resource-Advantage Competition diagram. However, some elements in the diagram need revision:

- The diagram does not show the role of innovation and organisational learning during the process, as Hunt explains in the theory.
- The diagram does not explain the motivation for a firm's resource creation or accumulation.

Thus two elements are added into the revised diagram:

- The role of innovation and organisational learning during the process of R-A competition, as discussed in Section 3.4.1
- Firms' motivations for staying in competition

Based on the revised diagram (Figure 3-4), resources come from the firm's proactive innovation and generative organisational learning. Firms innovate because of their or their investors' expectation of superior financial performance and because of the benchmark (organisational learning) set by other companies. The accumulation and utilisation of these resources then lead to market positions of competitive advantage and various financial performances of participants in competition.

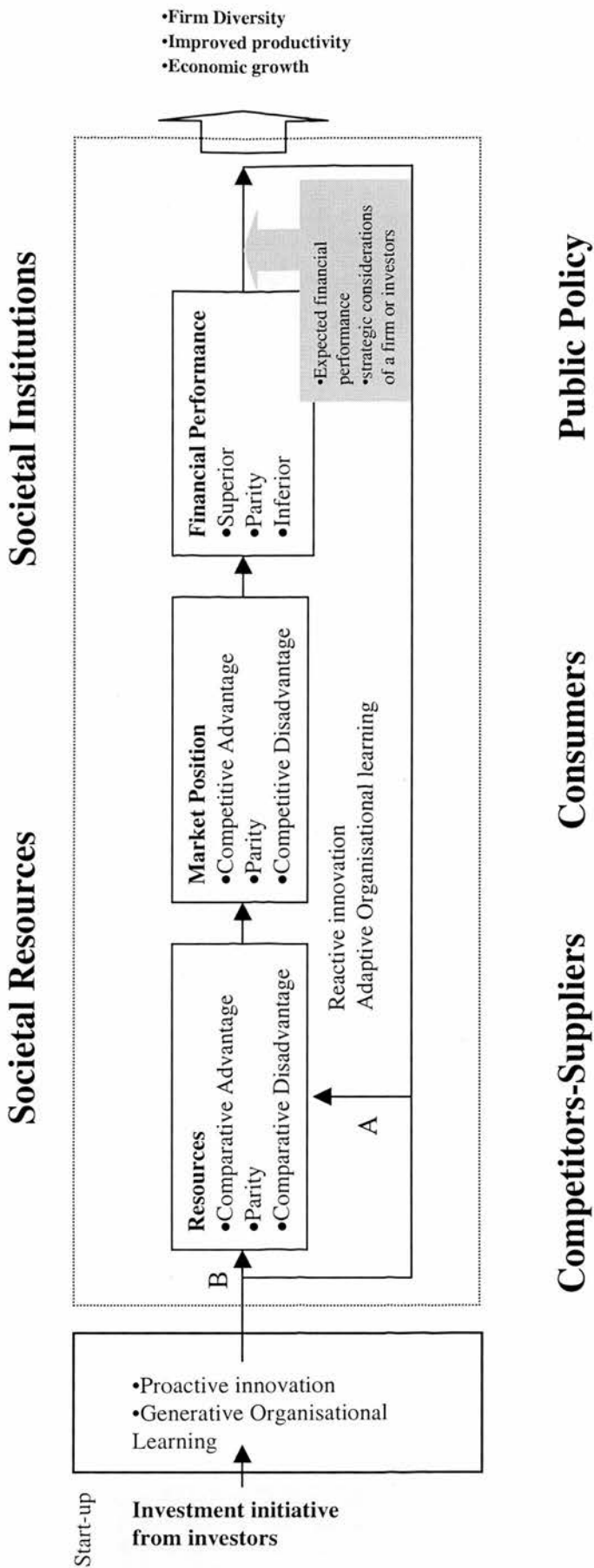
Firms in the same industry will have different financial performance. However, firms with inferior financial performance may stay in competition, based on the decision of themselves or investors, until they exhaust all the possible resolutions and still cannot improve their performance, or until they or their investors have other strategic considerations.

The competition process, i.e., the process of resource accumulation/organisational learning-> measurement of market positions -> review of financial performance, continues as a loop until the following changes happen:

- Some firms withdraw from the market or some newcomers enter changing the 'game-players' in the market.
- A proactive innovation, or dramatic innovation, and generative organisational learning emerge to trigger another round of resource creation and accumulation.

Newly created resources cause an imbalance in the available resources and the imbalance prompts participants to pursue a competitive advantage in this new resource pool. This pursuit continues as a loop until the two changes mentioned above happen again. In other words, the competition process will go back to Point A in Figure 3-4 until some dramatic market changes occur and lead the circle to go back to Point B in Figure 3-4.

This revised diagram, as the original diagram, provides an alternative framework for analysis at the industry-level and company-level. At the industry-level, this diagram provides a framework to understand the dynamics between a firm or an industry and its environment and the key success factors in the industry. It also provides a framework to examine the impact of competition on the economy as a whole and may help the improvement of government policies. At the company-level, the diagram provides a framework for a firm to understand resources available to it and to understand its market position before planning for future strategies.



**Figure 3-4 Revised Resource-Advantage Competition Diagram**  
 Source: revised from Hunt and Morgan (1997) 'Resource-Advantage Theory: A snake Swallowing Its Tail or a General Theory of Competition?', *Journal of Marketing*, 61 (Oct.): p.78.

## **3.6. Summary**

### **3.6.1. The applicability of R-A theory**

The chapter provides a detailed review of R-A theory and re-explores the connections of different factors in this theory. The discussion in this chapter leads to the conclusion that, in general, R-A theory is a viable alternative theory to describe the competition and development of the retail industry, particularly the grocery retail industry.

That R-A theory is an alternative theory to analyse retail competition is illustrated with examples from the retail industry in the UK and the USA. The theory is better than traditional theories of retail strategic planning and retail development because:

- Its premises are close to the real retail market.
- It considers the resources that retailers create and accumulate during the competition process.
- It recognises the role of the firm's entrepreneurship in facilitating competition.
- It considers the impact of competition on retailers and on their environment.

#### **3.6.1.1. Premises**

The premises explain the situation in the grocery retail industry, especially the premises concerning demand, consumer information, a firm's information, resource characteristics and competitive dynamics. These premises depict the present situation in the retail industry:

- Heterogeneous demand explains why different formats exist in the market at the same time.
- Consumer's imperfect information and wish to reduce search costs explain retailers' emphasis on brand issues.
- A firm's objective and information explain a retailer's motivation for pursuing better financial performance.

- Resource characteristics and heterogeneity explain retailers' alliances with different partners and the sustainability of retailers' competitive advantage.
- Competition dynamics explains the diversity of retailers in terms of strategies and target markets.

### **3.6.1.2. The process of competition**

R-A theory is a process theory stating that firms continuously seek comparative resource advantage, competitive advantage of market positions, and superior financial performance. Thus competition is a continuous process of a firm's or an industry's creating and accumulating resources to achieve continuously modified goal of financial performance and the development of a firm or an industry is a cumulative total of the process. This process, when applied to the retail industry, explains the dynamics of retail competition and how retailers create and accumulate resources over time.

The R-A Competition diagram provides an alternative framework to analyse the evolution of the grocery retail industry or a specific retail format. It includes the environmental factors in the framework and overcomes the drawbacks of traditional theories mentioned in Chapter 2. However, unlike Porter's generic strategies and Ansoff's product-mission matrix, it lacks a feasible framework to provide suggestions for future strategic directions. The diagram can only be used to understand retail development under the context of resources accumulation and understand the resources required in competition.

### **3.6.1.3. The outcome of competition**

Previous theories of retail strategic planning and development seldom mentioned the contribution of competition to the industry and the macro-economy. In contrast, R-A theory points out the contributions of competition to a company, to the industry and to the macro-economy – improved productivity, firm diversity and economic growth.

### 3.6.2. Revised R-A theory

This chapter revised Hunt's original diagram and re-explored the relationship between competition, innovation, organisational learning, firm diversity and productivity. The revised diagram shows the roles of innovation and organisational learning during the competition. The argument here is that innovation should be further divided into proactive innovation and reactive innovation and that organisational learning includes adaptive learning and generative learning. Proactive innovation and generative organisational learning should be the triggers, not the outcomes, of competition.

Under the influence of external factors, firms continuously go through the following process: resource creation/accumulation -> review of market positions -> review of financial performance. A new round of competition happens when participants change and/or some new resources are introduced. Under these circumstances, the revised R-A theory can be regarded as a cyclical theory.

The discussion in this chapter also questions the decision of market positions and suggests the use of the industrial norm in a specific market, e.g., sales, to decide market positions. The discussion then redefines the outcomes of R-A competition as firm diversity, improved productivity and economic growth, in addition to reactive innovation and adaptive organisational learning, and provides examples from the grocery and non-grocery retail industry:

- **Reactive innovation and adaptive organisational learning.** These two outcomes are a revision of Hunt's assertion. Reactive innovation means the innovation due to firm's response to the competition. Adaptive organisational learning is learning due to a firm's struggle for survival. Reactive innovation and adaptive organisational learning improve the efficiency and effectiveness of a disadvantageous firm's resources and facilitate the improvement of the whole industry.

- **Firm diversity.** Grocery retailers are diversified due to their historical backgrounds, the ways in which these retailers utilise their resources, and the market segments they serve.
- **Productivity.** Due to the fierce competition, retailers are continuously seeking improvement in productivity through the following ways: minimised operational costs, maximised consumer choices, and differentiation to suit the local market. During the process, the efficiency and effectiveness of the whole retail industry and in particular some firms in the industry are improved over time. The productivity change of the UK grocery retail industry provides evidence of this outcome.
- **Economic growth.** Innovation and organisational learning prompts retailers to improve productivity. The improved productivity finally leads to the improvement of the overall economy.

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## Notes

<sup>a</sup> The following discussions will use Resource-Advantage theory and R-A theory interchangeably.

<sup>b</sup> Triumphant George on course for £1 bn. *The Grocer*, Feb 9, 2002.

<sup>c</sup> [www.tesco.com](http://www.tesco.com)

<sup>d</sup> 'Chain Store Sales Drop', Oct 11, 2002; [www.cnn.com](http://www.cnn.com)

<sup>e</sup> The 2000/2001 Annual Report, John Lewis; [www.john-lewis-partnership.co.uk](http://www.john-lewis-partnership.co.uk)

<sup>f</sup> Our company, [www.safeway.com](http://www.safeway.com)

<sup>g</sup> The J Sainsbury plc Annual Review 2001; [www.sainsburys.co.uk](http://www.sainsburys.co.uk)

<sup>h</sup> The know-how means the knowledge to do something smoothly and efficiently, according to the definition of the Merriam-Webster online dictionary ([www.m-w.com](http://www.m-w.com))

<sup>i</sup> Source: [www.census.gov/epcd/www/97EC44.HTM](http://www.census.gov/epcd/www/97EC44.HTM)

<sup>j</sup> The department store de-merged from the Burton and became an independently listed company again in 1998 ([www.debenhams.com](http://www.debenhams.com)).

<sup>k</sup> Source: 'Major Events that have shaped UK Grocery Retailing', [www.igd.com](http://www.igd.com), Industry information

<sup>l</sup> Information Technology in this survey includes the following applications: the EPoS, the EFTPoS, Merchandising support systems, electronic shelf edge labels, loyalty schemes, customer activated systems, remote shopping, strategic modeling systems, the global information provision, MIS, Data mining, Intelligent tagging, Mass customisation, Staff and resources scheduling systems, Sales based ordering, inventory management, and distribution support systems.

<sup>m</sup> 'Renewal' competences here, as defined by Hunt, mean capabilities that organisations – or firms – create to keep themselves upgraded and thus to prevent the society stagnant.

<sup>n</sup> *The Grocer*, July, 31, 1999, p. 5

# Chapter 4

## Methodology

### 4.1. Chapter overview

The methodology of this research is presented as the following structure. Section 4.2. mentions the motivation behind this research. Section 4.3. discusses research design, data collection and data analysis procedure; the limitations of conducting retail studies in Taiwan will also be discussed here.

### 4.2. The generation of ideas

This research started from the interest of retailers' own-brand development. Initial interviews were conducted with four retail companies, including two chain convenience store companies, a supermarket company and a hypermarket company in 2000. At the same time, I visited the Taiwan Chain Store Association (TCSA, renamed as the Taiwan Chain Store and Franchise Association, or TCFA, in 2002) and discussed with the General Secretary about the development in the Taiwanese retail market.

The initial interviews and visits showed that chain convenience store companies are vigorous in developing retailer-brand products, compared with the hypermarket and the supermarket. The difference has its historical background and thus the focus of this research was switched to the development of the convenience store industry in Taiwan and issues concerned include the origin, evolution, and the resource development of this industry.

A second trip back to Taiwan for formal interviews was made from March to June 2001. Further contacts with interviewed companies were made from July to September 2001 to clarify points made in the interviews. During the process, the Taiwan Chain Store Association and editors of retail magazines were also contacted



and secondary data were collected continuously to obtain more updated industry information.

### **4.3. Research design**

#### **4.3.1. Research method and sampling**

This research adopted a qualitative approach to obtain detailed information from managers in the interviewed companies. This approach is appropriate because the purposes of the research are to understand the development and competition of the convenience store industry in Taiwan and the sample size is small - there are 15 retail companies interviewed (Hakim, 1987).

Two groups of retail companies were interviewed – chain convenience store companies and non-convenience store retail companies. The chain convenience store companies were from a list provided by the TCSA (Table 4-1) and companies of other retail formats were chosen from the Top 500 companies of the service industry on the Credit On-line (CCIS<sup>a</sup>, 1999).

Table 4-1 The list of convenience store companies provided by TCSA

Nikomart	3 Q Shop
J-Young	Hi-Life
SJExpress	Smart
Chusheishien	Circle K (OK)
Wongtsaichi	Taisugar Million
Familymart	KingGerFu
7-Eleven Taiwan	

15 retail companies were interviewed in the end: 9 convenience store companies, 2 department store companies, 2 supermarket companies, and 2 hypermarket companies – were interviewed between March and June 2001. The initial contacts with these companies were made through the telephone in March 2001 to identify the contact for correspondence. In this research, these interviewees are more ‘informants’ than respondents (Yin, 1994; pp. 84-85). They not only provided insights into the retail development, but they also provided corroboratory evidence.

There are 13 chain convenience store companies on the list provided by the TCSA. Three of the companies – Chusheishien, 3Q Shop and Smart - had to be dropped from the study because they went out of business in 2000 and there were difficulties to find managers who used to work in these companies. However, the analysis will occasionally mention these three companies based on secondary data. Another company, KingGerFu, had to be dropped because the chain store owner/manager declined the interview. Three of the top five convenience store retailers on the list also declined the interviews during the initial contacts but finally the interviews were made through the assistance of the Taiwan Chain Store Association. Therefore, nine interviews with convenience store companies were made in the end. The interviewed managers are involved in strategic planning of their convenience store companies and have a deep understanding of the development of this industry. These managers held the following positions at the time of interviews:

Table 4-2 The positions of interviewed managers in the convenience store companies

Managers' positions	No. of Companies
General Manager Office specialists	3
Head of Business <sup>b</sup>	1
Head of Department (HR, Marketing, and Development)	5

To understand the differences in strategies between the convenience store companies and non-convenience store companies, other formats, i.e., the department store, the supermarket and the hypermarket, were also contacted and interviewed. Due to time limits and the difficulty of making contacts, only two companies of each format were interviewed. Companies on the 1998 Top 500 companies of the service industry based on the Credit On-line were contacted by phone. Eventually, six companies were contacted and interviewed. In the interviews of other retail formats, the interviewed managers were involved in strategic planning and included the General Managers, Senior Managers, Human Resources managers, Strategic planning/analysis Managers. One exception is the interview with the PR manager of a hypermarket, which is controlled by an international retailer.

### **4.3.2. Data collection**

The empirical evidence of this research was from two main sources: semi-structured interviews with retailers in Taiwan and secondary data from newspapers, magazines, master theses and reports.

Semi-structured interviews are a flexible way of collecting data: the order of the questions can be adjusted, depending on the interviewed retailers, and their responses can be followed up during the interviews. In this research, the semi-structured interviews helped obtain information which showed the difference among companies of different retail formats and among convenience store companies using different franchise systems.

Semi-structured interviews are also useful when the purpose of a study is to understand the meaning of particular phenomena for the interviewees (Esterby-Smith, Thorpe and Lowe, 1997; Robson, 2002). Interviews allow detailed information and insights about an event to be obtained. For this reason, semi-structured interviews were utilised to help understand the development of the convenience store industry in Taiwan and retailers' strategic moves. In Taiwan, semi-structured interviews are particularly helpful in the study of the retail market due to the lack of availability of detailed secondary data concerning retailers in Taiwan. As Trappey (1998) points out:

*'The collection of primary information in Taiwan and other newly developed economies is often tedious, time consuming and expensive, particularly because the large portion of the market research conducted is proprietary and there are too few comprehensive secondary data to facilitate the data collection process...'(p.48)*

One reason that causes this problem is that retailers regard detailed data of their operation, e.g., financial statements, as business secrets. Detailed information, especially related to strategies, can only be accessed through face-to-face interviews with the key personnel in a retail company. Another problem is the government's slow response to the change of business environment in Taiwan. For example, the convenience store emerged in Taiwan's retail market in the late 1980s but the government did not provide any statistics, e.g., sales of the convenience store industry, until 1993.

Thus past studies of retail strategy in Taiwan often adopted the qualitative method and in-depth interview approach (Lin, 1994; Wu, 1998; Wang, 1999; Wang, 2000; Kau, 2000). For example, Chung (2001) used this technique in his survey of six New Zealand companies in Taiwan to study the distribution system for New Zealand products.

The semi-structured interviews in this research were based on an interview schedule (Appendix IV). The design of the interview schedule was based on elements of retail strategy (Davidson, Sweeney and Stampfl, 1988; Hasty and Reardon, 1997) and the purpose is to obtain detailed information regarding a retailer's strategic planning, changes of strategies, resources involved in these changes and external factors influencing retailers' conduct. The questions in the interview schedule thus can be divided into four sections:

- Company Background
- Strategic planning
- Change of strategy and related resources
- Influential factors

The interview schedule was sent to the interviewees before the interviews to make sure that interviewees understood the content of interviews and had time to prepare. After sending the questions, interviewees were contacted by telephone and asked about their opinions regarding the questions. All interviewed managers agreed to the questions on the list.

Most interviews were face-to-face, except for one supermarket, which answered all the questions through emails. The face-to-face interviews were conducted by the researcher in Chinese and tape-recorded. Follow-ups of all interviews were made through phone calls, faxes and e-mails after the interviews and the contacts were made between July and September 2001. Thus in some companies, more than one manager was contacted or more than one manager answered the questions to better explain the companies' strategies or the process of building resources.

Though semi-structured interviews helped obtain detailed information regarding Taiwanese retailers' strategy and development, there are disadvantages with respect to these interviews. One possible drawback of semi-structured interviews is length (Easterby-Smith, *et al.*, 1997). For example, one interview in this research lasted for eight hours, while most interviews still took two to five hours. Other drawbacks are data quality issues, such as reliability, interviewer and interviewee bias, and generalisability (Hakim, 1987; Saunders, *et al.*, 1997). Because most interviewed managers worked in different departments at the middle management level, their answers to the interview questions may reflect only part of the interviewed companies' strategies. These managers' answers also may include personal views and thus tend to be subjective. Another concern is the interviewed managers' willingness to reveal information regarding sensitive strategic issues. Since interview questions are related to strategies, some managers might provide answers with reserve. To avoid these problems, managers were contacted during a follow-up period to clarify any doubt. Other sources of information were also utilised to provide triangulation.

#### **4.3.3. Other sources of data**

Secondary data was also heavily used in this research. Macroeconomic statistics and calculations regarding productivity and economic growth in Chapter 5 and 8 are based on data from government statistics and retail magazines (Appendix I). The Taiwan Chain Store Association and editors of two major retail magazines also continuously provided valuable information. Secondary data from various sources also serve as a tool for triangulation to reduce the problems of semi-structured interviews mentioned in Section 4.3.2 and to improve the validity of the analysis of the interviews (Barnes, 2001) (see Chapter 7 and 8).

#### **4.3.4. Data analysis**

Interviews were transcribed by the researcher between mid-July and mid-September, 2001. The secondary data was continuously collected from various sources, including the Internet, the Taiwan Chain Store Association, the government offices,

and editors of retail magazines to obtain up-to-date information regarding the retail market in Taiwan.

Different from analyses based on grounded theory, which starts from an open coding and the purpose of which is to develop theory from the collected data, the analysis in this research aims to verify R-A theory and thus is based on the framework of R-A theory. The analysis follows a three-step procedure, termed as the Miles and Huberman approach by Robson (2002):

- Data reduction
- Data display
- Conclusion drawing and verification

The first two steps were accomplished through the NVivo, software for qualitative research analysis. To reduce the amount of data, the transcriptions were coded with two major categories. One category showed the profiles of interviewed companies and the other category was based on variables abstracted from Hunt's R-A theory. The variables were centred on four issues:

- Resources
- Strategies
- Environmental factors
- Changes of strategies and resources

The coded materials were analysed through content analysis and the results are presented based on the framework of Hunt's R-A theory. The analysis of interviews is given in Chapter 7 and Chapter 8, based on the coded transcripts of the interviews. Due to the agreement with these companies, the analysis will use surrogate names when mentioning the interviewed companies.

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<sup>a</sup> The China Credit Information Service.

<sup>b</sup> The retail business is a division and not an independent entity and the head of the division was interviewed.

## Chapter 5

### **The General Merchandise Retail Industry in Taiwan**

#### **5.1. Chapter overview**

The economic development since the 1970s has changed the Taiwanese society and lifestyle. These changes attracted international retailers to invest or to introduce their know-how here and at the same time influenced shopping behaviour in Taiwan. However, few English retail studies pay attention to the retail development in Taiwan. Based on secondary data, including theses, magazines, newspapers, and news and papers on the Internet, this chapter summarises previous studies, both in English and in Chinese, regarding the development of the general merchandise retail industry<sup>a</sup> in Taiwan since the 1970s and discusses the present retail development. This chapter will include three parts:

- Review of past studies concerning the retail development in Taiwan
- The definition and development of the general merchandise retail industry in Taiwan
- The factors which influence retail development in Taiwan in the second half of the 1990s

#### **5.2. Past studies concerning the development of the general merchandise retail industry in Taiwan**

International retail know-how was imported to Taiwan in the 1970s and, from the 1980s, many international retailers invested directly in Taiwan after the government reduced the control on foreign exchange and encouraged international companies to invest in the tertiary industry. Since the 1980s, international retailers' investment in Taiwan's retail industry has been extended. The trend is particularly obvious in the general merchandise retail industry. These international retailers entered the market through different retail formats, e.g., the department store, the supermarket, the

convenience store and the hypermarket, and through different mechanisms, e.g., know-how transfer, joint venture and direct investment.

Though this new market has attracted a lot of international retailers, e.g., Carrefour, Makro, Tesco, 7-Eleven, Circle K, Mitsukoshi, Takashimaya, and so on, it has not received much attention from English academia. Few English language studies (Malayang, 1988; Sternquist and Chang, 1993; Yu, 1995; Trappey and Lai, 1996; Trappey, 1998; Anonymous, 1998; Yang and Chen, 1999) discuss the development of the Taiwanese retail market. For example, Sternquist and Chang (1993) provide an overview of the department store industry in Taiwan. Trappey and Lai (1996) introduce Taiwan's retail market and provide some advice for international retailers who are interested in this market. Trappey (1998) conducts a survey using the Leites' method to provide practitioners with strategic suggestions regarding consumers, retail formats, product and services, retail development projects, market strategies, commercial laws and regulations.

However, these studies do not provide detailed information regarding the modernisation of the general merchandise retail industry, nor do they provide updated development in the second half of the 1990s. For example, the study of Trappey and Lai (1996) briefly describes the development of the retail industry and provides an overview of the Taiwanese retail market in the mid-1990s. However, the dynamic feature of this market means that the situation after the mid-990s is quite different. For example, the Internet shopping was still unknown in the mid-1990s.

There are theses and publications in Chinese that study the general merchandise retail industry in Taiwan. These theses and publications concentrate mainly on managerial functions or the studies of consumer behaviour but rarely focus on retail development issues. Exceptions are the studies of Hsu (1999), Qui (1989), and Wu (1998). Wu (1998) conducts a case study amongst the convenience store chains in Taiwan to understand the development of the chain stores in Taiwan but the focus of the study is on how to manage a retail chain. Qui (1989) uses the ecological model of Lambkin and Day (1989) to explain the modernisation of the general merchandise



retail industry, i.e., the department store, the supermarket and the convenience store, up to 1989 in Taiwan. However, at the time of Qui's study, some international retailers just started their business in Taiwan and retail formats such as the hypermarket and the shopping mall were unknown to Taiwan. Even the supermarket and the convenience store were still new shopping concepts for Taiwanese. Therefore, Qui's study only covers the early stage of the modernisation of the general merchandise retail industry in Taiwan.

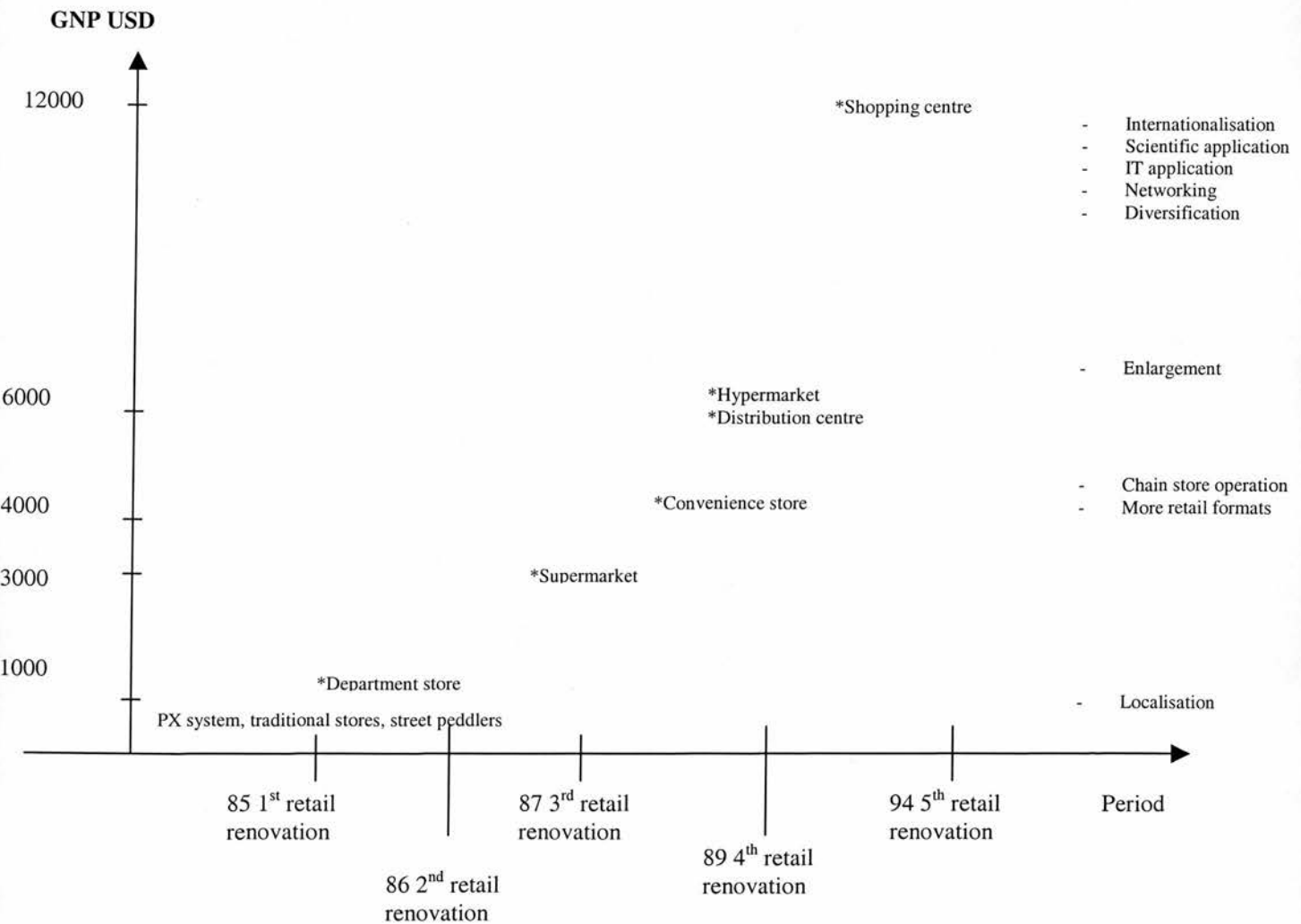
Hsu (1999) summarises the history of trading and related retail development in Taiwan and believes the evolution of Taiwan's general merchandise retail industry is strongly related to the growth of GNP per capita and to the influence of foreign companies (Hsu, 1999; Trappey and Lai, 1996). Hsu (1997,1999) provides a figure to demonstrate the relationship between GNP per capita and the development of different retail formats between the mid-1980s and the mid-1990s in Taiwan (Figure 5-1). The figure also shows the change in the retail industry along the improvement of the economy.

However, there are some drawbacks in this diagram. First of all, Hsu does not explain how he defines the emergence of each format and the timeline of the retail development of this diagram is not consistent with the timeline defined in other secondary data (Qui, 1989; Trappey and Lai, 1996). For example, Qui's (1989) study provides a clearer timeline:

- The late 1950s: the first department store was established by a local entrepreneur
- The late 1960s: the first supermarket appeared when the Shimen (West Gate) supermarket was established
- The late 1970s: the convenience store emerged when President Chain Store was established

Secondly, there is confusion of the parameters Hsu uses. He does not define clearly which of the following two indices – the national income per capita or GNP per capita – is used. The only clue is from the diagram that he provides, i.e., he uses GNP per capita. Moreover, it is problematic that Hsu links a certain GNP figure with the emergence of a retail format in his diagram. Though the development of the

retail industry is related to the economic development, it is arguable that the introduction of retail formats is closely associated with certain GNP per capita. For example, the convenience store appeared in the USA during the 1920s when GNP per capita was only around USD 650. However, the convenience store appeared in Japan when GNP per capita was USD4,650 and in Taiwan with GNP per capita USD2,100.



**Figure 5-1 The GNP Growth in Taiwan and Development of the Retail Industry**

Source: Revised from Hsu (1997, 1999) *Distribution Management, Taipei, Shinlou. P.316*

These studies regarding the general merchandise retail industry in Taiwan are either obsolete or lack an appropriate theoretical framework. To understand the development of this industry since the 1980s, the rest of this chapter will explain the definition and the development of the general merchandise retail industry in Taiwan up to date, based on these past studies and secondary data from other sources, such as retail magazines, journal papers, and papers on the Internet. Then the factors that influence the development of this industry will be discussed, based on PEST (Political, Economic, Social and Technology) analysis.

### **5.3. The general merchandise retail industry in Taiwan**

The general merchandise retail industry is an important sector in Taiwan. According to Taiwanese government statistics from 1998 to 2000, the amount of the retail trade accounts for a large part of total commerce trade (Table 5-1). In the retail industry, the general merchandise retail industry, i.e., the department store, the supermarket, the convenience store and the hypermarket, went through a period of rapid change and modernisation particularly during the 1990s. This development was facilitated by the changing economy and, at the same time, had a profound influence on Taiwanese' shopping behaviour and economy. Table 5-2 shows that the percentage of the general merchandise retail sales in total retail trade increased steadily, from 15.27% in 1994 to 18.96% in 2000.

Table 5-1 Breakdown of sales for trade and eating-drinking places category (Unit: NT\$million)

Year	Commerce	Wholesale trade	Retail trade	Foreign trade	Eating and drinking places
1998	7,148,438	1,702,908	2,735,090	2,502,881	207,559
1999	7,838,775	1,802,656	2,991,204	2,814,531	230,384
2000	8,649,850	1,905,054	3,129,616	3,360,721	254,459

*\*Government statistics for international trade and eating and drinking places are not available before 1998.*

*Source: www.moea.gov.tw*

Table 5-2 Percentage of the general merchandising retail sales in total retail trade (Unit: NT\$million)

Year	Retail trade (A)	The general merchandise retail trade (B)	B/A
1994	1,998,091	305,023	15.27%
1995	2,214,146	356,662	16.11%
1996	2,325,569	399,967	17.20%
1997	2,542,284	446,165	17.55%
1998	2,735,090	486,306	17.78%
1999	2,991,204	543,377	18.17%
2000	3,129,616	593,289	18.96%

Source: [www.moea.gov.tw](http://www.moea.gov.tw)

In addition, the general merchandise retailers dominate the top ten positions of Taiwan's wholesale and retail industry, based on the 2000 survey of the China Credit Information Service (CCIS, Table 5-3).

Table 5-3 2000 Top ten retailers ranked by sales and their store formats in Taiwan

Company	Format
1. President Chain Store (7-Eleven Taiwan)	Convenience store
2. Presicarre (Carrefour)	Hypermarket
3. Shinkong Mitsukoshi Department Store	Department Store
4. Pacific SOGO Department Store	Department Store
5. Far Eastern Department Store	Department Store
6. Acer Sertek Inc.	Hi-tech products retail
7. Makro Taiwan Ltd	Hypermarket
8. Taiwan Familymart	Convenience store
9. JT Tobacco International Taiwan Corp.	Tobacco merchant
10. Far Eastern Enterprise Co., Ltd.	Mall and hypermarket

Source: CCIS (2000) Credit On-line: Top500 companies in the retail industry in Taiwan/the Wholesale and Retail Category

### **5.3.1. Major formats of the general merchandise retail industry**

#### **5.3.1.1. Classification of the retail industry in Taiwan**

The Taiwanese Chain Store Association (TCSA, 2000) divides the retail industry in Taiwan into four categories:

1. The general merchandise retailing: including the department store, the supermarket, the convenience store, and the hypermarket.
2. The general retailing: including the specialty store such as the pharmacy, the bakery, the clothing and accessories, book stores... and so on.

3. Restaurants: Chinese and western style restaurants, breakfast restaurants, cafés, and others.
4. The service retailing: real estate agents, comic book rentals, private schools, film developing shops, and so on.

According to ‘The Standard of Business Classification’ published by the Executive Yuan, ROC, a retail company including three specific product categories or more will be classified as a ‘general merchandise retailer’. The department store, the supermarket, the convenience store and the hypermarket fulfil the criteria and thus are included in the category of ‘the general merchandise retail’<sup>b</sup> as four major formats (Table 5-4).

Table 5-4 The ROC Standards of business classification: Retail

Code	Title, Definition and Detail Content
53	The retail industry Organisations conducting retail sales, such as the department store, retail stores, street peddlers, petrol stations and co-ops
531	The general merchandise retail industry Organisations covering three or more subcategories of 532-559 in their retail sales, e.g., department stores, supermarkets, convenience stores and hypermarkets
5311	The department store Organisations having multiple departments of merchandising sales in one location.
5312	The supermarket Organisations offering household products and foods, especially fresh produce and combination of fresh cooking ingredients
5313	The convenience store Chain stores offering convenience products such as fast foods, drinks, groceries and service products to meet customers’ instant needs
5314	The retail outlets(hypermarket) Organisations conducting bulk sales and combining warehouse and selling space in one location
5319	Other general merchandise retail businesses Business excluded from 5311-5314 but sell multiple products
532-539	The specialty retail businesses Example.: Agriculture, livestock and fishery products; clothing; furniture and home decoration; Home repair and household products; machinery and gadgets; Motor, bicycle, and accessories; Luxury items and Jewelry

Source: *The Directorate General of Budget, Accounting & Statistics, the Executive Yuan (1998) ROC Standards of Business Classification; quoted from Han (1999) Exploring the Image of Retail Brands in Taiwan. Unpublished Master Thesis. Taichung: Tanghai University*

Therefore, unlike Europe or the USA, Taiwan puts the department store, together with the hypermarket, the supermarket, and the convenience store in one group – the general merchandise retail - and the retail studies in Taiwan often cover these four formats altogether.

The four major formats are different in products offered and operations, based on government definition. Besides the difference defined by the government, these four formats are also different in product lines and size of stores (Table 5-5).

Table 5-5 The difference of the numbers of product lines and areas among these formats

Format	The number of product lines stocked	Size of stores (Ping*)
The convenience store	2,300-2,500	22-30
The supermarket	6,500-8,500	200-220
The hypermarket	12,000-20,000	1,200-4,000
The department store	N/A	3,000-10,000

\* One ping is equal to one Tatami. According to Lee (1993), one ping is equal to 3.30579 square meters.

Source: Liao (2000) '2000 Retail Channel in Taiwan: The Analysis Report of Contemporary Competitive Dynamics I: Preface', Retail Mart Magazine, No. 337, April 2000, p. 31 (in Chinese)

In the second half of the 1990s, the department store and the supermarket had slower sales growth, compared with the growth of the hypermarket and the convenience store. Table 5-6 shows the annual sales growth of the general merchandise retail industry as a whole and the growth of four major formats in this industry since 1995. The growth of the department store and the supermarket lagged behind the growth of the industry as a whole and the growth of the convenience store and the hypermarket.

Table 5-6 Annual growth of different retail formats in the general merchandise industry in Taiwan between 1995 and 2000 (Unit: %\*)

Year	The General merchandise	The department store	The supermarket	The chain convenience store	The hypermarket
1995	16.93	13.20	8.82	18.13	29.70
1996	12.14	12.57	10.47	21.32	18.39
1997	11.55	8.25	7.89	19.21	15.91
1998	9.00	-0.22	9.00	19.17	20.45
1999	11.74	9.06	4.82	19.25	19.54
2000	9.19	8.69	-0.05	9.26	16.93

\*The percentage in the tables shows the growth rate of sales, compared with the sales of the previous year.

Source: www.moea.gov.tw

### **5.3.1.2. Four major formats in the general merchandise retail industry**

**The department store.** The first modern department store appeared in Taiwan in 1958 (Qui, 1989) and the majority of early department stores appeared in Taiwan during the 1960s. They were mainly established through local businessmen's individual investment or partnerships. Most of these department stores were located in Taipei. During the late 1970s, local conglomerates, e.g., Far Eastern and Shingkong, started their department store businesses. Since then, the majority of

department stores established before the 1970s gradually disappeared from the Taiwanese retail market. The department stores survived the competition after the late 1970s were mainly controlled by conglomerates, such as Far Eastern, Shingkong, Pacific and Rebar and these department stores normally are operated on a concessionaire basis. Qui (1989) claims that the disappearance of these early pioneers is due to their insufficient resources; without proper resources, they could not establish competitive advantage to compete with the department stores backed by conglomerates.

From the 1980s, many department stores were established under the co-operation between local conglomerates and foreign retailers, particularly those from Japan. The co-operation was mainly at operational level and limited to know-how transfer. It was not until 1986 when the government changed the attitude and policy regarding the foreign investment in the tertiary industry that joint ventures were formed between Taiwanese conglomerates and foreign retailers.

The Pacific SOGO Department Store is the first department store established under the joint venture between a Taiwanese conglomerate – the Pacific Construction Group - and a foreign retailer – the SOGO Department Store in Japan. Meanwhile, since the first Pacific SOGO was opened in 1987, the department store in Taiwan developed towards large-scale stores with an operational area over 10,000 pings (or over 30,000 square meters).

Another development in the department store sector during the late 1980s and through the 1990s is that the stores with Japanese connection, either investment or know-how transfer, dominated the market. Table 5-7 shows the top ten department stores in terms of sales in 1999 and their parent companies (CCIS, 1999; Chen, 2001). Nine stores have connection with Japanese know-how. This pro-Japan phenomenon lasted until 1994 when the Mingder Group opened the Mingder Printemps Department Store, a Taiwanese-French joint venture, in Taipei.

Table 5-7 Top ten department store companies in Taiwan in 2000, ranked by sales and their investors

Ranking	Company	Foreign investor or know-how provider	Domestic investor	Year of establishment
1	Shinkong Mitsukoshi	Mitsukoshi	The Shinkong Group	1991
2	Pacific SOGO	SOGO(Japan)	The Pacific Construction	1987
3	Far Eastern <sup>①</sup>	Ito-Yokado	The Far Eastern group	1967
4	Chungyo <sup>②</sup>	Matsuya	The Chungwu Construction	1990
5	Dayeh Takashimaya	Takashimaya	The Yutien Group	1994
6	Hanshin	Hanshin	Yonghan	1995
7	Fongchun LaiLai	Hanshin	The Fongchun Group	1978
8	Sunrise	Seibu	The Chungshin Group	-
9	Tonlin	Ko	-	1984
10	Talee Isetan	Isetan	The Talee Group	1991

<sup>①</sup>Far Eastern consulted Ito-Yokado in Japan only when it was just established.

<sup>②</sup>Chungyo consulted Matsuya for only about three years.

Source: CCIS (2000) *Credit On-line: Top500 companies in the retail industry in Taiwan/the Wholesale and Retail Category*; Chen (2001) 'Asian Retail Market and Retail Technology in the Proceedings of the 11<sup>th</sup> International Conference on Research in the Distributive Trades.2001, Tilburg, the Netherlands.; Qui (1989) *A study of the Introduction of New Retail Institution in Taiwan Taipei, National Chengchi University unpublished MBA thesis*

After the opening of Mingder Printemps in 1994, department stores also witnessed two developments:

- The combination of shopping mall concept into the department store; recent examples are FE21' owned by the Far Eastern Group and the Asia World Plaza owned by the Asia Group.
- Stores targeting niche markets. For example, Idee - a local department store transformed from the Rebar Department Store - targets female customers exclusively.

The Far Eastern Department Store was the largest department store in Taiwan in terms of store numbers and had 10 stores at the end of 1999. However, in terms of sales of an individual store, the department stores with strong Japanese ties, such as Pacific SOGO and Shinkong Mitsukoshi lead the market.



**The convenience store.** The convenience store appeared during the late 1970s and went through rapid network expansion in the 1990s. The know-how of the convenience store is mainly from Japanese and American companies such as 7-Eleven, FamilyMart, Circle K and Nikomart. The President Chain Store Corporation (7-Eleven Taiwan) is the largest convenience store retailer with 2,241 stores at the end of 1999 and has about 39 % market share in the convenience store sector in terms of the number of stores<sup>c</sup>.

Two pioneers of this format were the China Youth Store organisation established by the Chinese Village Rejuvenation Committee and the President Chain Store Corporation of President Enterprise. The former was established under the government policy to modernise the operation of corner shops and help farmers to sell their agricultural products and the latter was the food manufacturer's strategy to seek a new method for the improvement of their product distribution.

These two initial attempts, i.e., China Youth Store and President Chain Store, failed immediately and subsequently, retailers seek help from international retailers. The emergence of international convenience store retailers started from 7-Eleven Taiwan's opening in 1980. Nevertheless, 7-Eleven Taiwan did not make profits until the mid-1980s. After 7-Eleven succeeded in Taiwan, many local conglomerates and international convenience store retailers entered this market, followed by purely domestic companies. The convenience store industry went through rapid expansion in the 1990s and substituted for corner shops to provide consumers with daily necessities.

The convenience store provided food and drink manufacturers with a mechanism to have more and direct control of distribution channels. Many food and drink manufacturers regarded the convenience store as a quick access to customers for their new products and to direct market information. Moreover, the convenience store also helped manufacturers to improve inventory turnover and to cut the costs of dealing with middlemen (Hsu, 1999). More details regarding the convenience store development will be discussed in Chapter 6.

**The hypermarket.** The hypermarket concept was introduced in 1989 by Makro and Carrefour. Makro is a joint venture among Makro in the Netherlands, the Fongchun Group in Taiwan, and the Pufong Group in Thailand, and Carrefour is a joint venture between President Enterprise in Taiwan and Carrefour in France. There are three types of hypermarket operational models in Taiwan, depending on the target customers (Ho, 2000):

- Stores for all types of consumers, e.g., Carrefour Blue stores.
- Stores exclusive for members, either organisations or individual customers, e.g., RT-Mart
- Stores with wholesale purpose and exclusively for organisations, companies and small shop retailers and not for individual consumers, e.g., Makro.

Because opening a hypermarket requires a large amount of space, retailers opened many hypermarkets in industrial parks where they could find space and save land costs. However, because the government prohibited commercial activities, such as retail operation, in industrial parks, these hypermarkets were illegal. This situation remained until 1994 when the government created a more friendly policy towards these large-scale store retailers and designed some business parks for both commercial and industrial purposes.

In terms of sales, the most successful hypermarkets are Carrefour and Makro from Europe. The American retailer, Costco, and local retailers such as Kaofong are also well-known in the market. The hypermarket shows strong connections with European retailers, especially French retailers. After Casino bought shares of Hyper and Auchan acquired RT-Mart in 2000, the top three are all owned by French retailers.

The hypermarket enjoyed the highest growth of sales, among the four major general merchandise retail formats in the second half of the 1990s<sup>d</sup> (Table 5-6). Domestic and international retailers are still continuously investing in this format; recent new entrants (1999-2001) are Tesco and TaiSugar.

**The supermarket.** The first supermarket, Shimen (West Gate), was opened in 1969. However, the modernisation of Taiwan's supermarket industry normally is defined as when the Taipei City government opened the Yenchi supermarket in 1980 (Qui, 1989). During the 1980s, many supermarket pioneers, such as Shimen, already withdrew from the market and only supermarkets backed by conglomerates, e.g., Shingtonyang and Weichuan, or related to department stores, e.g., the Far Eastern department store, survived.

Many supermarkets also imported know-how from international retailers in the 1980s; the know-how is mainly from Japan or Hong Kong. Supermarkets with international know-how included Kayo, Jusco, Olympic, Summit, Sungching, Wellcome and Park'N Shop. One characteristic of the Taiwanese supermarket industry is that, unlike other general merchandise retailers, many supermarkets are regional business, such as Sungching, and Sinon mentioned above. The other characteristic is that many department stores have a supermarket department.

The introduction of the supermarket brought about some changes of consumers' grocery shopping habits and forced traditional wet markets to improve their operation and management (Hsu, 1999). Though the supermarket was first introduced in the late 1960s, it was not until the 1980s that the supermarket changed substantially (Liu, 1995). However, the development of the supermarket in Taiwan still falls far behind the development in more developed countries such as North America and the UK in terms of management and consumer acceptance.

There are two major reasons for the supermarket's slow growth: competition from other formats and consumers' slow acceptance of this format. The supermarket faces serious competition, directly and indirectly from other retail format. Thus, in terms of sales and growth, the supermarket is the weakest in Taiwan's general merchandise retail industry, compared with the department store, the hypermarket and the convenience store. It particularly faces competition from the convenience stores and the hypermarket because it can not compete with the convenience store for convenience and the hypermarket for price.

Consumers' shopping preference (Liu, 1995) also results in supermarket's slow growth. Taiwanese consumers still like to shop in traditional markets, especially for fresh produce. A survey of the Food Industry R&D Institute (2000) shows that 60% of consumers shop for fresh produce in traditional markets, compared to 30% in the supermarket. According to a government survey of traditional markets in Taiwan (Liao, 2000), traditional markets created NT\$ 1,030 billion sales in 1999 - about 13 times of supermarket sales, NT\$75 billion, of the same year and 80.29% of traditional market customers are regular shoppers.

The biggest supermarket is Wellcome, with 95 stores around the island at the end of 1999. Other supermarkets are regional, such as Sungching and Kayo in Taipei, and Marukyu and Sinon in Taichung.

### **5.3.2. History and modernisation of the general merchandise retail industry**

The retail development in Taiwan after the World War II can be divided into three periods: before 1977, between 1977 and 1985 and after 1985. The division is based on when and how international know-how was introduced in Taiwan's retail market. This classification is better than Hsu's classification based on the change of the national income because the development of the Taiwanese retail market is mainly due to the introduction of international retail know-how.

#### **5.3.2.1. Before 1977**

Table 5-8 shows that the percentage of the agricultural industry still accounted for over 10% of total GDP and the GDP per capita in Taiwan was still less than USD3,000 (Table 5-9) before the 1980s. When shopping for groceries, people's main concern was price and freshness. During this period, the development of modern distribution systems and international retailers was unknown to Taiwanese. Traditional grocery stores, open markets and unlicensed street-peddlers dominated retail businesses. Meanwhile, government introduced the so-called 'PX system' – a

chain grocery store established by the government in 1955, offering products exclusively to government employees with cheaper than market prices<sup>e</sup>. The PX system also played the role of rationing to help the government control wholesale and retail prices. Similar to a supermarket, a typical PX store is between 200-450 pings and stocks 7,500-9,000 lines<sup>f</sup>. However, the PX system later became a large chain store<sup>g</sup> and was often criticised by many retailers and manufacturers due to the unfair trading conditions<sup>h</sup> (Liao, 2000).

Table 5-8 The Structure of General Domestic Production (GDP) of Taiwan, 1960-2000

Year	Total	Agriculture	Manufacturing	Services	Trade and eating-drinking places*
1960	100	23.6	26.9	44.6	-
1966	100	22.5	30.5	46.9	15.4
1971	100	13.1	38.9	48.0	14.5
1975	100	12.7	39.9	47.4	-
1976	100	11.4	43.2	45.5	12.5
1981	100	7.3	45.5	47.2	13.3
1982	100	7.7	44.3	47.9	13.3
1983	100	7.3	45.0	47.7	13.0
1984	100	6.3	46.2	47.5	13.2
1985	100	5.8	46.3	47.9	13.3
1986	100	5.5	47.1	47.3	13.0
1987	100	5.3	46.7	48.0	12.9
1988	100	5.0	44.8	50.1	13.3
1989	100	4.9	42.3	52.8	13.5
1990	100	4.2	41.2	54.6	14.2
1991	100	3.8	41.1	55.1	14.6
1992	100	3.6	40.1	56.3	15.1
1993	100	3.6	39.4	57.0	15.3
1994	100	3.5	37.7	58.8	15.6
1995	100	3.5	36.4	60.2	16.4
1996	100	3.2	35.7	61.1	16.8
1997	100	2.6	35.3	62.1	17.2
1998	100	2.5	34.6	63.0	17.8
1999	100	2.6	33.2	64.2	18.5
2000	100	2.1	32.4	65.5	19.3

\*Trading and eating-drinking places is one composition of service industry; here shows its percentage accounts for total GDP.

Source: 'National Income in Taiwan Area, ROC' by Directorate – the General of Budget, Accounting and Statistics, the Executive Yuan; [www.dgbase.gov.tw](http://www.dgbase.gov.tw)

### 5.3.2.2. 1977-1985

The economy in Taiwan was gradually improved after the government implemented a series of economic development plans and, from the late 1970s, Taiwan started having a surplus in international trade and the New Taiwanese dollars appreciated for the first time after the World War II.

During the 1970s, the main theme of the government's economic plans was to improve the transportation infrastructures. These transportation infrastructures further facilitated Taiwan's international trade and economic development. For example, the Chungshan Highway built during this period facilitated the distribution of products along the island's West Coast. The development of the economy and transportation infrastructure improved people's mobility and facilitated the emergence of new urban areas and city centres (Trappey and Lai, 1996).

Table 5-9 shows the indicators of the economic growth in Taiwan from 1978 to 2000. GDP per capita, national income per capita and private consumption per capita experienced steady growth during the 1980s and the 1990s. Private consumption per capita grew over 100% in the 1980s and 53% in the 1990s.

Table 5-9 Summary of macroeconomic statistics in Taiwan, 1978-2000

Year	Economic growth (%)	Index of stock price*	Exchange rate (NT\$/USD)	Mid-Year Population (PERSON)	GDP per capita (USD)	National income per capita (USD)	Private consumption per capita (USD)
1978	13.59	-	36.95	16,974,000	3,290	3,004	1,764
1979	8.17	-	36.00	17,308,000	3,582	3,285	1,968
1980	7.30	-	36.00	17,642,000	3,771	3,399	2,030
1981	6.16	551.03	36.79	17,970,000	3,846	3,405	2,041
1982	3.55	443.57	39.12	18,297,000	3,678	3,280	1,981
1983	8.45	761.92	40.06	18,596,000	3,833	3,421	2,048
1984	10.60	838.07	39.62	18,873,000	4,223	3,805	2,246
1985	4.95	835.12	39.86	19,136,000	4,345	3,933	2,335
1986	11.64	1,039.11	37.85	19,357,000	5,050	4,734	2,618
1987	12.74	2,339.86	31.87	19,564,000	6,690	6,280	3,433
1988	7.84	5,119.11	28.61	19,788,000	7,946	7,486	4,282
1989	8.23	9,624.18	26.41	20,006,000	9,215	8,693	5,166
1990	5.39	4,530.16	26.89	20,230,000	9,433	8,900	5,409
1991	7.55	4,600.67	26.82	20,455,000	10,060	9,478	5,758
1992	7.49	3,377.06	25.16	20,654,668	11,416	10,736	6,621
1993	7.01	6,070.56	26.39	20,848,250	11,539	10,848	6,762
1994	7.11	7,124.66	26.46	21,034,899	12,217	11,379	7,248
1995	6.42	5,173.73	26.49	21,214,987	12,877	11,856	7,583
1996	6.10	6,933.94	27.46	21,387,815	13,073	12,161	7,730
1997	6.68	8,187.27	28.70	21,577,382	13,226	12,308	7,864
1998	4.57	6,418.43	33.46	21,777,096	11,755	11,019	7,119
1999	5.42	8,448.84	32.27	21,952,486	12,746	11,761	7,716
2000	5.86	4,739.09	31.23	22,125,102	13,834	12,476	8,301

Note: The price is based on 1996 constant price

Source: [www.dgbase.gov.tw](http://www.dgbase.gov.tw)

The economic development and the increase of disposal incomes (Table 5-10) led to urbanisation (Liu, 1991; Table 5-11) and created a wealthy middle-class (Hsu, 1999). The new middle-class looked for new shopping places and higher quality services.

Table 5-10 Average Household Disposal Income, 1966-2000 (Unit: NT\$)

Year	Average Household Disposal Income
1966	32,003*
1971	50,280
1976	116,297
1981	266,433
1982	275,250
1983	295,887
1984	314,245
1985	320,495
1986	341,728
1987	366,487
1988	410,483
1989	464,994
1990	520,147
1991	587,242
1992	639,696
1993	727,879
1994	769,755
1995	811,338
1996	826,378
1997	863,427
1998	873,175
1999	889,053
2000	891,445

*\*Figures are shown at 1996 constant price.*

Source: [www.dgbasey.gov.tw](http://www.dgbasey.gov.tw)

Table 5-11 Urbanisation in Taiwan, 1956-1989

Category of towns at the end of year	1956	1961	1971	1981	1989
A 2,000,000 population and above	0 <sup>①</sup> (0) <sup>②</sup>	0 (0)	0 (0)	12.52 (1)	13.44 (1)
B 1,000,000-1,999,999 population	0 (0)	0 (0)	12.16 (1)	6.77 (1)	6.83 (1)
C 500,000-999,999 population	7.97 (1)	8.4 (1)	5.73 (1)	6.63 (2)	9.72 (3)
D 100,000-499,999 population	15.09 (7)	17.49 (9)	19.10 (13)	21.54 (18)	20.94 (18)
E 50,000-99,999 population	8.08 (13)	14.11 (24)	15.90 (36)	12.93 (35)	12.85 (37)
F 20,000-49,000 population	23.20 (61)	17.35 (52)	8.98 (34)	6.15 (28)	4.92 (26)
Total number from A-E class	31.14 (21)	40 (34)	52.89 (51)	60.39 (57)	63.78 (60)
Total number From A-F class	54.34 (82)	57.35 (86)	61.87 (85)	66.53 (85)	68.70 (86)

Note: <sup>①</sup> Unit: %; The percentage = all population living in all the towns or cities defined / total population in Taiwan

<sup>②</sup>The numbers in the brackets mean the number of towns qualified for the specific population class.

Revised from: Liu (1981) 80 years of urban development in Taiwan. Proceedings of the 80 years of ROC Conference. Pp.13-15; Chang (1998) Social change and culture development in Taiwan area. Pp. 542-544. (in Chinese)

These economic and social changes created a positive environment for the modernisation of the retail industry. Responding to these changes, many conglomerates, e.g. the Far Eastern Group and the Shingkong Group, entered the general merchandise retail industry. These conglomerates opened department stores after the mid-1970s and consulted international retailers for the knowledge to run a department store. For example, the 7-Star Soft Drink Company established the Evergreen Department Store, based on the know-how from Tokyu in Japan and the Far Eastern Group also consulted Ito-Yokado in Japan for the operation of the Far Eastern Department Store. The Evergreen Department Store and the Far Eastern Department Store were the first cases of international retailers' involvement in Taiwan's retail operation (Hsu, 1999).

The convenience store also appeared at the end of the 1970s to substitute for traditional grocery stores in the provision of daily necessities and in convenience



shopping. The knowledge of running this type of modern small-size stores was from the Southland Corporation in the USA and Zennisyoku in Japan for.

Since the international retail know-how was utilised in the department store and the convenience store, international retailers were proactively involved in the Taiwanese retail market. However, there was no direct investment of international retailers in the general merchandise retail industry before 1985.

### **5.3.2.3. After 1985**

Table 5-12 The change of government policy regarding distribution industry in Taiwan

Stage	Period	Emphasis	Focus of policy	Economic benefits
1	Post World War II	The PX system	Taking care of government and military employees	Stabilising the prices of goods
2	1985 – present	Liberalisation of distribution business policy	Introducing foreign capital and advanced know-how	Creating job opportunities and improving retail management knowledge
3	1993 – present	Upgrading commerce policy	Encouraging domestic and foreign investment and improving distribution efficiency	Improving shopping and living standards

Source: Hsu (1999) *Management of Distribution, 1<sup>st</sup> Edition, Taipei, Shinlou. p. 238 (in Chinese)*

From 1985, the government's change of business policies created a positive environment for international retailers to invest in the retail industry (Table 5-12).

In 1985, government relaxed the control over foreign exchange and revised 'The Statute for Investment by Foreign Nationals' to encourage foreign investment in the tertiary industry. At the same time, the government reduced the tariff rate for imported products and the Taiwanese dollar also started its long appreciation against the US dollar (Table 5-9). The favourable conditions attracted foreign retailers to invest or form joint ventures in Taiwan's retail market (Hsu, 1999). The first retail investment with over 50% foreign capital is the Jusco supermarket. Since then, international retailers, including department stores (e.g., Pacific SOGO), supermarkets (Wellcome and Park'N Shop), convenience stores (e.g., Familymart), hypermarkets (Carrefour), and direct marketing companies (e.g., Amway and NuSkin), have continuously invested in Taiwan's retail market. These international retailers include companies from Japan, American, Hong Kong and Europe (Qui,

1989; Hsu, 1999) Table 5-13 shows examples of the general merchandise retailers of various formats, their foreign investors and the percentage of foreign capital invested.

Table 5-13 shows that most of the early foreign investors were from Japan and invested in department stores and supermarkets. In contrast, convenience store and hypermarket companies were established later at the end of the 1980s and were related to American and European retailers.

Table 5-13 The general merchandising retail companies with over 20% of foreign retailers' shareholding

Year	Retail Company	Foreign investor	% of foreign capital
Department Store			
1987	Pacific SOGO	SOGO Japan	49%
1991	Shinkong Mitsukoshi	Mitsukoshi	50%
1991	Talee Isetan	Isetan	49%
1994	Tayeh Takashimaya	Takashimaya	50%
1994	Mingder Printemps	Printemp, France	N/A
Supermarket			
1985	Jusco	Jusco Japan and Mitsubishi	53%
1987	Wellcome	Wellcome	100%
1988	Park'N Shop	Park'N Shop	100%
1987	Summit	Summit, Japan	Summit 30%; the Sumitomo Corporation 20%
1988	Olympic	Olympic, Japan	100%
N/A	Yumauwu	Inageya, Japan	50%
1998	Geant	Geant, France	50%
Convenience store			
1988	Familymart	Familymart, Japan	49%
1988	Circle K	Circle K, USA	20%
Hypermarket			
1989	Makro	Makro, the Netherlands	55%
1989	Carrefour	Carrefour, France	51%

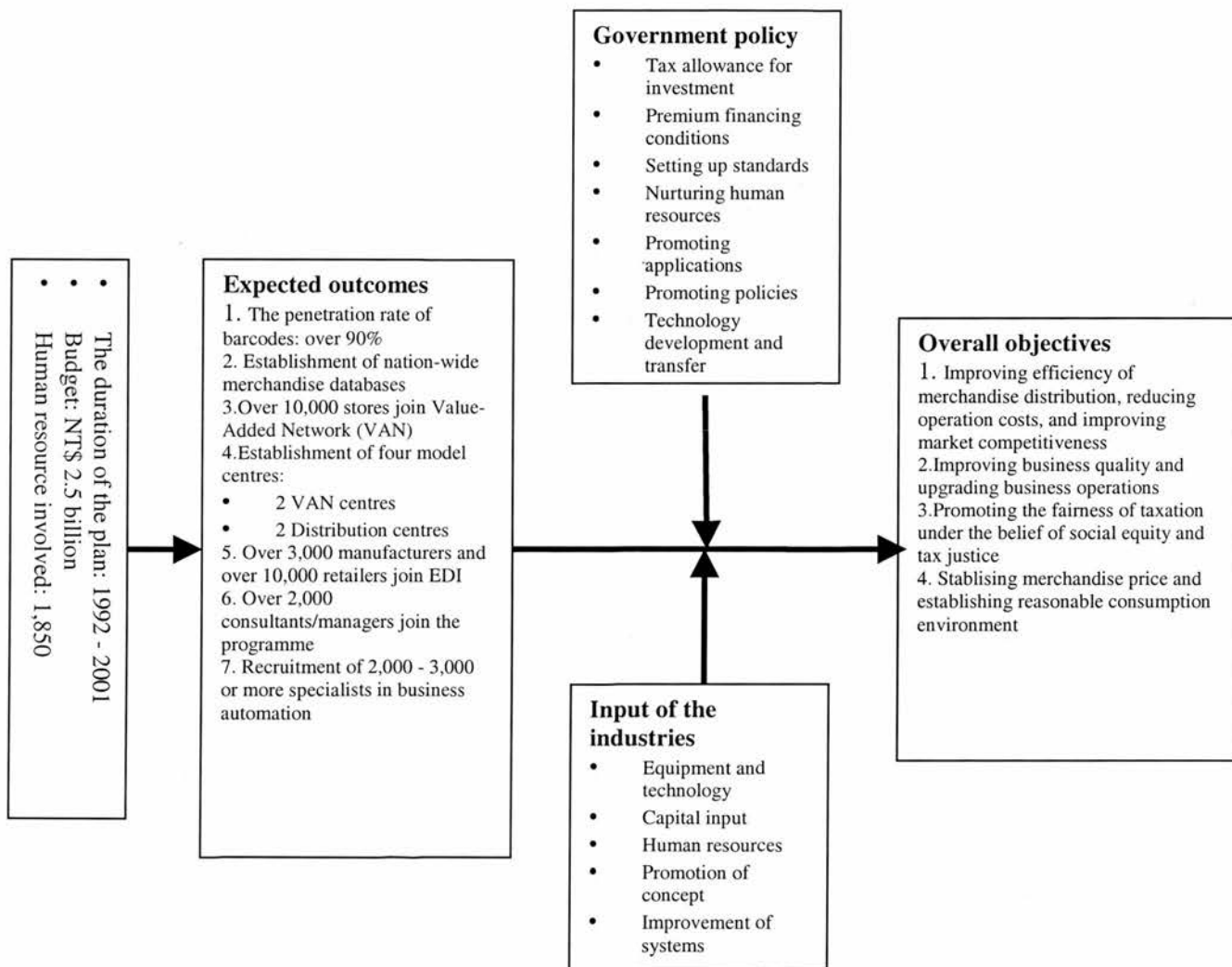
*Note: Jusco withdrew from Taiwan in 1991; Park' N Shop withdrew from Taiwan in 1996; Olympic also withdrew from Taiwanese market but the date is not available.*

*Source: Revised from Chen, G. (2001) 'Asian Retail Market and Retail Technology Transfer' in the proceedings of the 11<sup>th</sup> International Conference on Research in the Distributive Trades.*

From the early 1990s, the government further introduced a series of business policies to encourage the development of the retail industry. For example,

- 'The Policy of Encouraging the Establishment of the Integrated Commercial and Industrial Business Parks' in 1994 to legalise the development of large-scale stores such as the hypermarket

- ‘The Good Store Practice’ certificate in 1994 to encourage the improvement of service quality in stores, e.g., convenience stores and supermarkets ([www.moea.gov.tw](http://www.moea.gov.tw))
- ‘The Modernisation of Business’ to facilitate the modernisation and automation of the retail industry from 1992. One project under this policy is ‘The Ten Year Business Automation Plan in the ROC’ (Figure 5-2). There are eight sub-projects, 1,850 personnel and NT\$2.5 billions capital involved in this plan. This ten-year plan has two main purposes:
  - Integrating the work along the distribution channels and providing retailers with updated information regarding the merchandise flows and consumption trend, based on the data from the transaction records generated by cash registers and information systems.
  - Simplifying warehousing, speeding up the flow of the merchandise, shortening the time of distribution through automotive facilities to grasp more business opportunities and to reduce costs and inventory.



**Figure 5-2 The Objectives of 'The Ten Year Business Automation Plan in ROC'**

Source: MOEA (1999) *The Introduction of The Commerce Automation Plan*, Taipei: The Ministry of Economic Affairs, ROC. P. 4 (in Chinese)

The government's positive policies towards the retail industry encouraged more investors to establish retail businesses. Following the localisation and success of the general merchandise retail businesses supervised by international retailers, many local investors also entered this industry without international know-how. More participants led to the proliferation of the retail business in the 1990s and brought about fierce competition in the general merchandise retail industry.

### 5.3.3. Characteristics of the general merchandise retail industry in the 1990s

In summary, the industry in the 1990s shows the following features:

**Development of chain stores.** A report of Commonwealth Magazine (2000) points out that the growth of chain stores<sup>1</sup> is the major trend of the retail industry in Taiwan. A report in the Convenience Store Magazine Millennium Special Edition (Chung, 2000) shows the rapid growth of chain stores in Taiwan from the 1980s and the growth was particularly obvious in the 1990s (Table 5-14).

Table 5-14 The growth of chain stores in Taiwan

Year	1980	1994	1997	1998
Number of retail companies	26	299	669	831
Total number of chain stores	895	15,899	39,379	45,034

*Source: Speech of Mr. Lin, former Executive Director of Taiwan Chain Store Association (TCSA) – The development and future of Chain Stores in Taiwan; quoted from the Convenience Store Magazine Millennium special edition. (in Chinese) p.92*

**Continuous influence of international retailers.** Unlike the grocery retail industry in developed countries such as the USA and the UK, where large multiples are local and normally have a long history, the general merchandise retail industry in Taiwan is strongly influenced by international retailers. The influence started from the 1970s and continued in the 1990s. Four of the top five retailers in the 2000 CCIS survey have connections with international retailers (Table 5-15). Though the Far Eastern Department Store is a purely domestic investment, it consulted Ito-Yokado at the early stage of its operation.

Table 5-15 2000 Top 5 retailers in Taiwan

Ranking	Company	Net sales NT\$million	Conglomerate	Country of origin
1	President Chain Store (7-11 Taiwan)	49,719	President	America/Japan
2	Presicarre (Carrefour)	38,776	President	France
3	Shinkong Mitsukoshi Department Store	26,037	Shinkong	Japan
4	Pacific SOGO Department Store	22,402	Pacific Construction	Japan*
5	Far Eastern department store	20,994	Far Eastern	Taiwan

\* Pacific SOGO became a Taiwanese company after the SOGO in Japan went bankrupt.

*Source: CCIS (2000) Credit online: Top 500 Business in Taiwan/ the Wholesale and Retail Category*

International retailers have contributed to the modernisation of the general merchandise retail industry in Taiwan in terms of store management and supply chain management. For example, Japanese retailers' expertise regarding the processing of fresh produce improved the packaging and quality of fresh produce (Hsu, 1999) in the Taiwanese supermarkets. In addition, these international retailers introduced the concept of 'customer service' to Taiwanese consumers and improved the quality of customer services. For example, Taiwanese retailers did not allow customers to return products, once the items were purchased but now retailers accept customers' returns or provide after-sales services whenever customers have doubts about the products purchased.

**Vertical or horizontal expansion.** Many general merchandise retailers or their parent companies in Taiwan diversified into or invested in other related retail businesses or companies along the supply chain. For example, the Far Eastern Department Store invests in other retail businesses such as Ya-Tung Department Store, the Hyper hypermarket, the Far Eastern Continent hypermarket, and The Mall - a boutique inside the Far Eastern Plaza Hotel. 7-Eleven Taiwan, together with its parent company – President Enterprise - invested in various businesses, e.g., a packaging company, distribution companies, an advertising agency, and a coffee company<sup>l</sup>.

**Networking.** Besides diversification, general merchandise retailers also established co-operation with other industries or businesses. For example, the Marukyu supermarket co-operated with the ACE DIY store in Taichung to open stores together. Many convenience store retailers co-operated with suppliers to develop retailer-brand products. Convenience store retailers also form strategic alliances with banks, multimedia companies, and parcel delivery companies to increase their services.

**Rapid expansion.** The rapid growth of the general merchandise retail industry, in terms of sales and store numbers, was particularly obvious in the convenience store since the early 1990s and in the hypermarket industry after 1994. For example, from 1997 to 1998, there were 342 convenience stores and 26 hypermarkets opened within

one year (Ho, 2000; Chung, 2000). The number of convenience stores grew from around 800 in the beginning of the 1990s to 5,411 in 1994 and further grew to 7,533 in 1998 (Huang, 1992; Chung, 2000; Table 5-16).

Table 5-16 The change of convenience store numbers from 1994 to 1998 (Unit: stores)

Year	1994	1995	1996	1997	1998
Chain store	3,063	3,713	4,186	4,975	5,260
Individual store	2,349	2,325	2,299	2,216	2,274
Total	5,411	6,038	6,485	7,191	7,533

Source: Chung, C.C. (2000) *Distribution Pathbreakers Pioneered in Retail Arena., the Convenience Store Magazine Millennium Special Edition. (in Chinese) p.93*

The trend was particularly apparent for leading retailers in the second half of the 1990s. For example, 7-Eleven Taiwan's number of stores increased 138% between 1994 and 1999, from 942 to 2,241 stores, and Familymart by 322% from 192 to 811 stores. The purpose of rapid expansion was to gain market share and also to gain economies of scale and economies of scope in purchasing, distribution and product development.

**Utilisation of technology.** The general merchandise retailers in Taiwan increasingly utilise technology such as EOS (the Electronic Ordering System) and POS (the Point of Sales)<sup>k</sup> and the Intranet<sup>l</sup>. Information technology such as POS helps retailers gain more precise and detailed data on sales and thus facilitates inventory management and sales forecasting. Particularly for convenience store retailers, POS plays an important role in sales forecasting and retailer-brand fast food development. The Business-to-Business or the Enterprise Resource Planning (ERP) platforms also help retailers to improve their product procurement. For example, Carrefour joined its French parent company's GNX platform to source products through an international bidding system and thus reduces procurement costs.

**Conglomerate-controlled industry.** Another distinctive feature of Taiwan's general merchandise retail industry is that conglomerates dominate the industry. Table 5-15 also shows that the leading general merchandise retailers in Taiwan are connected with conglomerates, besides the relationships with international retailers.

These conglomerates normally own several retail businesses and thus the competition in the general merchandise retail industry can be regarded as the competition among different retail groups (Hsu, 1999).

Thus unlike the general merchandise retail industry in the USA or in West Europe, the general merchandise retail industry in Taiwan was ‘cultivated’ by manufacturers or conglomerates. Many general merchandise retail companies were established due to parent companies’ considerations, e.g., control of distribution channels. These general merchandise retail companies serve as an outlet of the conglomerates’ products or ‘cash cows’ for these conglomerates.

Table 5-17 Major Retail Groups in Taiwan

Conglomerate	Retail business in the group
Far East Group	Far East Department Store, Hyper, the Mall, Far East Warehousing and Distribution
Fongchun	Makro, LaiLai Department Store, Circle K
Weichuan	Sungching Supermarket, Marukyu Supermarket, Frespeed Distribution, Kanko Distribution
President	7-Eleven, 3Q Shop, Carrefour, Cosmeq, 7-Eleven Catalogue Shopping, Retail Support International
Tatung	Tatung Department Store, Tali Isetan, Tale Warehouse Club

Source: Hsu (1999) *Management of Distribution, Taipei, Shinlou.*

Table 5-17 shows four largest retail groups in Taiwan, i.e., Far East, Fongchun, Weichuan, President and Tatung, and their retail subsidiaries.

Hsu (1999) points out some features of these retail groups:

- These retail groups are backed by their conglomerate parent companies with abundant capital to ensure their network expansion.
- Most conglomerates investing in these retail groups have manufacturer background.
- These conglomerates’ entry into the Taiwanese retail market facilitates the modernisation of the retail industry in Taiwan.
- Retail companies in the same conglomerate can achieve economies of scale and scope more easily through co-operation along the value chain.



These phenomena are particularly apparent in the convenience store industry. The top five convenience store retailers (Table 5-18) in Taiwan are all backed by conglomerates and four are related to food or drink manufacturers. As mentioned earlier, for food manufacturers wanting to establish a retail business, the convenience store is an ideal format because the products sold in the convenience store normally are products with high stock turnover, e.g., soft drinks. Moreover, the convenience store's franchising feature means these manufacturer-backed retailers can expand more rapidly with less investment, compared with other formats.

Table 5-18 Top five convenience store retailers and their parent companies

Company	Parent Company
7-Eleven	President Enterprise
Familymart	Taisun, Kuangchuan, Sanyo Whisbih
Hi-Life	Kuangchuan
Circle K	Fongchun
Nikomart	Taisun

These conglomerates' involvement in the retail business and dynamic approach of retail investment and operations, i.e., diversification from the core convenience store business and strategic alliances with other industries, brought about the fierce competition in the convenience store sector in Taiwan.

**Consumers are brand-conscious.** Taiwanese consumers are brand conscious when shopping. Two research studies in Taiwan (Gau, 1997; Chen, 1997) prove that total store image has an influence on customers' patronage of grocery stores. Three studies (Ko, 1985; Kau, 1998; Lin, 1999) also show that store image will influence customers' perception and satisfaction of a convenience store. In terms of product brands, Shih (2000) conducted a survey of consumers' perception of national- and private-brand products in the general merchandise retail stores in central Taiwan. The results show that consumers' perception of national brands is better because national brands have more promotions and better brand images.

**Emergence of shopping malls.** The shopping mall is still a new concept in Taiwan. At the beginning of 2000, at least 11 projects are under development. In 1999, the first shopping mall, Tai Mall, was opened in Taoyuan County. Existing retailers, such as the hypermarket and the supermarket retailers, regard the shopping mall as an opportunity for network expansion, after facing the increasing difficulty of finding

suitable locations to open new stores. For example, Makro is the anchor store in Tai Mall<sup>m</sup>.

**The increasing acceptance of credit cards and loyalty cards.** The competition in the credit card market in Taiwan makes applying for a credit card easy (Table 5-19). The credit card provides consumers an easy way to purchase and ease of payment encourages consumption. Many hypermarkets and supermarkets now accept credit card payment, which was not the case years ago. For example, Carrefour introduced Carrefour Pass - an exclusive credit card. Some retailers also introduced loyalty cards to retain customers' patronage and to obtain information regarding their customers' profile and shopping behaviour. For example, Kayo introduced a loyalty card, which offers a discount to cardholders.

Table 5-19 The number of credit cards in selected years

Year	1994	1996	1998	1999	2000( Sept.)
Number of credit cards (Unit: 10,000 cards)	271	542	1,064	1,358	1,688

Source: [www.dgbasey.gov.tw](http://www.dgbasey.gov.tw)

**Outward internationalisation.** International retailers' entrance to the Taiwanese market was regarded as inward internationalisation. The localisation and internalisation of retail know-how strengthen local retailers' capability. Since the retail market in Taiwan faces increasing competition, local retailers equipped with internalised know-how look for opportunities in near-by areas or countries, such as China and Malaysia. For example, the Pacific Construction Group, the President Enterprise and the Weichuan Group have retail investment in China (Hsu, 1997). Pacific Construction Group established the Pacific Department Store Group in China. 7-Eleven Taiwan opened Starbucks in Shanghai and acquired 7-Eleven in the Philippines. Weichuan also opened Am/Pm in China, after its failure in Taiwan.

Figure 5-3 Retailer-brand fresh foods

Source: Courtesy of Retail Mart Magazine



**Retailer-brand development.** Many retailers, especially the hypermarket and the convenience store retailers (Table 5-20), introduced retailer-brand products. The reasons are to differentiate from competitors and to improve profit margins. Convenience store retailers (Ma, 1994) are particularly vigorous in the development of different retailer-brand fresh foods (Figure 5-3) to differentiate themselves from competitors. For example, 7-Eleven Taiwan focuses on rice balls and mealboxes (Bentos), while Familymart focuses on sandwiches and Hi-Life concentrates on

Japanese style cold noodles. Retailer-brand products also bring higher profit margins. The General Manager of 7-Eleven Taiwan, Hsu, Chung-Jen, pointed out that the profit margins of retailer-brand products can reach 30-40%, more than the average 27% margins of national brand products (Wu, 1993).

Table 5-20 Retailers introducing retailer-brand products

Store format	Retailers
The Supermarket	Yumaowu, Kayo, Sinon, Sungching
The Hypermarket	Makro, Carrefour, Costco, RT-Mart
The Convenience store	7-Eleven Taiwan, Familymart, Circle K, Nikomart, Hi-Life International, SJExpress, Wongtsaichi

**Inter-format competition.** Retailers are not only competing with retailers of the same format, but they also face competition from other formats. For example, supermarkets face pressure from hypermarkets because hypermarket retailers now introduce fresh produce in their stores with cheaper prices. Department stores also face competition from hypermarkets. Hypermarkets and category killers, e.g., Toys 'R Us, stock product lines similar to those in department stores but sell at cheaper prices. Some convenience stores also face competition from other formats. For example, 24-hour open supermarkets influenced convenience stores nearby because these supermarkets offer more product variety at cheaper prices.

#### **5.3.4. Factors which influence modernisation**

Modernisation of the general merchandise retail industry and the features mentioned in the previous section are influenced by the following factors:

**Political factors.** Government regulations play an important role in the development of Taiwan's general merchandise retail industry (Hsu, 1999; Table 5-12). Government's emphasis on international trade and the manufacturing industry before the 1980s left the retail industry neglected. It was not until the mid-1980s that the government became more proactive and established incentives to encourage the development of the retail industry. Moreover, the abolition of Martial Law in 1987 also had a big impact on business and Taiwanese lifestyle. For example, there was more freedom in store opening hours.

**Economic factors.** The growing GNP per capita brought increasing consumption power and facilitated the emergence of modern retailers (Trappey and Lai, 1996). Local economic events also influenced the development of the general merchandise retail industry. For example, the boom of the stock market in the late 1980s and the early 1990s (Table 5-9; the index of stock price) created a group of wealthy people which gained fortune from speculative investment in the stock market. The easy money led to these people's extravagant shopping behaviour and thus facilitated the growth of retail businesses, such as convenience stores and large-scale department stores.

**Social factors.** The following changes were seen in the 1990s:

- Increasing affluent middle-class population and increasing consumption power. Taiwanese have more income but less time; they are looking for branded products and a better quality of life (Trappey and Lai, 1996; Trappey, 1998).
- Consumers care more for leisure time and spend more on entertainment and less on foods and groceries. Table 5-21 shows that the percentage of food consumption dropped from 39.4% in 1981 to 24.2% in 2000. In contrast, the percentage of leisure and education expenditure increased from 8.3% in 1981 to 13.5% in 2000. For general merchandise retailers, this shift of expenditure composition indicates that it is more difficult to compete for consumer's expenditure for foods and they have to interest consumers in non-food merchandise instead. Thus retailers introduced services or entertainment products, such as cinemas in department stores and miscellaneous services in supermarkets (e.g., flower shops and cafés).

Table 5-21 Structure of Household Consumption Expenditure (Unit: %)

Year	Total	Food, Beverage and Tobacco	Clothing and Footwear	Rent, Fuel and Power	Family Furniture, Furnishing and Household Equipment	Medical Care and Health Expenses	Transport and Communication	Recreation, Entertainment, Education and Cultural Services	Miscellaneous
1981	100	39.4	6.8	24.1	4.6	4.5	6.9	8.3	5.4
1982	100	38.7	6.6	24.3	4.4	5.1	6.9	8.7	5.4
1983	100	38.9	6.3	24.1	4.4	5.2	7.2	8.7	5.2
1984	100	38.8	5.9	23.3	4.4	5.1	8.2	9.0	5.2
1985	100	38.2	5.9	23.5	4.1	5.3	8.3	9.5	5.2
1986	100	37.4	5.8	23.3	4.3	5.4	8.2	10.0	5.5
1987	100	36.5	6.0	23.0	4.4	5.4	8.5	10.6	5.6
1988	100	35.0	6.1	23.2	4.7	5.2	8.4	11.7	5.7
1989	100	33.7	6.0	23.8	4.6	4.9	9.2	12.0	5.8
1990	100	32.3	5.9	24.6	4.3	4.8	8.8	13.3	5.9
1991	100	30.9	6.0	25.7	4.3	5.4	8.9	12.8	6.0
1992	100	29.8	6.1	26.4	4.2	5.1	9.0	13.4	6.1
1993	100	27.7	5.7	25.5	4.1	7.8	9.8	13.0	6.4
1994	100	26.0	4.9	25.6	4.6	8.5	9.9	13.5	7.0
1995	100	25.5	4.6	24.9	4.6	10.4	10.0	13.1	6.9
1996	100	26.1	4.5	25.3	4.6	9.8	10.2	13.0	6.6
1997	100	25.7	4.5	25.1	4.4	10.0	10.4	13.1	6.8
1998	100	25.8	4.5	25.2	4.2	10.3	10.6	12.8	6.6
1999	100	25.1	4.1	24.9	4.0	11.0	11.1	13.0	6.8
2000	100	24.2	3.8	25.2	4.0	11.1	11.4	13.5	6.9

Source: 'Report on the survey of family income and expenditure in Taiwan Area, ROC', by Directorate-General of Budget, Accounting and Statistics, the Executive Yuan; [www.dgbase.gov.tw](http://www.dgbase.gov.tw)

- More females joined the labour market. Table 5-22 shows the percentage of females participating in the job market increases over the 30 year period. More working women indicates that the methods of meal preparation in the family may change. Hsu (1993) conducted a survey among 400 households in Taiwan regarding eating-out. The result shows that women's reasons for eating-out are related to work; these factors include work, being too busy for cooking, and social or business parties.
- The popularity of eating-out. Lee (1998) analyses the expenditure of homemeals and eating-out in Taiwan (excluding Taipei City and Kaohsiung City) during 1984 and 1995, based on the government's household income statistics. The result shows that the percentage of eating-out expenditure in total food expenditure increased from 11.7% to 26.9% during the surveyed period and he predicts the percentage will grow to 59% in 2010.
- Shopping becomes a part of leisure activities and even a family event (the ICP, 1997; Trappey, 1998; Fan, 2000). According to the ICP 1997 survey, when consumers go shopping in the hypermarket, it is often as a family group.

Table 5-22 Labour Participation rate (%)

Average of Year	Male ❶	Female❷	Total ❸
1971	78.4	35.4	57.1
1976	77.1	37.6	57.5
1981	76.8	38.8	57.8
1982	76.5	39.3	57.9
1983	76.4	42.1	59.3
1984	76.1	43.3	59.7
1985	75.5	43.5	59.5
1986	75.2	45.5	60.4
1987	75.2	46.5	60.9
1988	74.8	45.6	60.2
1989	74.8	45.4	60.1
1990	74.0	44.5	59.2
1991	73.8	44.4	59.1
1992	73.8	44.8	59.3
1993	72.7	44.9	58.8
1994	72.4	45.4	59.0
1995	72.0	45.3	58.7
1996	71.1	45.8	58.4
1997	71.1	45.6	58.3
1998	70.6	45.6	58.0
1999	69.9	46.0	57.9
2000	69.4	46.0	57.7

❶ Male labour force\*100/ male population aged above 15

❷Female labour force\*100/female population aged above 15

❸Labour force participation = labour force \* 100/ population aged above 15

Source: 'Yearbook of Manpower Survey Statistics, Taiwan Area, ROC' by Directorate-General of Budget, Accounting and Statistics, the Executive Yuan; [www.dgbasey.gov.tw](http://www.dgbasey.gov.tw)

**Technology and innovation.** The increasing utilisation of information technology facilitates general merchandise retailers' management of inventory, sales and distribution, and also improves supply chain efficiency. For example, the introduction of information systems helps supermarket retailers in the following aspects of their operations (Chu, 1998):

- Obtain just-in-time market information
- Help adjust merchandise structure effectively
- Improve sales
- Reduce costs
- Reduce inventory
- Improve product quality and freshness

Chen's (1995) study provides evidence of this contention. In a case study of Wellcome's POS system, he mentions that, through POS, Wellcome is able to obtain

just-in-time information for sales of every single product, the money paid in each transaction, and the time of each transaction. The system brings Wellcome the following benefits:

- The increase in data accuracy for inventory management, category management, sales promotion and shelf management
- Reduction of costs and speed-up of services over checkouts
- After installing the POS system, a store saves 90% of labelling costs and the speed of checking out is reduced from 110 sec./20 items to 35 sec./20 items

Technology and innovation also help both manufacturers and retailers to develop new products catering to customers' needs. For example, Nikomart, a convenience store in Taiwan, co-operated with oil manufacturers to develop a special deep-fry oil when it launched its deep-fry fast foods. The oil allows fast foods to be deep-fried inside stores without generating a lot of smoke.

The emergence of e-commerce in the second half of the 1990s also attracted retailers to enter this market and complemented retailers' physical stores with virtual stores. Most of the leading general merchandise retailers provide customers with information of weekly promotions through their websites. Some retailers, such as the Chungyo Department Store, Pacific SOGO and Carrefour also use the Internet as a platform of transactions with suppliers. In addition, major convenience stores provide online shopping services for books and computer components and expand the services to include more products.

#### **5.4. Summary**

This chapter reviewed past studies of the retail industry in Taiwan and provided updated development of Taiwan's general merchandise retail industry in the second half of the 1990s. The review showed that origin and development of the grocery retail industry in Taiwan are different from that in western markets and related to local conglomerate and international retailers. Modernisation of this industry started from the 1970s and the development of formats followed the pattern: department store-supermarket-convenience store-hypermarket. These four formats, classified in



the general merchandise retail industry in Taiwan, have different history backgrounds and different sources of know-how. They have different types of operation and co-exist in the Taiwanese retail market to serve customers with different shopping needs.

The review also showed that past studies failed to model this development in a theoretical framework. Chapter 2 mentioned theories such as environmental theories, conflict theories and cyclical theories for describing the impact of retail competition on retail format change and development. However, the suitability of existing theories of retail organisational change for analysing competition and development of Taiwan's general merchandise retail industry is questionable. For example, modernisation of the general merchandise retail industry in Taiwan started from the department store, which has high-margins and prestigious image. The supermarket and the convenience store emerged in Taiwan with a similar image. This development contradicts with the assumption of the wheel of retailing. The pattern of department store-supermarket-convenience store-hypermarket development also does not fit the trading-up assumption in the wheel of retailing or the accordion theory. The retail life cycle may partially explain the development of the department store. However, the dominance of the department store on the ranking of the top retail companies shows the department store is still popular for Taiwanese shoppers.

In addition, the development of the general merchandise retail industry in Taiwan shows that the following factors and the general merchandise retail industry have mutual influence:

- Economic development and the change of consumers
- The change of government policies
- The conduct of conglomerates or food/drink manufacturers
- International retailers

Existing theories such as the environmental theories and the conflict theories are not able to explain this mutual influence because environmental theories only focus on

environmental factors, while conflict theories only focuses on inter-firm factors. Therefore, the general merchandise retail industry needs a theoretical framework that can demonstrate this mutual influence between the environmental factors and the industry and explain the development of this industry.

A retail format reflecting the above problems is the convenience store. The convenience store industry was developed under the influence of the four external factors and, at the same time, competition and development of this industry influences consumer behaviour, government policies and conglomerate strategy. However, no studies provided systematic analysis of its development and of factors shaping the development. Therefore, the rest of this research will focus on the development of the convenience store industry.

## Notes

<sup>a</sup> The term 'the general merchandise retail industry' is adopted here, following the term used in government statistics; the general merchandise retail includes four major retail formats: the department store, the supermarket, the convenience store and the hypermarket

<sup>b</sup> Taiwanese government revised the definition in January 2002. According to the new definition, the general merchandise retail industry includes the following types of retail businesses:

Table 5-23 Revised definition of the general merchandise retail industry

475	The general merchandise retail industry	
	4751	The department store
	4752	The supermarket
	4753	The chain convenience store
	4754	The retail outlets (the hypermarket)
	4759	Other general merchandise retail business other than category 4751-4754, e.g., corner shops and the Co-op

Source: [www.dgbasey.gov.tw](http://www.dgbasey.gov.tw)

<sup>c</sup> The 7-Eleven Taiwan 2000 Annual Report.

<sup>d</sup> The official statistics before 1995 are not available.

<sup>e</sup> The PX system was controlled by the Ministry of Defense but in 1989 split into the General Welfare Service Ministry (GWSM) for military employees and the Chuan-Lian Corporation for government employees. There are 31 GWSM stores and 71 Chuan-Lian stores in 2000.

<sup>f</sup> The size of a PX system store is similar to that of a supermarket. A supermarket in Taiwan normally has the size between 200 and 220 pings and stocks between 6,500 to 8,500 lines.

<sup>g</sup> According to Commonwealth Magazine survey between 1980 and 1982, it was the largest retailer in Taiwan in terms of sales.

<sup>h</sup> For example, the PX system is exempted from VAT.

<sup>i</sup> According to the definition of the Taiwan Chain Store & Franchise Association, there are four types of chain stores:

1. A business that owns over 7 regular chain stores and has over NT\$100million annual turnover.
2. A business that owns 3 regular chain stores and has over NT\$100million annual turnover. The size of each store is over 1,000 pings.
3. A business that owns over 5 regular chain stores, expands mainly through franchising, has over 30 franchising stores and has over NT\$100million annual turnover.

- 
4. A business that owns over 5 regular chain stores and over 20 concessionaires in other retail businesses and has over NT\$100million annual turnover.

<sup>j</sup> Source: <http://www.7-11.com.tw>

<sup>k</sup> The Electronic Ordering System (EOS) improves efficiency of order procedures and reduces procurement costs, while POS systems (Point of Sales) enable convenience store retailers to produce detailed accounting data, collect consumption patterns and trace the sales of individual products directly. A POS system will need a retailer's larger investment of time and money, compared with an EOS.

<sup>l</sup> According to the definition of Whatis.com, an intranet is 'a network that is contained within an enterprise' ... and 'the main purpose of an intranet is to share company information and computing resources among employees.' Retailers in Taiwan use intranets to deliver just-in-time company documents or newsletters through the network.

<sup>m</sup> Makro is substituted by Tesco in 2001.

## Chapter 6

### **The Convenience Store Industry in Taiwan**

#### **6.1. Chapter overview**

This chapter first mentions the reasons for choosing the convenience store industry as the focus of this research and reviews past studies related to the convenience store industry in Taiwan. The development of the convenience store industry from the late 1970s to 2000 is then discussed. Special attention is given to chain convenience store retailers and competition during the period of 1995-2000.

#### **6.2. Reasons for selecting the convenience store industry**

In this research, the convenience store is chosen to test Hunt's R-A theory because it plays an important role in the modernisation of the general merchandise retail industry in Taiwan and it is worthy of attention because of this industry's tremendous growth in the 1990s (Table 5-6). There is further evidence of the industry's importance:

First, it is an important industry because, in about 20 years (the 1980s and the 1990s), the convenience store successfully substituted for traditional corner shops and became a part of Taiwanese life. According to the E-ICP survey in 2000<sup>a</sup>, 23% of consumers in Taiwan shop in convenience stores every day and 70% visit a convenience store at least once per week. The percentage is even higher for age group 13 to 19.

Secondly, consumers' spending in convenience stores as a percentage of total private consumption increased from 1.03% in 1994 to 1.93% in 2000 (Table 6-1).

Table 6-1 The percentage of convenience chain store sales in total GDP (Unit: NT\$million)

Year	Convenience chain store sales (NT\$thousand)	Private consumption (NT\$million)	GDP (NT\$million)	Convenience store sales/private consumption (%)	Convenience store sales/GDP (%)
1994	41,652,667	4,034,394	6,799,720	1.03	0.61
1995	49,202,816	4,261,489	7,236,536	1.15	0.68
1996	59,694,794	4,539,920	7,678,126	1.31	0.78
1997	71,164,010	4,869,682	8,190,783	1.46	0.87
1998	84,805,254	5,187,394	8,565,134	1.63	0.99
1999	101,129,030	5,466,132	9,029,704	1.85	1.12
2000	110,489,000	5,735,413	9,558,698	1.93	1.16

Note: ❶ The figures in this table are at 1996 constant price

❷ GDP and private consumption is based on the data from Directorate-General of Budget, Accounting and Statistics, Executive Yuan, ROC; [www.dgbasey.gov.tw/dgdas03/bs4](http://www.dgbasey.gov.tw/dgdas03/bs4)

❸ Convenience store sales are based on the statistics from the Ministry of Economic Affairs; [www.moega.gov.tw](http://www.moega.gov.tw)

Thirdly, the convenience store industry is a positive factor in the economic development in Taiwan. Table 6-1 shows that sales of the convenience store industry have grown more rapidly than GDP. Convenience store companies have improved the management of small-size stores, e.g., traditional corner shops, and revolutionised the operation of the retail industry. New concepts of retail operation have substituted for the loose and under-organised management of traditional grocery stores. Examples of new concepts are store management based on systems and rules, e.g., regular training and operational manuals, and centralised distribution and information systems allowing economies of scale. These new concepts were brought into Taiwan by local conglomerates and international convenience store retailers through franchise chain systems. These chain convenience stores grew at the expense of traditional corner shops and independent/individual stores and the phenomenon was particularly apparent in the second half of the 1990s. The store numbers of individual/independent convenience stores, or non-chain stores, still grew steadily (Table 6-2) until 1995. Throughout the second half of the 1990s, the growth was stagnant (Table 5-16) and the store numbers stayed between 2,000 and 2,500 due to the sharp growth of chain convenience stores. In other words, more storeowners are affiliated with a large franchise chain, instead of opening stores independently.

Table 6-2 The change in convenience store numbers from 1988 to 1990 (Unit: stores)

Year	1988	1989	1990	1991
Chain store	300	750	1,200	1,600
Individual store	300	100	400	1,100
Total	600	850	1,600	2,700

*Source: Huang (1992) Announcing the competition between franchise chain stores and individual stores. Feb., 1992, Convenience Store Magazine. p. 7*

Because of the significant development of chain convenience stores, this research focuses on these chain stores. This chapter will provide a detailed history of this industry up to date and the discussion includes three issues:

- The definition and features of the convenience store industry
- The drawbacks of past studies of the convenience store industry
- The development of the convenience store in the 1980s and the 1990s

### **6.3. Definitions of the convenience store**

The convenience store appeared in the United States in the 1920s but did not expand rapidly until the 1970s. The expansion was due to the sub-urbanisation and increases in car ownership in the American society, and the subsequent development of the out-of-town supermarket. Though the supermarket provided one-stop shopping, consumers found that it was inconvenient to shop for emergency needs. The needs for emergency purchase, together with the increase in numbers of double income families, facilitated the expansion of convenience stores in the United States from the 1970s (Su, 1990).

According to Kotler (2000), a convenience store is a ‘relatively small store located near a residential area, open long hours and seven days a week, and carrying a limited line of high turn-over convenience products at slightly higher prices (compared with the prices at the supermarket). Many have added takeout sandwiches, coffee, and pastries.’ (P. 521)

The definitions of the convenience store in different countries are slightly different (Table 6-3):

Table 6-3 Definitions of the convenience store in different countries

The American Convenience Store Association (ACSA)	The Manufacture Convenience Store Research, Japan (MCR)	Convenience Store Magazine (Taiwan)
<ul style="list-style-type: none"> <li>• 28-90 pings</li> <li>• 5-15 parking space</li> <li>• Longer opening hour, compared with stores in the nearby area</li> <li>• Self-service</li> <li>• Mainly selling deli, foods and groceries</li> <li>• Being complement of supermarket</li> </ul>	<ul style="list-style-type: none"> <li>• Below 300 square meters (90 pings)</li> <li>• Foods sales accounting for over 50% of total sales</li> <li>• Sales of single category less than 60% of total sales</li> <li>• Opening hour over 16 hours per day, 340 days per year</li> <li>• SKUs over 2,000 items, mainly service and convenience products</li> <li>• Equipped with POS or EOS systems</li> </ul>	<ul style="list-style-type: none"> <li>• Store space ranges from 15-70 pings<sup>b</sup>.</li> <li>• Merchandising structure including broad definition of food products and the sales from food account for over 50% of total sales.</li> <li>• Opening hours are over 14 hours per day, at least 340 days per year.</li> <li>• Equipped with cash machine, anti-crime facilities and basic equipment facilitating operation efficiency.</li> </ul>

Source: Hsu (1997) *Framing the Distribution Network in the Future*, Taipei, Shu-Hwa; Huang (1993) 'The Definition and Trend of Convenience Store', *Convenience Store Magazine*, July, 1993; *Convenience Store Magazine* (1998) *Survey of convenience store power in Taiwan*, *Convenience Store Magazine*, February 1998

In summary, a convenience store is a store:

- With limited space: less than 300 square meters or 90 pings
- Selling foods, convenience products and services with slightly higher prices but limited items. Normally a convenience store will stock only 2,000-3,000 lines of products. The stock is smaller, compared with other retail formats (Table 5-5); for example, a supermarket in Taiwan normally stocks 6,500 – 8,500 lines.
- Having long opening hours: at least 14 hours per day and almost the whole year around.
- With self-service

- Having an efficient operation. For example, through the utilisation of technology such as POS systems, convenience stores can obtain just-in-time information regarding sales and inventory to have better inventory management.
- In a convenient location, which customers can reach the stores easily, e.g., within ten minutes walking distance

The purpose of the convenience store is to serve customers who are not price-sensitive or who make emergent purchase. In addition, in Taiwan, convenience stores are valued according to the following three benefits they bring to customers:

- Convenience of shopping locations. In Taiwan, convenience stores are normally located in residential areas, in prosperous business areas, near traffic centres such as railway stations, and near schools. Customers can reach a convenience store within 5-10 minutes by foot.
- Convenience of shopping hours. A convenience store normally is open 24 hours per day and for the whole year. Moreover, the compact store size and clear space allocation enable customers to find the convenience goods quickly.
- Convenience of products. Convenience stores offer compact-sized products, which are easy to carry for consumers. Moreover, due to the limited in-store space, the product assortments generally are the most-wanted items for consumers in order to satisfy consumers' needs in convenience goods.

Besides convenience, the convenience store also provides modern shopping environment because it has the following characteristics (Hsu, 1997):

- Emphasis on customer-relationships: to provide services to retain customer loyalty
- Comfortable store ambience: to provide comfortable shopping environment
- Efficient store operation: convenience stores adopted self-service to reduce labour costs and chain store operation to achieve economies of scale. Moreover, the support of know-how from the headquarters also improves store-operation efficiency



In 1977, the Chinese Village Rejuvenation Committee conducted a survey among customers of the China Youth Store Corp. and found customers' main reason for shopping in the stores of the China Youth Store Corp. was the proximity to home. Most customers at that time were aged between 20 and 40 (the Chinese Village Rejuvenation Committee, 1977; quoted from Kou, 1985).

Convenience Store Magazine's TCR (Taiwan Convenience Store Research) surveys in 1996 and 1997 showed consumers' major reasons for shopping in convenience stores were proximity/convenience, providing official receipts and stocking complete product assortment.

Now the convenience store has become a part of Taiwanese' life. The E-ICP 2000 survey shows that when choosing a convenience store retailer, consumers' major concerns remain proximity, presence of a convenience store in the market (whether the store brand is well-known or not) and hygiene inside a store.

Therefore, convenience/proximity is always the main reason for consumers' patronage of convenience stores. This explains why convenience store retailers are eager in expanding their stores island-wide. During the 1990s, the number of convenience stores grew rapidly; the store expansion was mainly through different franchise mechanisms – either franchise or voluntary chain systems. According to Convenience Store Magazine (2000) and the Taiwan Chain Store Association (TCSA, 2000), network expansion through franchise and voluntary chain systems is the focus of the convenience store industry. These chain stores grew at the expense of individual stores (Table 5-16). Table 6-4 shows the growth of store numbers for the top five convenience stores from 1993 to 1999. Until 1999, the growth rate of store numbers was over 20% each year. In 1995 and 1997, chain convenience stores experienced a particularly high growth rate - over 25%. Except 7-Eleven Taiwan, all convenience store retailers were new in the beginning of the 1990s. Until 1994, these four retailers still have fewer than 200 stores but their number of stores increased rapidly between 1995 and 1999. For example, between 1995 and 1999,

Familymart's stores grew by 322%, while the growth rates for Hi-Life's, Circle K's, and Nikomart's were 362%, 184% and 137%.

Table 6-4 Top convenience store retailers' store numbers and growth rate since 1993

Year	1993	1994	1995	1996	1997	1998	1999
7-Eleven Taiwan	809	942	1135	1318	1588	1896	2241
Familymart	136	192	280	367	502	660	811
Hi-Life	80	132	229	322	462	555	610
Circle K	150	169	208	265	336	358	481
Nikomart	83	99	130	132	166	205*	235*
Total	1258	1534	1982	2404	3054	3674	4378
Annual growth rate of store number	-	21.94%	29.20%	21.29%	27.03%	20.30%	19.16%

*\*From Nikomart company data*

*Source: 7-Eleven website*

As mentioned in Chapter 5, chain store operation is a trend in Taiwan's general merchandise retail industry. Taiwanese convenience store retailers, compared with retailers of other formats, have more chain stores and more rapid and diversified network expansion. A survey (TCSA, 1998) shows that the chain store operation facilitates convenience store retailers' operational efficiency. Among the four general merchandise retail formats in Taiwan, only the convenience store expands through franchise chain systems or voluntary chain systems. Other retail formats, i.e., the department store, the supermarket and the hypermarket, expand mainly through corporate chain systems.

Hsu (1997) points out that chain store systems provide convenience store retailers with an advantageous method of expansion. The most common methods of expansion are the corporate chain system (or regular chain system), the franchise system and the voluntary chain system. All convenience store retailers, even voluntary chain retailers, run a certain number of corporate chain stores for the purposes of know-how accumulation and testing of innovations but expanded mainly through franchise systems. According to a report of the Fair Trade Committee, until May 1999, among the surveyed chain convenience stores, 70% of convenience stores in Taiwan are franchise or voluntary chain stores and only 30% are directly and totally controlled by these convenience store retailers. The franchise systems<sup>c</sup> of the convenience store can be further divided into mandated franchise systems and

authorised franchise systems. The different expansion methods of convenience store retailers in Taiwan are summarised in Table 6-5 and Table 6-6.

Table 6-5 Different franchise mechanisms used by convenience store retailers in Taiwan

Expansion methods	General Conditions	Representative company
Regular chain	Headquarters have 100% control on stores	Million
Mandated franchise system	<ul style="list-style-type: none"> <li>Headquarters provide stores and control managerial decision.</li> <li>Franchisees must pay both royalty and deposit.</li> <li>Headquarters share majority of profits.</li> </ul>	7-Eleven Taiwan Familymart Hi-Life Circle K Nikomart
Authorised franchise system	<ul style="list-style-type: none"> <li>Headquarters control managerial issues.</li> <li>Franchisees invest in the stores and share majority of profits.</li> </ul>	7-Eleven Taiwan Familymart Hi-Life
Voluntary chain	<ul style="list-style-type: none"> <li>Franchisees are independent from headquarters in decision making and store management.</li> <li>Franchisees pay royalty, deposit and fee for using the retailer's logo and are responsible for their own performance.</li> </ul>	SJExpress Wongtsaichi J-Young

Table 6-6 The difference between the regular chains, the franchise chains and the voluntary chains

Type	Regular chain	Mandated/Authorised franchise	Voluntary chain
Goal	Channel management	Channel management	Sales of products/counterbalance competitors
Advantage for headquarters	100% control upon stores	High Efficiency	Low risk
Disadvantage for headquarters	Low efficiency	High Risk	Weak control
The owner of merchandise	Headquarters	Headquarters	Store owners
Contract between headquarters and stores	Based on headquarters command	Strict	Loose
Profit sharing	100% goes to headquarters	Shared between headquarters and stores	100% goes to stores
Discretion of stores	Nil	Few	Large
Support of headquarters	100%	Large	Advisory
Training	Complete training programmes	Most provided by headquarters	Store owners' discretion
Store's capital contribution to headquarters	N/A	Yes, depending on contract	No (every store is responsible for its own investment.)
Employee recruitment	Headquarters in charge	Franchisees in charge	Franchisees in charge

Source: Revised from Huang and Chang (1995) *Types of chain stores II*. Feb., 1995, *Convenience Store Magazine*, p.17 (in Chinese)

Table 6-5 and 6-6 only show the general conditions; each retailer may have slightly different conditions for each system. For example, 7-Eleven Taiwan's mandated franchise contract is ten years, while Familymart's is five years.

Not all retailers adopted franchise or voluntary systems from the beginning of their operations. In order to control store quality, convenience store retailers prefer to start with corporate chain systems to ensure that stores are under control and the quality is consistent. For example, 7-Eleven Taiwan remained as a corporate chain until 1989 and Circle K did not introduce its franchise system until 1998. Another reason for these retailers' sticking to regular chain systems at the beginning of the business is to accumulate know-how before the retailer is confident with its operation and with the introduction of its franchise systems to franchisees. For example, Hi-Life, a purely domestic convenience store retailer established in 1988, remained as a regular chain to accumulate know-how and did not introduce its franchise system until 1993.

Besides mandated and authorised franchise chain systems, voluntary chain systems are also common in Taiwan. However, the voluntary chain systems in Taiwan are slightly different from those in the United States and in Europe. According to Kotler (2000), a voluntary chain is 'a wholesaler-sponsored group of independent retailers engaged in bulk buying and common merchandising'. In Europe, voluntary chains appeared also because of wholesalers' reaction to competition (Price, 1997). Taiwan's voluntary chains are different from those defined in the USA and in Europe. Voluntary chains in Taiwan were established by manufacturers or conglomerates; for example, Weichuan Chain Store and SJExpress were owned by two local conglomerates. They might be established also by the franchisees of existing convenience store retailers; for example, the owner of B&D, a early and small regional chain, originally was 3Q's franchisees.

The benefits of a voluntary group are central purchasing, a corporate fascia, marketing, merchandising, product range advice, store refits, advertising, loyalty schemes and information technology (Price, 1997). The voluntary chain convenience stores in Taiwan have central offices<sup>d</sup> (or headquarters) to provide franchisees with these benefits but many also want to push their parent companies' products. Therefore, the origin and nature of the voluntary chain stores are different from those in the USA and Europe in some aspects. Thus this research regards

voluntary chain systems as one of the franchise systems. The discussions in this research regard store owners of voluntary chain stores as 'franchisees' but retains the term - 'voluntary chain systems', following the norm in Taiwan.

## **6.4. Evolution of the convenience store industry in Taiwan**

### **6.4.1. Review of past studies**

Several studies in Chinese tried to analyse the development of Taiwan's convenience store industry (Qui, 1989; Hsu, 1997; Hsu, 1999; Anonymous, 1997; [www.ba.lm.fju.edu.tw](http://www.ba.lm.fju.edu.tw); Wu, 1998; Ho, 2000).

Qui (1989) applies the ecological theory to explain the evolution of different general merchandising retail formats. He suggests that the convenience store is entering the growth stage at the time of study. However, when Qui's survey was finished, many convenience store companies were just established and thus the survey could not explain the conduct and competition among these convenience store retailers.

Hsu (1997) compared the development of the convenience store in Taiwan with the development in Japan and in the USA and pointed out the problems that convenience store retailers faced in the mid-1990s. As explained in Chapter 5, though Hsu (1997,1999) utilises the growth of GNP per capita to explain the retail development in Taiwan, the model faces the problems of explaining the relationship between the amount of GNP per capita and the emergence of a certain retail format. Meanwhile, the explanation suffered the confusion of definition of national income.

TCSA (1995; quoted from Wu, 1998) provides another definition of phases of the chain store development in Taiwan. The development of chain stores, including chain convenience store, in Taiwan is divided into four stages:

- The emergence stage: before 1979; traditional family business type stores, such as corner shops

- The adjustment stage: 1980 – 1983; the interaction between foreign and domestic retail know-how
- The mature stage: 1984 – 1990; proliferation of chain stores
- The spill-over stage: after 1991; retail know-how exported to other Asian countries

However, TCSA's definitions are not confined to the development of the convenience store and may not accurately depict the development of this industry. For example, the proliferation of chain convenience stores did not happen until after 1990. Another example is that the export of convenience store know-how from Taiwan did not happen until 2000, when 7-Eleven Taiwan acquired a 50% share of 7-Eleven Philippine and became the first convenience store retailer to export know-how.

A report of the First Commercial Bank (1997) only mentioned two stages: introduction and growth/competition. However, the description is confined to convenience store retailers' presence before 1995. Ho (2000) also discussed the development of the convenience store based on a report of the Fair Trade Committee and indicated that the convenience store format has reached the mature stage of the retail life cycle.

The drawback of these classifications is that these discussions in general follow the retail life cycle theory and face the problem of defining each stage of the retail life cycle for the convenience store. For example, Qui (1989) identified convenience stores as being at the growth stage and after ten years, Hsu (1997) still indicated that convenience stores were at the growth stage. Both studies also do not explain the foundations for their classifications. Moreover, these discussions in general lack the support of a theoretical framework and thus tend to be anecdotal.

#### **6.4.2. The development of the convenience store based on past definition**

The following section identifies three key stages in the development of the convenience store industry in Taiwan up to 2000, based on the studies discussed in Section 6.4.1 and on the literature regarding the convenience store after 1995:

- Stage 1: 1977-1987
- Stage 2: 1987-1995
- Stage 3: after 1995

The detailed events throughout the history of Taiwan's convenience store to date are listed in Table 6-18 (Convenience Store Magazine Millennium Special Edition, 2000; Retail Market Magazine, 2000).

##### **6.4.2.1. Stage 1 (1977-1987)**

Stage 1 started with the emergence of the convenience store concept in Taiwan and ended when 7-Eleven Taiwan started making profits, President Bakery Chain was transformed to 3Q Shop, and the Weichuan Chain Store ceased its expansion. Before 1977, traditional corner shops, the PX system and traditional markets dominated Taiwan's general merchandise retail market. Modern formats such as the department store and the prototype supermarket were located mainly in urban areas. They were perceived as expensive and prestigious and only wealthy people could afford frequent shopping in these two modern retail stores. When shopping for convenience goods, consumers patronised traditional corner shops. These corner stores not only provided commodities and groceries, but also functioned as community information centres. The storeowners normally were acquainted with their customers and had social interactions with customers. However, the owners of these traditional corner shops did not have proper knowledge of store management, e.g., inventory management, store layout and in-store hygiene. The success of these owners depended on their personal capability and relationship with customers in the neighbourhood, rather than on proper retail management knowledge

In 1977, the Taipei City government, the Youth Counselling Commission and the Chinese Village Rejuvenation Committee introduced a project for modernising

grocery stores and tried to substitute modern convenience stores for the traditional low-quality corner shops. Under the project, 64 stores, named as China Youth store, were open. The project had several purposes (Liu, 1981):

- To improve hygiene of grocery stores
- To improve grocery retail systems in Taiwan
- To encourage entrepreneurs to join grocery retail businesses
- To establish distribution channels for grocery products from the peasant associations around Taiwan.

However, the project failed immediately and faced huge losses. Due to the huge losses, in November 1977, only NT\$13,000 of the initial NT\$900,000 investment was left. Thus a company, the China Youth Store Co. Ltd., was set up to improve the operation of these stores but the attempt failed. The reasons for the failure are the lack of scale economies, unclear product assortments, unstable pricing mechanisms and weak control of the headquarters among stores. The company was then sold to the Weichuan Group in 1981. After the acquisition, Weichuan co-operated with a Japanese voluntary chain retailer – Zennisyoku - and created a new brand, Weichuan Chain Store, for these stores in 1983.

Besides China Youth Store/Weichuan Chain Store, the President Enterprise established the President Chain Store Corporation in 1979. Traditionally, food and drink manufacturers, e.g., Heysung – a Taiwanese soft drink company, sold products to regional wholesalers or dealers around the island and then these wholesalers and regional dealers sold products to retailers. Alternatively, manufacturers, such as Weichuan and King Car, established their own regional operational offices and these offices sold products to retailers. Some manufactures, e.g., President Enterprise, may use both systems at the same time to push their products into the market. However, the dual system caused some inconsistency in product strategy. President Enterprise also found it difficult to push new products into markets because dealers and regional operation offices tended to focus on more profitable products and ignore new products. Thus President Enterprise decided to establish a retail outlet which it had more direct control (Lee, 1999) and subsequently established the President Chain Store Corporation in 1978.



However, the President Chain Store Corporation also failed due to the lack of convenience store know-how. Thus President Enterprise imported convenience store know-how from Southland in the USA and introduced 7-Eleven to Taiwanese market in 1980. 7-Eleven Taiwan followed the know-how, such as market positioning and marketing strategy, of Southland. It opened stores through franchising in residential areas and targeted housewives in competition with traditional grocery stores.

As Lee (1999) mentions in his book:

*'Because our National Income per capita was less than US\$2,500 and we did not have any experience in retail chain stores, it was very difficult to manage this kind of business. We could not get rid of the problem of making a loss, so President decided to learn from other countries.'*

Although following the international know-how, 7-Eleven Taiwan received a lukewarm response from consumers. It lost 50% of the original NT\$200million investment within 3 years and was forced to become one department of President Enterprise. It also changed its expansion method from a franchise chain system to a corporate chain system in 1983. However, it still operated at a small scale and tried to find appropriate methods of operation and marketing for the Taiwanese market.

In contrast, Weichuan Chain Store expanded its network rapidly through a voluntary chain system. Many traditional corner shops joined the Weichuan Chain Store system because they worried about 7-Eleven Taiwan's impact on their business and because Weichuan's voluntary chain system had less control over storeowners. Weichuan's relationship with its franchisees was very loose. The headquarters of Weichuan Chain Store only provided franchisees with advice about promotion, display, orders and financial management but franchisees had discretion and final decision making responsibility for store locations, contents of orders and store management<sup>e</sup>.

In the first half of the 1980s, Weichuan led the competition and expanded rapidly, while 7-Eleven Taiwan struggled for survival. However, 7-Eleven Taiwan continuously obtained support from the CEO of President Enterprise. At the end of

1985, Weichuan owned 286 stores and reached its peak. At this time, 7-Eleven Taiwan owned only 88 stores and just started making profits.

In addition to 7-Eleven Taiwan, President Enterprise indirectly owned President Bakery Chain, a bakery chain established in the beginning of the 1980s. President Bakery Chain was controlled by the President Bakery Factory – a subsidiary of President Enterprise - and expanded through a voluntary chain system. The purpose of President Bakery Chain was to promote products from the President Bakery Factory and normally the size of a Bakery store was only 10 pings (Huang, 1991).

As discussed in Chapter 5, since the late 1970s, Taiwan had dramatic social and economic changes due to the economic growth following the government's series of economic development plans. The results were increases in people's income and changes in life style. Increasing income, urbanisation, emergence of an affluent middle-class and the emergence of nightlife followed an economic boom. These changes brought positive environment for convenience store development.

Though facing the initial failure, 7-Eleven Taiwan sensed these changes in Taiwanese society and started a series of adjustment of its marketing strategy from 1983:

- Changing the target market from housewives to young people and the working population
- Relocating its stores from residential areas to business areas
- Changing its expansion method from a franchise system to a corporate chain system
- Extending store opening hours, e.g., 24 hours<sup>f</sup> due to more nightlife

After continuous trial and error, the sales of 7-Eleven Taiwan started to increase and finally it turned around in 1986. It rapidly expanded on the West Coast of Taiwan and also started its sponsorship of many charity events to promote the corporate image.

Besides the adjustment of strategy, 7-Eleven Taiwan started the development of new products. Originally the products sold in the stores of 7-Eleven Taiwan and Weichuan Chain Store were confined to convenience groceries with slightly higher prices, compared with the prices in traditional grocery stores. In 1984, Western fast-food restaurants such as McDonald's and Burger King entered the Taiwanese market. The introduction of fast food restaurants changed Taiwanese eating-out culture and the Taiwanese gradually accepted western style foods. 7-Eleven Taiwan sensed the impact that these fast-food restaurants might bring to Taiwanese dietary patterns and therefore introduced fast foods such as in-store microwavable foods, O'den (Figure 6-1) and hot coffee.

**Figure 6-1 O'den in a convenience store**

*Source: Courtesy of Retail Mart Magazine*



7-Eleven Taiwan started making profits from 1986 but Weichuan Chain Store had a different fate after reaching its peak. The development of Weichuan Chain Store's management team at headquarters could not catch up with the speed of the growth of stores. Finally Weichuan encountered problems with franchisees' co-operation. For

example, when headquarters asked franchisees to co-operate in the promotions of Weichuan products, franchisees refused (Ho, 1986). At this time, Weichuan also changed the focus of its retail business from the convenience store to the supermarket and established the Sungching with Matsukiyo in Japan, in 1986. Weichuan's ignorance of its convenience store business and the loss of control over franchisees led to the weakening of Weichuan's voluntary chain (Lee, 1995). Meanwhile, Weichuan Chain Store franchisees sensed that the threat of 7-Eleven Taiwan was not so detrimental to their businesses and thus withdrew from Weichuan's voluntary chain system. These reasons caused the rapid collapse of Weichuan's voluntary chain system within three years (1986-1988).

Another voluntary chain - President Bakery Chain, also encountered similar problems of communicating with franchisees (Wu, 1991). For example, the headquarters focused on promoting President Bakery Factory's products and did not pay much attention to franchisees' store management problems, while franchisees cared only for the profitability of their stores and did not care for the quality of products from the President Bakery Factory. The conflict led to the decline of total sales of the President Bakery Chain. In 1987, a President Bakery Factory's product was responsible for a food poisoning accident; subsequently both headquarters and franchisees of the President Bakery Chain decided to improve this chain.

Before 1986, 7-Eleven Taiwan and Weichuan are the only two chain convenience store companies with stores island-wide (Lee, 1985). This period can be defined as the battle for the survival among convenience stores and a test for the expansion method, i.e., whether franchise chain systems or voluntary chain systems are more suitable for the convenience store in Taiwan. After 10 years of competition, 7-Eleven Taiwan established its market leadership and a business model of the convenience store operation for potential entrants. 7-Eleven Taiwan's success, together with the changes of several government policies, attracted more retailers to join the competition.

Several changes of government policies created a more favourable environment for the development of the convenience store. Two examples are the government's

open-door policy towards international companies' investment in the tertiary industry and the abolition of Martial Law. The government relaxed the control over foreign exchange and encouraged foreign investment in Taiwan's tertiary industry. This change created favourable conditions for international companies to invest directly in the retail industry. Besides the Jusco supermarket and the Pacific SOGO Department Store mentioned in Chapter 5, many new convenience store companies were established under the co-operation between local conglomerates and international retailers.

Another positive change for the development of the convenience store is the abolition of Martial Law in 1987. After the abolition, store opening hours became more flexible and opening stores after mid-night became legal. Since then, convenience stores did not have to worry about being fined by the police for illegal after-midnight opening (Huang, 1991).

#### **6.4.2.2. Stage 2 (1987-1995)**

Besides the changes of government policies at the end of the first stage, the boom of stock market in 1989 and 1990 (Table 5-9) created a positive economic environment. Moreover, in 1988, the government announced that it would not sell charity lottery tickets any more and thus many small shops selling these tickets were closed. These redundant store locations became available for convenience store retailers' network expansion.

The favourable environment and the success of 7-Eleven Taiwan encouraged many local conglomerates and international retailers to establish convenience store companies. In 1988, Nikomart, Familymart, and Circle K, were established under joint venture or license contracts between domestic conglomerates and international retailers. In the beginning of their operations, these new convenience store retailers adopted a corporate chain (or regular chain) system, instead of a franchise or voluntary chain system, to control the quality of store operations. However, these retailers, except Circle K, soon started to expand more rapidly through both corporate chain and franchise chain systems to gain market share.

Besides the newcomers mentioned above, some convenience store companies were established by local conglomerates without the support of international know-how; examples are the Hi-Life International, Wongtsaichi, Shintungyang, Tsi-Tsi-Tsuei, J-Young, Anytime and Chusheishien (Table 6-7). Except for Hi-Life, these convenience store retailers expanded through voluntary chain systems, though they learned from the failure of Weichuan's voluntary chain<sup>8</sup>.

Table 6-7 Convenience store companies established between 1987 and 1994

Company	Year of Establishment
Familymart	1988
Circle K	1988
Hi-Life	1988
EN (Eight.Nine)*	1988
B&D	1989
Weicha Smart Woman	1989
Nikomart	1990
Tsi-Tsi-Tsuei	1990
Taiwan Big Egg	1990
Wongtsaichi	1991
J-Young (originally EN)	1991
Chusheishien (Chufu)	1992
Anytime	1993

\* Note: In 1991, EN had financial crisis and then was split to J-Young and NN.

Source: Chen (1992) Retail industry triggers the revolution of distribution industry. *Marketing*. p.52, Table 2. (in Chinese); Credit Department, First Commercial Bank (1997) *The present development and future of convenience store in ROC*, No. 393. Survey Data, p.61-62 (in Chinese)

The majority of these new convenience store retailers' parent companies were related to the food/drink manufacturing industry. These parent companies' main purpose of entry into the convenience store industry was to secure distribution channels for their food and drink products.

Besides these new convenience stores, the weak chains in the previous stage – President Bakery Chain and Weichuan Chain Store - also struggled to stay in this industry due to strategic considerations and the expectation of the prosperous future of this industry. After the food poison crisis, President Bakery Chain tried to rejuvenate its operation and its franchisees established the 'Operation Improvement Committee' in 1986. After experimenting 9 different franchise systems, President Bakery Chain changed its format from a bakery to a convenience store – 3Q Shop –

in 1987 and created a FVC system – a compromise system between an authorised franchise system and a voluntary chain system. At the same time, Weichuan re-entered the convenience store industry through Am/Pm in 1988, in co-operation with ARCO – the petrol company who invested in Am/Pm in the USA.

Am/Pm’s entry to Taiwanese market not only introduced another American convenience store chain, but also introduced retail information systems to Taiwan. Subsequently, ‘automation of store management’ became the focus for Taiwan’s retail industry and for government. In 1992, the government drafted a ten-year project - the ‘Ten Year Business Automation Plan in the ROC’ - to promote automation within the retail industry, i.e., the utilisation of information systems such as POS (Point of Sale) and EOS (the Electronic Ordering System). During this stage, many convenience store retailers installed EOS systems to facilitate inventory management (Table 6-8). Some retailers such as J-Young, Taiwan Big Egg and Circle K also joined the government’s VAN (Value-Added-Network) project<sup>h</sup> to improve inventory management. However, most retailers did not install POS systems due to the scale of investment involved and some technical problems, e.g., low utilisation of barcodes among suppliers.

Table 6-8 Information systems utilised by convenience store retailers

Year	Company	Information system related to merchandising management
1988	Am/Pm	EOS/POS
	Familymart	EOS
1989	7-Eleven Taiwan	EOS
	3Q	Advocating store automation
1990	Nikomart	CVS MIS (EOS; IBM system)
	Hi-Life	EOS
1991	Circle K	EOS
	B&D	POS
1992	Circle K	POS
1994	J-Young	CVS VAN experimental system
	Taiwan Big Egg	Barcode/VAN
	Circle K	VAN

Source: Convenience Store Magazine (2000) Convenience Store Magazine, the Millennium Special Edition, pp.78-90.(in Chinese); Lee, J. F. (1999) 7-Eleven Sweeps Taiwan, Taipei, Yuan-Liu. (in Chinese); Familymart Company Profile; Nikomart Company Profiles; Hi-Life Company Profile; www.7-11.com.tw

Many professional distribution centres were established during this period to deliver products for convenience stores. A study of Setu et al. (1998) shows that 26 among the 29 surveyed distribution companies were established between 1988 and 1994. Many of these 26 distribution companies distributed products for convenience store retailers. Some, such as Kanko Marketing (Weichuan Chain Store and Sungching), Retail Support International (7-Eleven Taiwan and 3Q), Taiwan Distribution (Familymart), Pintai (Nikomart), Hi-Life, Chufu (Chusheishien) and Wongtsaichi were established particularly to distribute products for parent companies' convenience store business (Table 6-9).

Table 6-9 Distribution service providers of various general merchandise retailers

Year	Company	Investment related to distribution
1986	Weichuan chain store	Kanlong Marketing Company
1989	Familymart	Taiwan Distribution company
1990	Wongtsaichi	Distribution centre
	7-Eleven Taiwan	Joint Distribution Centre and the Retail Support International
1991	Am/Pm and Sungching	Kanko Marketing
1993	Nikomart	Pintai Distribution centre
1994	Hi-Life	Distribution centre

In terms of products, the most popular retailer-brand products at this time were post-mix drinks (soft drinks, e.g., Coca-Cola, which are sold in paper cups provided by the convenience stores), steam buns and hot dogs (Convenience Store Magazine, 1993). These products were either developed by suppliers or already available in the markets. Convenience store retailers did not put large efforts and resources in product development but tried to differentiate their products from other convenience store retailers' through marketing, i.e., the branding of products and promotions.



Many chain convenience stores also started stamp and phonecard sales, after the government changed the regulations regarding the provision of public services in 1991. In summary, there were following service products in convenience stores during this stage (Huang, 1993):

- DHL
- ATM machine (Automatic Teller Machines)
- Self-service copy
- Flower ordering
- Sales of stamps and phonecards
- Catalogue sales
- Sales of coach tickets
- Stamp-making services
- Film processing
- Pre-order of cakes and gift boxes
- Acceptance of laundry items
- Information kiosk
- Express photos
- Classified ads

Some of these services, such as ATM and film processing, were not popular and thus disappeared from convenience stores after a while (Please check Table 6-18 for details). However, leading franchise retailers later introduced these services again in the next stage.

In terms of marketing tools, TV commercials of convenience stores appeared as early as 1991, when Circle K launched a media campaign (Please see Table 6-18). However, it was rare for convenience store retailers to promote their corporate image or products on TV because TV commercials were too expensive. Instead of using media advertisement, convenience store retailers normally used in-store posters and participated in charity events proactively to promote the corporate image and to establish customer relationships.

A special marketing tool – the uniform invoice<sup>i</sup> - was heavily utilised from this stage. In 1993, the government allowed retailers to produce their own blank uniform invoices, instead of buying blank uniform invoices from the government. This policy change not only reduced retailers' costs of blank invoices, but also gave retailers a new marketing tool.

Because of the huge amount used by these convenience store retailers (Table 6-10), the uniform invoice is a convenient advertising medium. Many retailers utilised and

sold space on the uniform invoices to advertised products and services (Figure 6-2). The uniform invoice is also a financial source for many charity or community events. Many retailers have designed charity campaigns based on the uniform invoice lottery, for which the government has offered cash prizes since 1988<sup>j</sup>. After obtaining permission from the government, retailers can put boxes at checkout points inside stores to collect uniform invoices that customers donate. The charity supported by the donation will be entitled to receive any money incurred from the winning lottery. Because most retailers have limited financial and human resources for charity and community events<sup>k</sup>, the cash prizes of the uniform invoice lottery are an important financial source for convenience store retailers' community/charity activities. However, retailers have to meet several requirements before they can produce blank invoices and normally only large retailers can afford to do so (Wang, 1993).

Table 6-10 The consumption of uniform invoices by leading convenience store retailers in 1996

Chain convenience store retailers	Uniform invoice consumption (rolls per year)
7-Eleven Taiwan	1,875,643
Familymart	N/A
Hi-Life	396,000
Circle K	360,000
Nikomart	165,000

*Note: each roll has 250 uniform invoice*

*Source: TCSA and convenience store retailers' data in Chung (1997) 'The Uniform Invoice Marketing', Convenience Store Magazine, November, 1997, p. 28*

Figure 6-2 Samples of uniform invoices of leading convenience store retailers

# OK便利店

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第14分公司

NO. 23224636

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2002/03/30 Sat 0305-002

頁:1

現金 \$1000 找零 \$870

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現金 \$1000 找零 \$870

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MS 14843100

萊爾富國際(股)公司

NO: 23285582

台北市八德路三段30號10樓

TEL: 0800-022118

(台北市代表店)

店02241 櫃2 頁1

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全新初綻 花の見  
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◎本業經委託財稅局代印  
◎本業經委託財稅局代印

# 7-ELEVEN

中華民國91年3-4月份

收銀機統一發票 (收執聯)

MP 55961919

統一超商股份有限公司

台中市第一分公司

NO. 22656261

台中市向上北路192、194號

TEL: 0800-008711

(台中市代表店)



7-ELEVEN 國際商品展  
7D 芒果乾  
菲律賓第一品牌! 55

◎本業經委託財稅局代印  
◎本業經委託財稅局代印  
◎本業經委託財稅局代印

5.1 聲道家庭劇院組合  
PS2 遊戲機  
現金 \$1000 找零 \$870

◎本業經委託財稅局代印  
◎本業經委託財稅局代印  
◎本業經委託財稅局代印

The number of chain convenience stores in Taiwan during this stage increased dramatically, from about 300 stores in 1988 to over 5,000 stores in 1994. To improve and maintain the service quality, many convenience store retailers set up mechanisms to ensure their store and service quality (Huang, 1994; Table 6-11; Table 6-12).

Table 6-11 Retailers' establishment of customer service centres

Year	Company	Mechanism
1988	7-Eleven Taiwan	Quality Assurance Centre/Customer Service Centre
1993	Circle K	Customer Shopping Satisfaction Guarantee
1994	Nikomart	081 customer service hotline
1994	Hi-Life	Customer satisfaction month
1994	Familymart	Customer service hotline

Table 6-12 Examples of convenience store retailers with customer service hotline

Company	Date of introduction
7-Eleven Taiwan	1988
3Q Shop	1990
Familymart	1994
Circle K	1993
Nikomart	1993
Hi-Life	1994
Taiwan Big Egg	1994

Source: Huang (1994) *Customer Service in the convenience store*, *Convenience Store Magazine*. . June 1994, p.35.

Besides retailers' own efforts to control quality, the government also established a store quality monitoring system - the 'Good Store Practice' in 1994, which encouraged retailers to maintain service and product quality inside stores.

At the end of this stage, Weichuan's attempt at developing a convenience store business in Taiwan, AM/PM, failed again. Therefore it focused on its supermarket business and developed its convenience store business in China instead. Some convenience store companies established at the beginning of this stage also withdrew from the market at the end of this stage or went through a change of ownership (Table 6-13).

Table 6-13 The rise and fall of chain convenience stores between 1988-1995

Company	Date of establishment	Date of change	Method of expansion
Am/Pm	1988	1995: withdraw	Franchise chain + Voluntary chain
Weicha Smart Woman	1989	1993: withdraw	Voluntary chain
B&D	1989	1993: sold to Chusheishen	Voluntary chain
EN	1990	1991: split into J-Young and NN	Voluntary chain
Tsi-Tsi-Tsuei	1990	1993: withdraw	Voluntary chain
Taiwan Big Egg	1990	1994: sold to Sino-Japan	Voluntary chain

These convenience store companies, except Am/Pm, had the following common features:

- They were local chain convenience stores established in the central or southern Taiwan
- They expanded through voluntary chain systems
- They did not have the support from large conglomerate parent companies

These companies finally failed due to two major reasons: insufficient financial support for rapid expansion and problems of control over franchisee' stores<sup>1</sup>. For example, Taiwan Big Egg's success in the central Taiwan market was regarded as a good example of local convenience stores against international and nation-wide convenience store retailers, such as 7-Eleven Taiwan. However, it encountered financial problems due to over-rapid expansion in 1994 and was sold to a local conglomerate – the Sino-Japan Group in 1994.

These companies have a feature in common with Weichuan Chain Store in the previous stage: namely expanding their network through voluntary chain systems. Therefore, they had weak control over franchisees and they often had conflicts with franchisees over store management and the prices of orders.

### **6.4.2.3. Stage 3 (after 1995)**

The beginning of this stage was marked by the following changes in 1994 and 1995:

- Weichuan's Am/Pm withdrew from the convenience store market.
- TaiSugar established Million.
- The Sino-Japan Group acquired Taiwan Big Egg and changed the store brand to SJExpress.
- J-Young was sold to Chinkuan Distribution in 1994

The beginning of this stage also saw some new entrants, especially voluntary chain retailers.

At this stage, the concentration of the convenience store industry increased. From 1994 to 1998, convenience store numbers grew from 5,411 to 7,533. The increase stemmed mainly from the growth of chain convenience stores. The growth of store numbers at this stage was not so large as the second stage and mainly came from the five leading chain convenience store retailers.

The network expansion at the previous stage moved mainly from the northern to the southern Taiwan; at this stage, the expansion extended from the west to the east Coast. The expansion also extended to unconventional locations, i.e., from the main island to remote islands and from traditionally ideal locations to special locations such as railway stations and the MRT (Mass Rapid Transportation; the subway system in Taipei) stations (Convenience Store Magazine, 1998). Convenience store retailers also sought other methods for differentiation and customers retention:

- Introduction of 18°C and 4°C fresh food products<sup>m</sup>
- Further application of the information technology, e.g., POS systems and the Internet. Many convenience store retailers established homepages to provide information regarding the company and product promotions. Leading retailers also installed POS systems to obtain and analyse sales data for product development purposes.

- Increases in published products, i.e., papers, magazines, and software
- Increases in service products. The provision of service products was extended from the sales of stamps, phonecards and other services, e.g., launderette and film processing to bill payment services and then to home delivery services in the beginning of 2000. These new services were released after the government's de-regulation of related services.
- The introduction of combination stores<sup>n</sup> (Table 6-14). The combination store is defined as the combination of a convenience store with a type of speciality stores, e.g., a bakery, a bookstore, a snack bar, or a fruit shop. According to a survey, there were 9 types of combination stores<sup>o</sup> in Taiwan (Huang, 1998). However, many combination stores failed and were closed before the end of the 1990s due to the difficulty of managing two types of retail businesses within a store.

Table 6-14 Convenience store retailers introducing combination stores

Year	Retailers
1995	Nikomart, Life drugstore, Chusheishien
1996	White Heron, Anytime, Million, STOP, Da-Ji-Ho,
1997	Big River, Chusheishien
1998	Wongtsaichi
	SJExpress
Others	G-Mi-G

Source: *Convenience Store Magazine (1998) 'Examining Combination Stores', Convenience Store Magazine, October, pp. 42-76*

The convenience store industry during this stage witnessed the following development:

**Change of ownership and management.** Table 6-15 shows the change of the convenience store industry in Taiwan after 1995. After the financial crisis of the Hofong Group, the founder of Familymart Taiwan, in 1998, Familymart was sold to the Taisun Group – the parent company of Nikomart, Kuangchuan – the parent company of the Hi-Life International, Sanyo Whisbih and some other small shareholders. However, Familymart's operation remained unchanged because it has solid management and market presence. In contrast, some smaller convenience store retailers struggled for survival at this stage. Nikomart re-structured its organisation at the beginning of this stage and finally stabilised (*Convenience store Magazine, 1998*). Chusheishien and Anytime, which were voluntary chains, struggled by

introducing combination stores and closing some stores but still failed; both companies finally withdrew from the convenience store industry in 1999. This outcome shows the difficulty of maintaining the voluntary chain system again.

Table 6-15 The change of the convenience store industry in Taiwan after 1994

Year	Company	Change
1994	J-Young	Sold to Chinkuan
1995	Taiwan Big Egg	Sold to the Sino-Japan Group
	TaiSugar Million	Established by TaiSugar
	Am/Pm	Weichuan terminated the contract with ARCO and finally withdrew from the convenience store industry
1997	Chusheishien	Closing down some stores and restructuring the remaining stores
	Nikomart	Retreating from the southern Taiwan market
1999	Anytime	Withdrew
	Chusheishien	Withdrew
2000	J Young	Sold to Sanyo Whisbih

Source: *Convenience Store Magazine*

**Expansion of distribution centres.** Due to the introduction of fresh food products and the increasing sales of published products, distribution companies or centres of convenience store retailers, such as 7-Eleven Taiwan and Hi-Life, were expanded to include the distribution of ambient controlled products - such as fresh food products - and published products. Nikomart also formed a strategic alliance with a distribution company in 1998 to deliver ambient controlled products.

**High concentration.** Mandated/authorised franchise convenience store retailers, i.e., 7-Eleven Taiwan, Familymart, Hi-Life, Circle K and Nikomart, expanded rapidly at this stage. For example, 7-Eleven Taiwan only had 942 stores at the end of 1994, since its opening in 1979. From 1995, the number of its stores increased at the rate of around 260 stores per year. Familymart also expanded its store rapidly; it had only 192 stores at the end of 1994 but it opened 124 stores on average per year from 1995 to 1999.



Table 6-16 The number of stores of leading convenience store retailers

Company	End of 1994 store number	End of 1999 store number	Average increase of store number per year
7-Eleven Taiwan	942	2241	260
Familymart	192	811	124
Hi-Life	132	610	96
Circle K	169	481	62
Nikomart	99	235	27

Source: revised from data at [www.7-11.com.tw](http://www.7-11.com.tw)

The rapid expansion of the mandated/authorised franchise chains led to the concentration of this industry after 1995 (Table 6-16). As a result, the top three chain convenience store retailers account for 58.8% share of the industry in terms of the number of stores in 1999 (Table 6-17). 7-Eleven Taiwan alone owns over 2,000 stores in Taiwan. High concentration brought the large convenience store retailers strong bargaining power and economies of scale and scope for product procurement and development.

Table 6-17 Top three retailers of each format and their market share (excluding department stores)

Format	Companies	1998 store number for individual format	Top. 3 market share
Hypermarket	Carrefour, Makro, RT-Mart	95	41%
Supermarket	Wellcome, Sung-ching, Kayo	509	24%
Convenience stores	7-11, FamilyMart, Hi-Life	5321	58.8%

Source: calculation based on the reports and statistics from the Ministry of Economic Affairs, ROC.

**Going public<sup>P</sup>.** Two convenience store retailers became publicly listed in this stage to obtain capital from public markets for further expansion. In 1997, 7-Eleven Taiwan became the first publicly listed convenience store retailer in the stock market. Familymart became a publicly listed company in the over-the-counter market in 2001.

**Utilisation of TV commercials and other multimedia tools.** 7-Eleven Taiwan, Familymart and Hi-Life used TV commercials to promote their corporate images and retailer-brand fresh foods. Familymart and Circle K co-operated with X-Media and installed in-store monitors, which provided customers with various information and served as a new marketing tool.

**Developing towards a food store.** The majority of chain convenience store retailers in Taiwan aim to develop more fast foods (Chung, 2000). The focus is on 18°C and 4°C products. The purposes of developing these products are to create more sales, to increase profit margins and to create differentiation.

**Increase of service products.** Although many convenience store retailers were unsuccessful in introducing service products such as film processing, launderettes and ATMs (Automatic Teller Machines) in the previous stage, many mandated/authorised chain retailers re-introduced these services at this stage. Service products were further expanded to include bill payment services, catalogue shopping, home delivery services and Internet shopping. Compared with voluntary chain retailers, mandated/authorised franchise chain retailers were more proactive and more capable of offering these services because these retailers own economies of scale based on larger store numbers, more capital and more support from conglomerate parents, and are more advanced in using computer technology.

The provision of these service products helped convenience stores to encourage customers' patronage and thus helped the sales of other products. Moreover, the commission from these service products is also a source of income for convenience store retailers. For example, the sales of service products in 7-Eleven Taiwan grew from 2.78% in 1993 to 6.96% in 1999 (7-Eleven Taiwan website).

**Virtual stores.** Many convenience store retailers set up their homepages during this stage. Later in 1999, mandated/authorised franchise convenience store retailers further introduced Internet shopping on their websites. With limited store space, a convenience store can only stock limited lines of products. After introducing Internet shopping, convenience stores have unlimited space for stocking products.

## **6.5. Summary**

The convenience store in Taiwan successfully substituted for traditional corner shops. Among the four formats in the general merchandise retail industry, the convenience store is the most creative retail format in terms of retailer-brand product development, service products and utilisation of modern technology. The

development is due to competition among chain convenience store retailers and contributes to the economic development in the 1990s. Chapter 5 mentioned that development of the general merchandise retail industry, including the convenience store, does not follow the pattern described by the existing theories. The convenience store appeared in Taiwan due to the government policy and food/drink manufactures' motivation to improve product distribution. Therefore, the origin and nature of the convenience store in Taiwan are different from those of Western retailers.

However, there are few studies in English, which discuss the development of the convenience store industry in Taiwan. Although the discussions of the convenience store industry can be found in Chinese literature, these studies are either obsolete or lack a suitable framework to describe the development of the industry. Some Chinese studies explained the development of the convenience store industry based on the retail life cycle but they raise the following questions:

- What is the boundary between two stages?
- Will a retail institution finally die after it declines?
- If the convenience store sector is at its growth stage, when will the industry mature?
- If the convenience store sector is at mature stage now, when will it decline?
- If the industry is facing decline soon, what will happen to the convenience store retailers?
- What are the related resources these convenience store retailers use in each different stage?

To find the answers of these questions, an alternative theoretical framework is needed to explain the evolution of the convenience store industry in Taiwan.

Table 6-18 The chronicle history of the convenience store industry in Taiwan

Year	Month	Events
1977	*	The Chinese Village Rejuvenation Committee set up 16 China Youth Stores.
	10	The President Enterprise (PEC) set up a team to prepare for its chain store opening.
1978	4	PEC invested NTS 190million and set up the 'President Superstore Co., Ltd.'
1979	5	14 President superstores were opened island-wide.
	10	PEC imported convenience store know-how from Southland in the USA.
1980	2	The first 7-Eleven store was opened in the ChangAn East Road in Taipei. 7-Eleven Taiwan tried to extend opening hours to 24 hours but got lukewarm response from consumers, so it changed its opening hours back to 16. (The President Bakery Chain was established.)
1982	11	7-Eleven Taiwan was forced to become a department in its parent company, the PEC (President Enterprise Corporation) after its long-term losses.
1983	*	The Weichuan Group consulted the Japanese retailer – Zennisyoku - and established Weichuan Chain Store (Some stores of this chain were transformed from the stores of the China Youth Store Corporation).
	5	7-Eleven Taiwan became 24 hours open and extended its business days to 365 days.
1984	*	Weichuan Chain Store opened the 100 <sup>th</sup> store.
	3	7-Eleven Taiwan installed machines for post-mix soft drinks (e.g., Coca-Cola). Fast food chain stores such as McDonald's and Kentucky Fried Chicken entered the Taiwanese market. (McDonald's, Burger King and Wendy's entered the Taiwanese market.)
1985	1	7-Eleven Taiwan introduced 10 microwavable fast foods.
	3	7-Eleven Taiwan started using cash registers for government's uniform invoices.
	11	7-Eleven Taiwan introduced freshly brewed coffee.
	12	7-Eleven Taiwan introduced O'den.
1986	3	7-Eleven Taiwan introduced milk-tea.
	4	7-Eleven Taiwan opened the 100 <sup>th</sup> store and started making profits. (The uniform Invoice regulation was put into practice.)
1987	7	7-Eleven Taiwan was spun off from PEC as 'President Chain Store Co., Ltd' and opened the 150 <sup>th</sup> store in Kaoshiung. President Bakery Chain asked Chungyuan University to design its CIS.
1988	1	7-Eleven Taiwan set up a 'quality assurance centre' and a 'consumer service centre' trying to establish the image of 'a friendly, convenient and good neighbour'.
	3	7-Eleven Taiwan started participating in community events. (the Taipei marathon)
	4	7-Eleven Taiwan opened the 200 <sup>th</sup> store in Tainan.
	5	Weichuan set up 'AM/PM Convenience Store Co., Ltd.' and introduced EOS and POS in AM/PM stores.
	6	Fongchun established the 'Chungli Convenience Store Co., Ltd.'
	6	7-Eleven Taiwan installed ATM inside stores.
	8	7-Eleven Taiwan issued inter-organisational newsletters: The 7-Eleven Taiwan Monthly.
	8	Familymart Taiwan was established.
	9	7-Eleven Taiwan promoted a charity event - 'Find Love Back'. The first AM/PM store was opened in Taiwan.
	9	Fongchun consulted Circle K in the USA for convenience store know-how and opened 3 Circle K, or OK convenience stores. It also changed its company name from Chungli to the Fuchun Convenience Store Co., Ltd.
	11	66 3Q Shop stores transformed from the stores of President Bakery Chain were opened.
	12	Familymart Taiwan opened the first store. (Government started providing uniform invoice lottery prizes.)
1989	1	3Q Shop advocated the automation of the retail industry and planned its POS system.
	3	Taiwan Distribution was established by Familymart Taiwan.
	4	7-Eleven Taiwan opened the 300th store. It became the 3 <sup>rd</sup> largest regional 7-Eleven chain in the world, following 7-Eleven in the USA and in Japan. A model store for 3Q's education and training purpose was opened in Chungli. Circle K opened stores in Keelung, based on a special location strategy. Kuanchuan established Hi-Life International Co., Ltd. The Taiwan Big Egg Convenience Store Co., Ltd. was under preparation.
	5	Circle K developed the retailer-brand the 'General Cup' for its post-mix soft drinks. Taiwan Big Egg opened the first store in Yuanlin.
	7	7-Eleven Taiwan announced that the 11 <sup>th</sup> of July is the '7-Eleven Day'.
	8	7-Eleven Taiwan completed an island-wide EOS system. Familymart's number of stores reached 30. Circle K led the introduction of traveller cups of post-mix cola.
	9	7-Eleven Taiwan promoted charity events: 'Beautify my home Taipei' and 'All for us'. Hi-Life opened the first store.
	10	Circle K sponsored the anti-smoking campaign of the Dong's Foundation.
	12	3Q Shop set up training and education section in its Headquarters. Circle K opened the first store in Taichung.
1990	2	7-Eleven Taiwan sponsored a pan-Taiwan cycling contest.
	3	Familymart opened its 50 <sup>th</sup> store. Circle K opened its first store in Taoyuan.
	4	7-Eleven Taiwan promoted the authorised franchise system. TaChi Foods set up a convenience store SBU – Wongtsaichi.

	5	3Q Shop sponsored a charity event to help the Morning Glory Foundation set up its drug remedy centre. Taiwan Big Egg created the '5x4 Convenience Store' and designed CIS.
	6	7-Eleven Taiwan opened the 500 <sup>th</sup> store, set up the first integrated distribution centre, and sponsored 63 anti-smoking events. Circle K sponsored charity event – 'Searching for 1001- Care for People with Incontinence Problems'. Taisun acquired the Niko Convenience Store, set up Nikomart and reopened 12 stores. Wongtsaichi opened its first store in Taipei.
	7	3Q Shop held the first franchisee party and the Golden Store Award Ceremony.
	8	Wongtsaichi entered the Kaoshiung market.
	9	7-Eleven Taiwan co-operated with a Japanese distribution company and established the Retail Support International Co., Ltd. as its exclusive distribution company. Familymart opened the first authorised franchise store.
	10	Hi-Life sponsored the 'Creating Ideal Home' community event. 3Q Shop established a store supervisor system.
	11	Wongtsaichi entered the Taichung and Tainan markets. AM/PM opened its first franchise store.
	12	Circle K installed iced tea machines. 7-Eleven Taiwan's annual sales reached NT\$10.8billion and became the largest retailer in Taiwan. 3Q Shop promoted joint donation events. Hi-Life organised a X'mas picture colouring contest for the neighbourhoods.
1991	1	7-Eleven Taiwan introduced gift vouchers and the 'Travelling around the World for NT\$50' campaign. 3Q Shop co-operated with the Post Office and started selling stamps in stores around the island.
	2	7-Eleven Taiwan sponsored the international cycling contest. 3Q Shop sponsored the 13 <sup>th</sup> President Drawing/Painting Contest. Hi-Life sponsored the 'Send Early New Year Blessing to Neighbours and Get Together with People Far Away from Home' event. Circle K assisted the Keelung Health Bureau to advocate environment hygiene. E.N. convenience store was split into J-Young and EN.
	3	7-Eleven Taiwan sponsored a theatre performance. Familymart launched the 'Spring/Summer Merchandise EXPO' marketing campaign. Hi-Life sponsored a 'recycling PET bottles' community event. Circle K sponsored a family funfair for helping housewives with difficulties due to family tragedy. Circle K introduced freshly baked bread in the Linyi store in Taipei. Nikomart opened its first store in Taichung.
	4	Familymart advocated the 'Reserve a Peaceful Land in Human World' charity event. 3Q Shop introduced a film processing service and sponsored following charity and community events: 'Happy Goat Year' for kids, 'Compensate with Love', and 'Donation for Building Orchid Island Youth Cultural Centre'. Hi-Life launched a campaign to select outstanding staff offering the best services. Nikomart launched the 'Friendly Month' campaign to improve in-store services and store image. J-Young introduced new red/yellow/green CIS.
	5	B&D experimented stamps and film processing services in a store. 7-Eleven Taiwan sponsored the 'Pan-Taiwan Cycling Relay Race'. 3Q Shop adjusted its franchise system from a voluntary chain to a FVC system – a combination of franchising and voluntary chain. Circle K opened the 100 <sup>th</sup> store.
	6	Nikomart introduced freshly baked bread and held the 'Love Mom, Draw Mom' Mother's day campaign. Wongtsaichi opened its first store in the Taipei County. B&D introduced the launderette and copy services. Familymart opened stores in Taichung. Circle K completed its in-store computerised accounting system and launched its first TV commercial and radio advertisement.
	7	Nikomart organised a charity auction for a foundation of the scalded. B&D opened the 50 <sup>th</sup> stores. 7-Eleven Taiwan started selling stamps island-wide and organised food hygiene tour. 3Q Shop opened the 500 <sup>th</sup> stores and held a party for 3Q Shop franchisee and the Golden Store Award Ceremony. 3Q Shop organised a puzzle auction community event to help the Orchid Island. Hi-Life and B&D co-promoted the 'Monster Can' re-filled cola. Nikomart sponsored the 'Hang Ten Olympic Beach Volley Contest'. Taiwan Big Egg started expanded through a voluntary chain system. 7-Eleven Taiwan introduced hot dog sandwiches (Dahen Bo in Chinese, meaning 'a tycoon burger'). Familymart sold gift vouchers for parent companies' businesses. 3Q Shop launched a Father's Day marketing campaign.
	9	Circle K launched a scratch card sales promotion – 'Buy Coca Cola, Get Flight Ticket Free' campaign. Nikomart introduced an authorised franchise system, installed ATM in three stores and sold tickets for theme parks. 7-Eleven Taiwan collected used batteries. Familymart introduced a mandated franchise system and gave away printouts for uniform invoice lottery numbers. 3Q Shop sold classified ad columns of the United, one of the top three papers in Taiwan, in its northern Taiwan (areas above Shinchu) stores.

	10	Am/Pm and Weichuan Dragon (professional baseball team sponsored by the Weichuan Group) co-promoted instant prize scratch cards. Hi-Life promoted a community event – ‘Keep The Earth Fit; PET Bottles’ Wonderful Multipurpose.’ Circle K, under the co-operation with Coca-Cola, gave away coupons. Nikomart recycled customers’ used PET bottles and batteries.
	11	7-Eleven Taiwan recycled customers’ used PET bottles and launched a charity event – ‘Defeat Severe Winter with Love’ – for victims of a natural disaster in China. Familymart’s first mandated franchise store was opened. Hi-Life recycled customers’ used batteries. Circle K started selling phonecards.
	12	7-Eleven Taiwan introduced steam buns ( Da-Shau-Bau in Chinese, meaning ‘big hot bun’) Familymart’s first authorised franchise store was opened; meanwhile, it started selling phonecards and stamps. Circle K introduced Dimsam series. Nikomart introduced an authorised franchise system and the ADI – an electronic information kiosk. Familymart opened the 100 <sup>th</sup> store. Circle K tested an EOS system. B&D tested its computerised cashier system, the POS, in the Hanko store (in Taipei city centre).
1992	1	Familymart entered the Taoyuan and Chungli market and established a system, by which headquarters staff had to work in stores once per week. 3Q Shop expanded its service of classified ad columns of the United to stores island-wide and launched a charity event – the ‘Endless Love – Send Uniform Invoices to Sun, Yeh’. 3Q Shop launched a film processing service – ‘Develop one roll, Get one roll free’ and a newspaper promotion – ‘Buy the Min Sheng Daily, Get a Red Envelop’. 3Q Shop was awarded the ‘Special Contribution Award’ by the Post Office. 3Q Shop launched a marketing campaign for the Oscar Award. Hi-Life launched a marketing campaign – ‘Send Early Chinese New Year Blessing to the Neighbourhoods’. Circle K collected used batteries in all Circle K stores. Nikomart’s ADI accepted the film ticket booking.
	2	7-Eleven Taiwan sponsored a cycling contest. Hi-Life launched a community event - ‘Reunion with People Far Away from Home.’ Nikomart sponsored an afternoon-tea charity auction for children with cancer.
	3	7-Eleven Taiwan sponsored the Ping-Fong Acting Troupe’s theatre performance. Familymart launched the ‘Spring/Summer Merchandise EXPO’ marketing campaign. Am/Pm opened a store in the National Institute of the Arts. Nikomart introduced a laundrette service.
	4	Am/Pm launched the ‘Taste really good’ hot food promotion. OK launched a ‘Child’s Day Toy EXPO’ promotion
	5	7-Eleven Taiwan opened its education and training centre in Shenken. 7-Eleven Taiwan sponsored the ‘Starvation 30’ charity campaign. 3Q Shop launched a stamp making service island-wide. 3Q Shop’s parent company in Chungli was expanded to include three more departments: business, merchandise business and franchise business; 3Q Shop also revised its FVC system. Nikomart opened its Jade Bay (a beach resort) special store; it also organised the 2 <sup>nd</sup> Mother’s Day painting contest.
	6	Chusheishien bought out stores of B&D’s franchisees. 7-Eleven Taiwan sponsored an island-wide cycling race. 3Q Shop launched a charity campaign - ‘Endless Love – Send Uniform Invoices to Sun, Yeh’ for building the Family Hall. Am / Pm opened a store in the World Trade Centre in Taipei.
	7	Hi-Life sponsored a charity event – ‘You donate blood, Hi-Life gives away coupons’. Wongtsaichi organised store staff training.
	8	3Q Shop organised a Father’s Day photo contest. Nikomart introduced a quick photo service. Several 7-Eleven Taiwan stores were awarded the ‘Model convenience store’. Familymart co-sponsored the ‘Good-Luck Fun Family Photo’ contest. 3Q Shop sponsored the President Enterprise’s island-wide speech series – the ‘Self-affirmation and Create New Opportunities’. It also organised a franchisee party and the 3 <sup>rd</sup> Golden Store Award Ceremony.
	9	Hi-Life organised the ‘Anniversary Happy Give-away’ marketing campaign and introduced a new fashion T-shirt. Wongtsaichi introduced the ‘Coca-Cola only 5 dollars on Friday’ promotion.
	10	7-Eleven Taiwan was awarded the MCEI Award for its outstanding marketing performance. Familymart sponsored a Japanese pop singer’s concert in Taipei and sold the pop singer’s special merchandises. Circle K sponsored the Taipei Carnival parade and donation campaign. It also tested a POS system in several stores. Chusheishien terminated the co-operation with B&D.
	11	7-Eleven Taiwan collected used batteries. Familymart organised a donation campaign for the ‘Rainbow Forrest Village’. Nikomart introduced breakfast combo ready-to-eat food deals.
	12	Chusheishuan set up the Chufu Co., Ltd. and opened the Chusheishien convenience store. Chusheishien opened its first corporate chain store on the Hanko street in Taipei. 3Q Shop co-operated with the President Enterprise and launched a product promotion for the President Lion baseball team.

		<p>Nikomart and Familymart co-held a slow-pitch softball game.  7-Eleven Taiwan achieved NT\$ 15 billion sales and launched the 'Find love back' charity event.  Familymart opened the 130th store.  3Q Shop launched the '1992 X'mas Trip' marketing campaign.  3Q Shop sold classified ads for the Independent Newspaper Group.  Hi-Life organised the 3<sup>rd</sup> X'mas colouring contest.</p>
1993	1	<p>7-Eleven Taiwan started its catalogue shopping service.  OK started using self-made uniform invoices under the government's permission.  OK started using environment-friendly carrier bags.  Nikomart introduced ground instant Espresso.  6 Wongtsaichi regular chain stores were transformed into voluntary chain stores.</p>
	2	<p>Familymart changed its VI.  3Q Shop offered scholarships for distinctive students.  OK introduced the Coffee Bar.  Wongtsaichi organised an Ali mountain spring trip for franchisees.  J-Young held an auction and donated the money to the Kaoshiung Medical School as research funding.  The Anytime convenience store was established by Shingtomgyang.</p>
	3	<p>17 B&amp;D stores joined the Chushieshien convenience store.  Hi-Life introduced environment-friendly shopping bags and a UC franchise system (a voluntary chain system).  Familymart organised a 'Cleaning the Street' community event and introduced a flowery catalogue shopping service.  3Q Shop promoted the pop singer Howard Cho's new album.</p>
	5	<p>Wongtsaichi organised an annual storeowner meeting.  3Q Shop gave away 'Be Careful when Talking to Your Kids' booklets to customers filling questionnaires.  Hi-Life opened the first UC franchise store.  OK implemented the 'Customer Shopping Satisfaction Guarantee' service.  Nikomart opened stores in Kaoshiung and Pintai's Tayuan distribution centre was opened.</p>
	6	<p>Taiwan Big Egg launched a marketing campaign and offered premium discount in hundreds of stores.  Nikomart launched a beach accessories promotion.  Wongtsaichi opened the 100<sup>th</sup> store, launched the 'Hunting for One Hundred Jokes' campaign and introduced the 'Happy baby Naughty Jar', a refill post-mixed drink mug.  The Chusheishien convenience store launched a promotion to students joining college entrance exams.  J-Young organised the 'Love in the World' charity auction for the Disables Association of Spine Injury and co-organised a street donation with the Eden Charity Foundation.</p>
	7	<p>J-Young sold cinema tickets and an anti-drug concert tickets.</p>
	9	<p>Wongtsaichi expanded to Yilan.</p>
	10	<p>Hi-Life opened stores in Keelung.  7-Eleven Taiwan was awarded the first place prize of the '1993 MCEI Award' due to its sponsorship of the 'Starvation 30' charity campaign.  Nikomart celebrated Taisun's being awarded the 'National Quality Business Award' and offered 20% discount for all Taisun drinks and snacks in stores.</p>
	11	<p>The Sungching supermarket acquired Am/Pm.  Hi-Life opened stores in Chungli.</p>
	12	<p>3Q Shop organised a franchisee party and the 4<sup>th</sup> Golden Store Award Ceremony. It also installed the EASY POS system.  OK revised VI.  Wongtsaichi expanded its distribution centre, moved offices to Taoyuan, co-organised the 'Save Taiwan through a Clean Election' campaign with the China Times and launched the 'Buy and Post X'mas Cards in Wongtsaichi' promotion.</p>
1994	1	<p>7-Eleven Taiwan introduced its flower delivery service in the Taipei City and County.  OK offered uniform invoice lottery prizewinners exchange with product coupons.  Nikomart set up its '081' customer service hotline and a new steam food.  Wongtsaichi launched the 'Care the Elderly – the Starting Year of Respecting the Elderly' charity magazine auction.</p>
	2	<p>J-Young sold 1994 Sally Yeh (a pop singer in Chinese speaking areas) concert tickets.  3Q Shop launched a Lantern Festival lantern auction and accepted scholarship applications for the first semester of the 1993 academic year.  Wongtsaichi launched a 'Pre-order New Year Gifts, Lucky and Happy' campaign.  Taiwan Big Egg designated special areas inside stores for traditional Chinese New Year gifts.  7-Eleven Taiwan started the 'Starvation 30' charity campaign; it also obtained two outstanding PR awards – the 'Best Corporate Image' and the 'Best Internal Publication'.</p>
	3	<p>Hi-Life started the operation of its distribution centre, launched a 'Customer Satisfaction Month' marketing campaign and opened the first store in Shinchu.  OK introduced 7 new flavour of Kuaykuan steam buns and tested the sales of fried chicken. It also installed the 'Nation-wide Convenience Store VAN Experimental System'.  Nikomart introduced a new flavour hot dog.  J-Young installed the 'Nation-wide Convenience Store VAN Experimental System'.  Taiwan Big Egg signed a contract with the MOEA and became the experiment company for the barcode system of the 'Nation-wide Convenience Store VAN Experimental System'.  Wongtsaichi introduced retailer-brand microwave fast foods and organised a package tour to the USA and Japan for franchisees.</p>
	5	<p>Taiwan Big Egg designated a special area inside stores for the sales of Disney videos.</p>

		<p>7-Eleven Taiwan experimented the sales of 18°C mealboxes, sushi and sandwiches.  Familymart opened stores in Kaoshiung and entered the southern Taiwan market.  The Retail Support International distributed products for 100 3Q Shop stores in Taichung area.  Nikomart collected uniform invoices for the China Children Welfare Foundation Scholarship.  Wongtsaichi started the ambient-control food distribution. It also opened the first store in Pintong and became an island-wide chain store.  Taiwan Big Egg celebrated the 5<sup>th</sup> anniversary and organised a painting contest - 'Taiwan Big Egg in My Mind' - for children.  Hi-Life organised an environment protection donation event and the Tungcho Award Ceremony.  Circle K organised the 'Paint My Hometown' painting contest.</p>
	6	
	7	<p>Nikomart launched its fourth anniversary celebration campaign and provided special low-price offers to customers.</p>
	8	<p>7-Eleven Taiwan organised 'The 2<sup>nd</sup> Journey to Distribution Channel' event. It also launched a marketing campaign to find the best store voted by customers.  3Q Shop organised the 'Endless Love - Send Uniform Invoices to Sun, Yeh, and launched a promotion campaign - 'You Develop Your Film, I Will Give Away a Film Roll Free'.  Hi-Life opened its 100<sup>th</sup> store.  Circle K joined the 'Store Operation Exhibition' organised by the MOEA.  Nikomart introduced large egg yolk mincemeat stuffing steam buns.  7-Eleven Taiwan launched the SuperCup and the JamboCup post-mix drink promotion campaign during professional baseball season.  7-Eleven Taiwan was awarded the global first place prize of the '1994 MCEI Award'.  7-Eleven Taiwan established the Duskin Services Co., Ltd under the contract with Duskin in Japan and introduced cleaning tool rental services.  Am/Pm planned to form a joint venture with the LienHwa Foods Group and prepared to transform Am/Pm stores from convenience stores to minimarkets.  Nikomart introduced pearl-gluten rice ball hot foods.</p>
	9	
	10	<p>Taiwan Big Egg introduced combination stores.  7-Eleven Taiwan sponsored the 'Green Hope Concert' to help flood victims.  3Q Shop organised a charity event - 'The Whole Island is a Family'.  J-Young organised the 'Love in the World' - a charity uniform invoice donation event.</p>
	11	<p>J-Young sold the mid-Autumn Festival charity concert tickets.  3Q Shop launched a newspaper give-away promotion to promote classified ads sales.</p>
	12	<p>Wongtsaichi organised a charity event for missing children.  3Q Shop organised a child protection comics charity cards auction.  Wongtsaichi introduced a X'mas card promotion.</p>
1995	1	<p>7-Eleven Taiwan tested its mini-stores.  Hi-Life entered the southern Taiwan market and launched a customer satisfaction series campaign.</p>
	2	<p>Familymart opened over 200 stores.  Am/Pm ceased the contract with ARCO in the USA.  Nikomart opened the 100<sup>th</sup> store.  J-Young's number of stores reached 100.</p>
	3	<p>Taiwan Big Egg was acquired by the Sino-Japan Group and continued its business under a new brand name - 'SJExpress'.  Nikomart introduced a new franchise system.</p>
	4	<p>TaiSugar Million introduced a minimarket franchise system.</p>
	5	<p>7-Eleven Taiwan initiated a community sponsor programme and designed a related marketing campaign. At the same time, its number of stores reached 1000.  7-Eleven Taiwan launched the 'Starvation 30' campaign.</p>
	6	<p>SJExpress introduced a revised franchise system.  7-Eleven Taiwan entered the East Coast market and opened its first store in Yilan.  Familymart launched its first TV commercial.  Am/Pm store sign was changed to Sungching.</p>
	7	<p>Anytime started recruiting its voluntary chain system franchisees.  7-Eleven Taiwan opened the 1000<sup>th</sup> stores and hosted the 'Utilising a Franchise Chain System and Dominate Year 2000' marketing conference.</p>
	8	<p>7-Eleven Taiwan sponsored the 'Youth Ambassador' campus folk song concerts.  3Q Shop launched the 'President Bread Week hot products' promotion campaign.</p>
	9	<p>SJExpress organised a University EXPO campaign.  7-Eleven Taiwan established the Cosmeq Life Business Co., Ltd and opened beauty and health stores.  3Q Shop got NT\$2million prize from a donated uniform invoice; the money was used to help abused children.  Hi-Life celebrated the opening of its 200th store.  Circle K opened the 200<sup>th</sup> store.</p>
	10	<p>Nikomart introduced a CVS/Bakery combination store.  7-Eleven Taiwan launched a community event - 'Find Love Back - Care for Original Inhabitants'.  3Q Shop started the '1995 Send Uniform Invoices to Sun, Yeh' charity campaign.</p>
	11	<p>Wongtsaichi launched the 'Glorious October National Day' marketing campaign to celebrate the National Day.  7-Eleven Taiwan spun off its catalogue shopping division and established the President Catalogue Co., Ltd.</p>
	12	<p>Hi-Life launched a co-marketing campaign with the China Times.  TaiSugar Million announced its G-Store initiative.  7-Eleven Taiwan sold the Chinese version Window 95.  Circle K participated in a charity event for the Woman Rescue Foundation.</p>



		J-Young sold Kaoshiung – Taipei one way flight tickets for the Fushing Airlines.
1996	1	7-Eleven Taiwan sold admission tickets for the Miniature Land theme park. Hi-Life opened its first store in Taichung and at the same time set up its regional office. SJExpress introduced a new Corporate Identity. 7-Eleven Taiwan launched the 2nd community sponsor programme – the ‘Good Neighbours Help Each Other’. Nikomart established its homepage on the Internet. J-Young sold admission tickets for the Grand Snow Mountain Natural Park.
	3	7-Eleven Taiwan ceased its film processing service. 7-Eleven Taiwan prepared for the installation of its POS system and advocated the barcode system to suppliers. 3Q Shop accepted scholarship applications for the second semester of the 1995 academic year. Wongtsaichi organised the ‘Cleaning Huto Mountain’ community event.
	4	7-Eleven Taiwan promoted the start of the Green Year and established the ‘Green Fund’ 7-Eleven set up its homepage. Familymart opened the 300 <sup>th</sup> store. Wongtsaichi organised an overseas holiday for franchisees and the headquarters staff. Yasuhiro Imano became the General Manager of Nikomart. Million opened the first store in Tainan.
	5	7-Eleven Taiwan and the Formosa Wonderworld Water Park (Pashien Water Wonderland in Chinese) co-launched the ‘Be Cool Passport’ admission ticket campaign.
	6	Circle K introduced the CBT (Computer-Based Training) for new staff training. 7-Eleven Taiwan opened the 700 <sup>th</sup> franchise store. 3Q Shop ceased stamp and film processing services. Circle K opened its first store in Kaoshiung.
	7	Wongtsaichi celebrated its 6 <sup>th</sup> Anniversary. 7-Eleven Taiwan introduced a fax service and a community sponsorship event – ‘Cleaning Wuaihsuan River’ community campaign. It also introduced online catalogue shopping service.
	8	3Q Shop launched the ‘1996 Send Uniform Invoices to Sun, Yeh’ campaign.
	9	Hi-Life and Familymart sold digital bus tickets. 7-Eleven Taiwan organised a pop singer’s CD-signing event and introduced the CD trial service in a store. 7-Eleven Taiwan introduced the ‘ Super Sonic’ SEGA PC game pre-order service. 7-Eleven formed a joint venture with the Duskin in Japan and recruited franchisees for this service at the same time. Hi-Life opened its 300 <sup>th</sup> store.
	10	The White Heron health/CVS combination store opened its first store. Government introduced the GSP (Good Store Practice) system.
	11	3Q Shop accepted scholarship applications for the second semester of the 1995 academic year. Nikomart introduced a new CI (Corporate Identity).
	12	7-Eleven Taiwan launched the ‘1996 Find Love Back’ charity campaign. At the same time, it sold the Chinese version Netscape 3.0 installed its POS system. Hi-Life launched a ‘Send a X’mas Card to Santa’ campaign.
1997	*	7-Eleven Taiwan installed the second stage POS – the new GOT ordering system.
	1	7-Eleven Taiwan introduced pre-orders of traditional Chinese New Year cake service. 7-Eleven Taiwan introduced a free call service for taxis and started a community sponsorship event - the ‘Good Neighbours Help Each Other.’
	2	Chusheishien cut the number of its stores and improved store quality. 7-Eleven Taiwan introduced the DHL express parcel delivery service.
	3	Hi-Life promoted the uniform invoice donation for the Youth Care Centre. Chusheishien introduced its second-generation convenience store – the Wedding cake/CVS combination franchise store.
	4	7-Eleven Taiwan opened the 1400 <sup>th</sup> store in Kaoshiung and its website went online officially. It also opened its ‘Culture Hall’. Circle K organised ‘The Second Circle K Asian President Meeting’. Wongtsaichi opened its 200 <sup>th</sup> in Taoyuan. 7-Eleven Taiwan introduced Japanese rice balls island-wide.
	5	Circle K modified CI. Circle K opened the 300 <sup>th</sup> store in Taipei.
	6	SJExpress opened the 200 <sup>th</sup> store. Am/Pm opened its first store in Beijing.
	7	Anytime change VI (Visual Identity). 7-Eleven Taiwan became a publicly listed company.
	8	Familymart introduced 18°C sandwiches. 3Q Shop started the ‘1997 Send Uniform Invoices to Sun, Yeh’ charity campaign. 7-Eleven Taiwan opened the 1500 <sup>th</sup> store in Tainan.
	9	7-Eleven Taiwan organised the ‘Trip to the Distribution Channel’ event. 7-Eleven Taiwan formed a joint venture with Starbucks in the USA. 7-Eleven Taiwan introduced premier sales for the new album of a pop singer – Kevin Wu and also sponsored his live concert and CD signing event. 3Q Shop accepted the applications for the ‘3Q Outstanding Student Scholarship’. Hi-Life opened the 400 <sup>th</sup> store and launched a TV commercial. The government put the ‘Prevention of Tobacco Damage Regulation’ into practice and 12 convenience store vowed and signed to refuse to sell cigarettes to teenagers under 18. 7-Eleven Taiwan launched the ‘1997 Find Love Back’ charity event.

	10	7-Eleven Taiwan sold beepers.
	11	7-Eleven Taiwan provided a flower delivery service.
	12	The Environment Protection Bureau of the Executive Yuan, instructed convenience store retailers to install cans or baskets for recyclable items.
		7-Eleven Taiwan entered the East Coast market – Hualien and Taitung and completed island-wide expansion.
		7-Eleven Taiwan introduced the 'Hot Show POS ranking list' for deep-fried products.
		Familymart opened its 500th store.
1998	1	7-Eleven Taiwan launched a donation campaign for abandoned children.
		7-Eleven Taiwan set up a franchisee advice office after the percentage of 7-Eleven Taiwan's franchise stores is over 65% of its total stores.
		7-Eleven Taiwan upgraded its flower delivery service to a flower order and delivery service.
		7-Eleven Taiwan provided a pre-order service for Chinese New Year giftboxes and banquets.
		Familymart started selling mobile phones.
	2	Some of Familymart and Hi-Life stores started collecting parking fee for the Taipei City and County.
		7-Eleven Taiwan started mobile phone sales.
	3	Anytime co-operated with the West Europe Petrol Station and opened a G-store (a convenience store attached to a petrol station).
		7-Eleven Taiwan launched the 4 <sup>th</sup> community sponsor programme.
		Starbucks opened its first store in Tienmu, Taipei.
		7-Eleven Taiwan provided tele-sales for the Wupai and China Blue (a pop group in Taiwan) concert tickets.
		7-Eleven Taiwan, Familymart and the President Property Insurance Co., formed a strategic alliance and introduced the 'President Enterprise Serious Accident Insurance'.
		The 'Family Hall' was opened; it was built under the sponsorship of 3Q's '1997 Send Uniform Invoices to Sun, Yeh' charity campaign.
	4	SJExpress introduced the 'Ha-Pa, Cool Mom Gourmet Station' combination store.
		7-Eleven Taiwan tested the sales of cosmetics products and sold the 'Dynasty Day Bus Pass'.
	5	Hi-Life opened the ambient-control distribution centre and introduced ambient-control gourmet foods with different storage temperatures.
		The President Enterprise, 7-Eleven Taiwan, Musashino in Japan and Asia food Co., formed a joint venture – President Musashino - in Tainan.
		7-Eleven Taiwan established the Capital Merchandising Management Consultancy Company.
		7-Eleven Taiwan introduced a home delivery service.
		Familymart, Circle K and SJExpress co-operated with X media and provided information through multimedia machines inside stores.
	7	7-Eleven Taiwan accepted the payment for the Chunghwa Telecomm telephone bills.
		Familymart opened the 600 <sup>th</sup> store and offered a pre-order service.
		7-Eleven Taiwan celebrated its 20 <sup>th</sup> anniversary and sold pre-paid international phonecards.
		7-Eleven Taiwan formed a strategic alliance with the Du Royal Ice Cream Company and introduced the 'Manhattan Ice Cream' exclusive for 7-Eleven Taiwan.
	8	Familymart introduced the UPS parcel delivery service.
		The Chiao Tai Logistics Corp. co-operated with Nikomart to deliver Nikomart's ambient control products.
		The 20 <sup>th</sup> Anniversary raffle campaign of 7-Eleven Taiwan attracted a record-breaking number of customers to join.
	10	Circle K introduced an exclusive franchise system for staff.
		7-Eleven Taiwan sold the NUEVE cosmetics exclusively.
	11	7-Eleven Taiwan formed a strategic alliance with the KG Telecom and sold KG mobile phone prepaid card exclusively.
		Familymart introduced the 'Family Happy Wonder' bi-monthly catalogue shopping magazine.
		7-Eleven Taiwan introduced the '7-Watch' bi-monthly magazine for fashion and life information.
		7-Eleven Taiwan organised the 'Good Neighbour Music Party' and launched the '1998 Find Love Back' charity campaign.
	12	7-Eleven Taiwan co-operated with the Mech-President Corp., the Petrol subsidiary of the President Enterprise, and opened its first G-store.
		7-Eleven Taiwan and Familymart launched a two-month uniform invoice lottery game campaign.
		Familymart provided a film processing service.
		The Hofong Group sold its shares of Familymart; the members of the Board of Directors of Familymart were also changed.
		Hi-Life sold Kingmen (a remote island near Taiwan) products in stores and sold Kingmen package tours.
		Familymart started building its new synthetic distribution centre.
1999	1	The 7-Eleven Taiwan Board of Directors agreed the co-operation with the PPR Group in France and opened the Conforma Furniture and Electronic Appliance discount store.
		7-Eleven Taiwan invested in the SeedNet, one of the ISPs in Taiwan.
		Taisun and Kuanchuan bought shares of Familymart.
		Anytime introduced 5 'Leisure Hall' combination stores, adjusted strategy and closed 18 stores.
		The employees of the wholesale and retail businesses are included in the Labour Standard Law.
		The Fair Trade Committee drafted the 'Principles of the Information Disclosure of Franchisers'.
		The bins for recyclable items in the supermarkets and the convenience stores were renewed.
	2	Circle K introduced low-price mobile phones.
	3	7-Eleven Taiwan collected customers' telephone bill payment for private telecom companies.
		7-Eleven Taiwan opened the 2000 <sup>th</sup> store.
		7-Eleven Taiwan introduced the second-generation uniform invoice lottery game – 'The Uniform Invoice Instant Win'.

	4	Familymart opened the 700 <sup>th</sup> store and co-operated with music.com.tw to sell CDs; customers can order online and then pay and collect CD in Familymart stores.
	5	7-Eleven Taiwan opened 3 stores in Penghu (a remote island in the Taiwan Strait); it is the first convenience store retailer to open stores outside the Taiwan main island. 7-Eleven Taiwan sold underwear under the co-operation with the Far Eastern Textile Company. Familymart celebrated the opening of its 700 <sup>th</sup> store and launched the 'Super Lottery' marketing campaign.
	6	The Fair Trade Committee announced the draft for the 'Principles of Information Disclosure of Franchisers'. 7-Eleven Taiwan celebrated the grand opening of its 2000 <sup>th</sup> store. SJExpress celebrated the 4 <sup>th</sup> anniversary and provided instant prize draws; it also formed a strategic alliance with a theme park in Pingtung.
	7	7-Eleven Taiwan opened stores in the Kingmen County. Familymart accepted the electricity bill payment. SJExpress opened its first store in Chungli; this is its first store in the northern Taiwan. SJExpress opened the second 'Ha-Pa, Cool Mom Gourmet Station' combination store. Wongtsaichi celebrated its 9 <sup>th</sup> anniversary and launched a celebration marketing campaign.
	8	The first shopping mall in Taiwan, TaiMall, was opened in Taoyuan.
	9	Circle K accepted customers' Cable TV bill payment. 7-Eleven Taiwan established the '7-Eleven Taiwan Good Neighbour Culture and Education Foundation'. 7-Eleven Taiwan signed a contract with the Yamato Transport Co., Ltd., Japan and established the President Trannet Corporation (the Takkubyn home delivery service). Hi-Life introduced a film processing service.
	10	Nikomart accepted the parking fee payment in the Taipei City. The 921 Earthquake shook Taiwan and many convenience stores were influenced. 7-Eleven Taiwan was awarded the 'Award of the Excellent Companies in Energy Saving'. Familymart accepted the water bill payment and expanded its film processing services. Hi-Life celebrated the 10 <sup>th</sup> anniversary and introduced package tours to Japan.
	11	Nikomart introduced an international parcel service under the co-operation with the TNT.
	12	Familymart's synthetic distribution centre was completed and started its operation. 7-Eleven Taiwan accepted the Cable TV bill payment. Familymart opened its 800 <sup>th</sup> store.
2000	1	The foot-and-mouth disease hit Taiwan. The Costs of frozen food manufacturers went up consequently; share prices of traditional food manufacturers dropped as well. OK opened the 500 <sup>th</sup> store.
	2	TaiSugar developed biotech products and produced wholefoods and foods with Chinese herbs. 7-Eleven Taiwan co-operated with the Music Global Village and provided an online CD order service. Several convenience stores announced the entry to the e-commerce market after the Chinese New Year. Wongtsaichi announced the acquisition of the 'Colourful Life' Chain Convenience Store in Taichung and became the largest voluntary chain convenience store in Taiwan.
	3	Many publicly listed food manufacturers, e.g., the President Group, the Heysung Group and the Weichuan Group, invested in the biotech companies.
	4	The Legislation Yuan passed the 'Tobacco and Alcohol Taxation Law'. The monopoly of tobacco and alcohol will be abolished. The government will levy the 'health welfare tax' and allows small private breweries. Six convenience store retailers signed contracts with the Computer & Communication Research Labs of the Industrial Technology Research Institute and installed a collaborative information system to share sales data. The government abolished the ban on liquors. The Ministry of Finance announced a new policy regarding the advertisement of tobacco and alcohol.
	5	The Tobacco and Alcohol Taxation Law was promulgated. Taisun, Kuanchuan and Sanyo Whisbih were expected to attend Familymart's board meeting.
	5	J-Young was acquired by Sanyo Whisbih and its headquarters were moved from the Chinkuan Distribution to the Sanyo Whisbih Building. Hi-Life provided an online catalogue order service.
	6	Circle K opened the 600 store. Familymart opened the 900th store. 7-Eleven Taiwan introduced 18°C mealboxes.
	7	The Tungyuan Group established the Pelican home delivery service and co-operated with Familymart, Hi-Life, and Circle K. 7-Eleven Taiwan obtained the ISO9002 certificate; it is the first Taiwanese convenience store company to pass the ISO9002 test. 7-Eleven Taiwan opened its 2500 <sup>th</sup> store in Taichung.
	8	7-Eleven Taiwan obtained a permanent licensing contract from 7-Eleven Inc. in the USA
	9	7-Eleven Taiwan's monthly sales reached NT\$5.3billion - over NT\$5 billion for the first time. I- Mei invested in the Everyday Convenience Store and expanded stores through a voluntary chain system.
	10	7-Eleven Taiwan opened stores in the Taipei railway station. Familymart, Hi-Life, Circle K and Nikomart formed a joint venture - cvs.com.tw - to counter-balance 7-Eleven Taiwan's market power and to co-develop the e-commerce, marketing and service products. 7-Eleven Taiwan co-operated with the Wantong Bank and the China Trust Bank to install ATM machines from 2001. The cvs.com.tw followed.
	11	7-Eleven Taiwan introduced the Takkyubin home delivery service. 7-Eleven Taiwan acquired 50% of the 7-Eleven Philippine shares. A copyright law argument regarding instore music forced many retailers to stop playing music inside stores.
	12	7-Eleven Taiwan's fresh food processing factory started providing fresh foods for 7-Eleven Taiwan stores. 7-Eleven Taiwan increased the threshold of guarantee profit margins for franchisees, from NT\$ 2million to 2.4

		million. It also provided extra NT\$ 50million as incentives. Familymart opened the 1000 <sup>th</sup> stores. The Everyday Convenience Store of the I-Mei Group opened the first stores.
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Source: *Convenience Store Magazine (2000) Convenience Store Magazine Millennium Special Edition*.pp.78-90.(in Chinese) ; *The Distribution News (2000) The Important Retail News in Year 2000*. December. pp. 11-21.

## Notes

<sup>a</sup> The E-ICP (The Eastern Integrated Consumer Profile) 2000 Survey was conducted by the Eastern Advertising Company among Taiwanese consumers aged between 13 and 64. The topics include demographic variables, the preference of pop singers/art/sports stars/cartoon characters, life and leisure, mentality and consumption behaviours, brand positioning analysis.

<sup>b</sup> One ping, as defined in Chapter 5, is equal to 3.30579 square meters.

<sup>c</sup> Here I adopt the terms on 7-Eleven Taiwan's website. Other retailers such as Hi-Life and Familymart, may have similar franchise systems but use different terms.

7-Eleven Taiwan	Mandated franchise system	Authorised franchise system
Familymart	2FC	IFC
Hi-Life	FC	FVC

Source: [www.7-11.com.tw](http://www.7-11.com.tw); [www.family.com.tw](http://www.family.com.tw); [www.hilife.com.tw](http://www.hilife.com.tw)

<sup>d</sup> They will be mentioned as headquarters in the interview and in the rest of this research.

<sup>e</sup> Anonymous (1987) Convenience stores are popular in the market. No. 21, *Breakthrough Magazine*; Anonymous (1987) Weichuan opened regular chain stores and President recruited franchisees. No. 25. April 26, 1987, *Retail Mart Magazine*, p1.

<sup>f</sup> However, 24 hour opening was illegal until the government abolished the Martial Law in 1987.

<sup>g</sup> In fact, Hi-Life also expanded through a voluntary chain system, union chain (UC), for a short period of time.

<sup>h</sup> This project was one theme of the Business Automation initiated by the Ministry of Economic Affairs. The whole project includes two parts: The Nationwide Convenience Store VAN Experiment System for ordering and The Computer Aided Picking System (CAPS) for simplifying distributors' merchandising picking procedure. The systems were developed by the Computer and Communication Lab of the Industrial Technology Research Institute. The former system was then transferred to four convenience store retailers, including Taiwan Big Egg, and 17 wholesalers, e.g., Chiao Chu. The CAPS was transferred to the Retail Support International and the Mercuries Department Store. The design of the Nationwide Convenience Store VAN Experiment System is based on the Bentham EOS in Japan. The system includes a Value Added Network centre, retailers and suppliers and contains the following functions: 1. Electronic Ordering System, transmission of supportive operation data and the maintenance of suppliers' data; 2. Transmission of support operation; 3. Maintenance of information regarding suppliers, merchandise, and the supply chain (Source: [http://www. Materialflow.org.tw](http://www.Materialflow.org.tw); <http://www.itri.org.tw>)

<sup>i</sup> The uniform invoice is equal to the receipt in Europe; the term here is adopted from Taiwanese government's publication.

<sup>j</sup> Every consumer will get a uniform invoice with a designated number when shopping. The number is like a lottery number. Every even month, government will announce lottery numbers. Consumers can check the numbers on all the uniform invoices they got with the announced cash prize numbers. If the numbers match, consumers can obtain cash prize from NT\$200 (about £4) up to NT\$2million (around £40,000). The uniform invoice now becomes a marketing tool for retailers.

<sup>k</sup> Retailers encourage consumers donate uniform invoices for a special charity appeal and then use the cash obtained from the uniform invoice lottery for the special appeal.

<sup>l</sup> *Retail Mart Magazine*, Feb., 1993, p.7; *Convenience Store Magazine*, Dec., 1994, p.66

<sup>m</sup> According to the definition of the Frozen Food Association, fresh foods refer to products stored under the temperature of 4°C and 18°C; examples are rice balls, sushi rolls, sandwiches and salad (Lin, 2000).

<sup>n</sup> According to MCR in Japan, a combination convenience store is a convenience store combined with

one kind of specialty store. The space for non-convenience store operation must be under 50% of a store's total sales space and two formats share one cash register (Huang, 1996).

<sup>o</sup> The 9 types include: bakery, pharmacy, wedding cakes, petrol station, mini-market, cafeteria, bookstore, health product, information (e.g., Internet Café)

<sup>p</sup> There are two major public capital markets in Taiwan. One is stock exchange market set up in 1962 and managed by the Taiwan Stock Exchange Corporation (TSEC). The other is over-the-counter market, or GreTai Securities Market (GTSM) in Taiwan, set up in 1994 and managed by a non-profit entity. The entity is sponsored by TSEC, TSDA, the Kaohsiung Securities Dealer Association and the Taiwan Securities Central Depository (TSCD). The criteria for being listed in TSE and GTSM are different in the following aspects: the paid-in capital, the duration of incorporated, the profitability, the dispersion of shareholdings, the central custody shares, the underwriter recommendations, and the shareholders' affairs offices. In general, the requirements for the stock market are stricter than those for the over-the-counter market. For example:

Table 6-19 Examples of different listing requirements for the stock market and the over-the-counter market

Listing requirements	The stock market	The over-the-counter market
Paid-in capital	NT\$600million Minimum	NT\$100million Minimum
Duration of incorporated	At least 5 years	At least 3 years
Profitability	No accumulated losses for the last fiscal year and meet the following one of the profitability requirements: 1. Pre-tax income exceed 6% of paid-in capital in the last 2 accounting years; average pre-tax income in the past two accounting years exceed 6% on and the performance in the last year is better 2. The pre-tax income exceed 3% of paid-in capital all in the past 5 years	Both annual operating and pre-tax income must exceed 4% of paid-in capital and no accumulated losses for the last 3 accounting year

Source: www.otc.org.tw

# Chapter 7

## The Premises of R-A Theory and the Convenience Store Industry In Taiwan

### 7.1. Chapter overview

The aim of this chapter is to examine the applicability of the premises of Hunt's R-A theory to Taiwan's convenience store industry, together with other general merchandise retail formats, i.e., the department store, the supermarket and the hypermarket. The discussions will focus on industry-level, based on the interviews with Taiwanese retailers and secondary data mentioned in Chapter 4.

The discussions in Chapter 2, Chapter 5 and Chapter 6 mentioned that the present theories do not explain satisfactorily the development of the retail industry in Taiwan and a new theory is needed. Hunt's R-A theory is utilised in Chapter 7 and Chapter 8 to attempt to fulfil the need. Through the analysis based on R-A theory, these two chapters also discuss the resources required for competition in the convenience store industry, the process of building up these resources during the development of this industry and the environmental changes related to this industry.

The discussion are divided into three sections:

- The discussion of R-A theory's premises in the context of Taiwan's convenience store industry
- The process of competition in the convenience store industry
- The outcomes of retail competition

Following the brief introduction of interviewed companies, Chapter 7 will examine whether the premises of R-A theory can be applied to the convenience store industry, accompanied by other general merchandise retail formats, in Taiwan. Then Chapter

8 will analyse competition among chain convenience store retailers stage by stage and the outcomes of competition will be examined.

## **7.2. Background of interviewed companies**

Table 7-1 Background of interview companies

Company	1	2	3	4	5*	6	7	8
A	CVS	Y	1978	Franchise	FC	Y	Y	Y
B <sup>a</sup>	CVS	Y	1988	Joint venture	FC	Y	Y	N
C	CVS	Y	1988	Franchise	FC	Y	Y	N
D	CVS	Y	1989	Direct investment	FC	Y	Y	N
E	CVS	Y	1990	Direct investment	VC	N	N	N
F	CVS	Y	1990	Direct investment	FC	Y	Y	N
G <sup>b</sup>	CVS	Y	1995	Direct investment	VC	Y	N	N
H <sup>c</sup>	CVS	Y	1996	Direct investment	RC	N	N	N
I <sup>d</sup>	CVS	Y	2000	Direct investment	VC	Y	N	N
DA	DS	Y	1967	Direct investment	N/A	Y	Y	Y
DB	DS	Y	1992	Direct investment	N/A	Y	Y	Y
SA	SM	Y	1986	Direct investment	N/A	Y	Y	N
SB	SM	Y	1988	Direct investment	N/A	Y	Y	N
HA	HM	Y	1989	Joint venture	N/A	Y	Y	N
HB <sup>e</sup>	HM	Y	1996	Direct investment	N/A	Y	N	N

1. Retail format: the convenience store (CVS), the department store (DS), the hypermarket (HM) or the supermarket (SM)
  2. Is the interviewed company related to local conglomerates?
  3. Date of establishment
  4. Types of establishment: a franchise, a joint venture or a local direct investment?
  5. Franchise systems: FC: franchise chain; RC: regular chain; VC: voluntary chain
  6. Is the interviewed company an independent entity?
  7. Does the interviewed company use international know-how?
  8. Is the interviewed company publicly listed in the stock or the over-the-counter company?
- 5\*: FC: franchise chain; CV: voluntary chain; RC: Regular chain/Corporate chain

According to Table 7-1 and Table 7-2, all retailers interviewed are related to local conglomerates, but none of these conglomerates had a retail origin. The parent companies of Company A, Company D, Company C, Company E, Company F, Company H Company I, Company SA and Company HA are food or drink manufacturers. The parent company of Company SB is a pesticide manufacturer with diversified businesses, while parent companies of Company DA and Company HB are textile manufacturers. The parent company of Company DB is a construction company. Though Company B's previous Taiwanese owner was not a food manufacturer, it was involved in a dairy product joint venture with a foreign company. Therefore, the majority (2/3) of interviewed retailers and 8 out of 9 chain convenience store retailers are related to food/drink manufacturers.

Table 7-2 The nature of parent companies of interviewed retailers

Retailers	The nature of local parent company's core business	Is the parent company publicly listed or not?
Company A	Food and soft drink manufacturer	Y
Company B	Automobile manufacturer*	N
Company C	Food manufacturer	Y
Company D	Soft drink manufacturer	Y
Company E	Food manufacturer	Y
Company F	Soft drink manufacturer	Y
Company G	Animal feed manufacturer	Y
Company H	Food manufacturer	N
Company I	Drink manufacturer/pharmaceutical company	Y
Company DA	Textile manufacturer	Y
Company DB	Construction company	N/A
Company SA	Food and soft drink manufacturer	Y
Company SB	Pesticide manufacturer	Y
Company HA	Food and soft drink manufacturer	Y
Company HB	Textile/construction company	Y

\*Company B's original Taiwanese parent company owns a dairy product company; company B's present Taiwanese owners now are food and soft drink manufacturers.

Among all chain convenience store companies, only Company E and Company H are not independent entities. Until 2000, only Company A<sup>f</sup> was publicly listed but other chain convenience store retailers expressed their interest in becoming publicly listed in the over-the-counter market. The issues regarding capital resources will discuss the source of finance later in this chapter.

Convenience store retailers here can be grouped into 4 clusters, according to their dates of establishment (Table 7-3):

Table 7-3 The grouping of interviewed convenience store retailers based on the date of establishment

Period	Company
1978	Company A
1988-1990	Company C, Company B, Company D, Company E, and Company F
1995/1996	Company G, Company H
2000	Company I

\*Company G and I originally were established 1989 and 1991.

All retailers, except Company E, in the first two clusters are mandated/authorised franchise chain convenience stores. They are backed by large conglomerates in Taiwan and have more steady operation than the voluntary chain stores, which are invested in by smaller conglomerates and have more difficulties in survival. The



interview results show that all convenience store retailers take their benchmark from Company A and Company B, which are market leaders. The staff of Company A or Company B are quite often the target of other convenience store retailers' headhunting.

The convenience store retailers in the latter two clusters and Company E are owned purely by local conglomerates. The majority is voluntary chains. Among these retailers, Company E is the only one still owned by the original parent company. Company G was established in 1990 but sold to a new owner in 1995. Company I went through the control of at least three local conglomerates; the ownership was changed in 1991, 1995 and 2000. These voluntary chain convenience store retailers do not consult international retailers for their operations. This indicates that the maturity of the convenience store know-how in Taiwan makes access to related operational knowledge and human resources easier and convenience store retailers do not have to rely on international know-how.

All other retail formats interviewed, i.e., the department store, the supermarket and the hypermarket<sup>g</sup>, used international retailers' know-how but no store franchising exists in these formats. This may be due to higher capital investment needed in these three formats and the more complicated know-how required to run them.

### **7.3. Premise of competition in Taiwan's convenience store industry**

Premises in R-A theory articulate the 'background' of R-A competition. Thus before analysing competition of the convenience store industry in Taiwan, this chapter uses the premises of R-A theory to describe the situation in Taiwan's convenience store market.

### **7.3.1. Demand**

#### **7.3.1.1. Diversified formats**

In this research, the retail industry in Taiwan, in a broad sense, includes four sub-industries, i.e., the department store, the supermarket, the convenience store and the hypermarket. Each sub-industry can be further divided according to the size of the format, methods of network expansion, store locations and customers targeted. For example, department stores can be classified under large-scale and small-scale or they can be classified under a chain store and an individual store. Hypermarkets can be classified under three types, based on their target customers (Ho, 2000)<sup>h</sup>. Supermarkets can be classified under an independently operated store and a store attached to a department store (Qui, 1980).

As to the focus of this research – the convenience store industry, it can be divided into individual stores and chain stores. As mentioned in Chapter 6, chain convenience store retailers normally keep some stores totally controlled by the headquarters and expand their networks mainly through franchising; these chain convenience store retailers utilise different franchise systems, e.g., the mandated franchise system, the authorised franchise system and the voluntary chain system<sup>i</sup>.

Different sizes of stores are also designed to serve different customers. For example, 7-Eleven Taiwan opened 7-Eleven Express - a compact format of 7-Eleven Taiwan - in major railway stations. Nikomart also has express stores in the Taipei MRT (Mass Rapid Transportation) stations.

#### **7.3.1.2. Differences among different formats**

If we consider Taiwan's retail industry in a broad sense, i.e., the general merchandise retail industry, it may be noted that different customers' needs exist among different retail formats. For example, the main purpose of the convenience store is to provide

convenience, while that of the department store is to provide shopping pleasure and more luxurious items. It follows that the target customers of the convenience store and the department store are different.

As Company A manager points out:

*'... You see, generally girls will not stroll along the streets. If they want to go shopping, they will find a good place, such as the department store; they go shopping for 'shopping'. Convenience stores normally are not like this; they are a 'refuel hub' during your work. You need them when you are working, especially when you are working outside.'*

The majority of interviewed convenience store retailers mentioned that, if customers' occupations are considered, most customers in their shops are people working regular working hours, i. e., 9am to 5pm,<sup>1</sup> and students. Most customers are aged between 15 and 40. By contrast, customers' age groups of interviewed department stores are more concentrated. For example, one interviewed department store mentioned that their major customers are females aged between 20 and 35, but especially aged between 25 and 30. Customers of department stores are normally people working for regular working hours. Major customers of one department store are office ladies, while customers in the other interviewed department store are mainly government employees and housewives. Office workers and students are the main customers of both interviewed supermarkets, while both hypermarkets do not have special target markets.

### **7.3.1.3. Geographical and demographic difference**

Among all chain convenience store retailers, mandated/authorised franchise chain store retailers have broader geographical coverage and focus mainly on the northern Taiwan market, especially Taipei. All other formats, i.e., the department store, the supermarket and the hypermarket, mentioned that Taipei was the most important market. However, Company SB and Company DB are local companies and only operate in Taichung. Voluntary chain convenience store retailers and Company H have different location focuses from the store locations of mandated/authorised franchise chain retailers mentioned above. The former put their focus on geographical areas outside the northern Taiwan, such as Taichung, Kaoshung, Nanto

and Taoyuan. Most stores of voluntary chain retailers and Company H are located in regions near their headquarters.

Segmentation exists in the general merchandise retail industry in Taiwan. The segmentation is due to customer differences in different geographical areas, e.g., north and south, and demographic factors, e.g., gender, occupation and income; it is also due to economic factors and population distribution, e.g., suburban and urban areas.

Consumers in the northern and southern Taiwan have different preferences of food tastes and places for their grocery shopping. For example, consumers in the South shop more frequently in the hypermarket, compared with customers in the North. ACNielsen's survey (Lin, 1999) shows that about 70% of consumers in Kaohsiung shop in the hypermarket more than once per week, while only 53% of consumers in Taipei area do so. A manager interviewed stated that northern Taiwanese prefer foods with a light taste, while customers in the south like foods with stronger flavours. Even in Taipei, people have different shopping habits in different areas (Zhang, 1988; Tien, 2000). Zhang's (1998) survey among supermarkets in Taipei shows that consumers in Tiam-Mu area (a wealthy area in Taipei) have a higher purchasing power and are more concerned about quality.

Though all convenience store retailers target similar customers of certain ages and occupations, they are faced with some diversity in different geographical areas. For example, Company I manager mentioned the differences of consumers' beer preferences in the North and in the South:

*'Consumer behaviour is different in different regions. Take beer consumption as an example, consumers in the northern Taiwan prefer Miller or Heineken and consumers in the southern Taiwan prefer porter (o-be-a in Taiwanese, means 'black wheat') beer; porter beer (o-be-a) sounds more local and consumers consider it is close to their life. The sales of porter beer are flat in the North but in the south, you have to pre-order it.'*

*'A major difference is in tobacco. Northern Taiwan consumers prefer Davidoff, 555 and Marlboro (these brands have a prestigious image in Taiwan) and southern Taiwan consumers prefer Mine or 7-Star (Japanese and more local). The latter two*

*brands are considered as more local and gangster-style; southern Taiwanese like this kind of style.'*

The differences of shopping behaviour between the north and south in Taiwan, based on the information from the interviews, are summarised in Table 7-4.

Table 7-4 Comparison of consumers between the north and the south in Taiwan

Consumers' location	North	South
Way of going shopping <sup>k</sup>	By foot	By scooter
Brand preference	Prefer import and western brands	Prefer local and Japanese brands
Brand loyalty	High	Low
Price sensitive?	Less	More

Source: Interviews

Based on the interviews, if demographic and economic factors are considered, consumers in urban and suburban areas have the following difference (Table 7-5):

Table 7-5 Comparison of consumers between urban and suburban areas in Taiwan

Consumers' location	Urban	Suburban
Gender	Female with higher income	Less female with lower income
Age	25-35	15-45
Occupation	Office workers	Small business owners/residents in the area
Shopping behaviour	Shopping on the go	Less shopping on the go

Source: interviews

The interviews indicate that these differences have no big influence on chain convenience store retailers' operation but retailers may have to make some adjustments in services, product ordering procedures and product assortments. For example, Company B introduced home delivery services in the southern Taiwan to attract more customers. Company D stocked 5 litre bottles of mineral water in its southern Taiwan stores because water quality there is bad and customers have a huge demand for large volume bottled mineral water. Company I had to pre-order some local brands of porter beer for its stores in the southern Taiwan because these local brands are always sold out quickly in the South.

The consumer profile changes through the day. For example, during 4 - 6pm, customers of the convenience store are normally students, especially primary school students, looking for after-school snacks, but customers during lunch- and dinner-time are normally looking for working-lunches or dinners.

The convenience store adjusts merchandise assortments according to time of the day, geographical and demographic differences.

The consumer heterogeneity has strategic implications for convenience store retailers. For example, when developing retailer-brand fast foods, Company B considers the difference of calorie intakes between male and female consumers. Company D manager also expressed the company's consideration of heterogeneous demographic factors in retailer-brand development:

*'Our company...7-Eleven Taiwan and Familymart focus on main meals, i.e., mealboxes. However, we focus on refreshments, e.g., our combination meals such as sandwiches meal sets or other snacks. You still can be satisfied with the amount of the foods. For example, normally women do not have a big appetite; mealboxes might be too big for them....'*

#### **7.3.1.4. Change of customers' tastes and preference**

Convenience store retailers have experienced changes in customer profile. Two interviewed voluntary chain retailers mentioned that they have fewer housewife shoppers and more young customers now but other interviewed convenience store retailers experienced the following changes:

- Customers now include younger or older age groups.
- More housewife shoppers

These changes may be due to:

- The change of consumers' shopping behaviour: more consumers accept convenience stores
- Expansion of convenience store retailers in terms of locations and the number of stores: the increasing penetration of the convenience store in Taiwan (Table 7-6).
- Change of products introduced in the convenience store. For example, retailers' introduction of toys and video games attract younger customers to shop in convenience stores (Company D Manager).

Table 7-6 The ratio of chain convenience stores/population since 1990

Year	1994	1995	1996	1997	1998	1999	2000
Chain convenience stores (stores)	3,063	3,713	4,186	4,975	5,260	5,532	6,187
Population (1000 persons)	21,178	21,357	21,525	21,743	21,929	22,092	22,277
persons/store	6,914	5,752	5,142	4,370	4,169	3,993	3,601

Source: [www.dgbasey.gov.tw](http://www.dgbasey.gov.tw); Convenience Store Magazine (2000) Convenience Store Magazine Millennium Special Edition, pp.93; Retail Mart Magazine (2001), January, p. 31

Consumers' change in terms of living expenditure also influences convenience store retailers' focus of product development. Due to the increasing eating-out expenditure mentioned in Chapter 5, the convenience store industry is increasing the emphasis on 'Home Meal Replacement', i.e., ready-to-eat meals substituting for home-cooked meals. The convenience store retailers in the interviews mentioned that the sales of retailer-brand fresh foods and service products were increasing. The convenience store has also witnessed the shift of retailer-brand product development from western fast foods to Japanese and traditional style fast foods due to the Taiwanese obsession with Japanese culture.

Changes are also seen in other formats. For example, Company SA mentioned more customers switched from wet (traditional) markets to supermarkets. The emerging supermarket also increased sales at the costs of the department store; as Company DB manager mentioned:

*'... Before we opened our stores, we found many department stores had supermarkets. Maybe it was because there were not so many hypermarkets and supermarket chains. When the number (of hypermarkets and supermarket chains) increased, you had to change it (in-store supermarket) and adjusted according to market change.'*

Both interviewed department stores also mentioned that the age of customers is falling. The same phenomenon appears in interviewed hypermarkets but the interviewees did not indicate when this change happened.

Coping with changing lifestyle, department stores are also trying to change services and products assortments. For example, Company DA manager mentioned the products in their new concept stores:

*'...the age of department store shoppers is falling. We are trying to stock more entertainment products.*

*Two days off during weekend also benefits our business.'...*

*We used to sell only products and now we also sell services; entertainment products are services.'*

For the convenience store, consumers are looking for more convenience products from their convenience store neighbours. Rapidly changing consumer behaviour and tastes in Taiwan push convenience store retailers to look for new products and services continuously. For example, 7-Eleven Taiwan introduced and replaced over 1,000 retailer-brand products in store every year<sup>1</sup>.

### **7.3.1.5. Implications from consumer demands for the convenience store**

Hunt mentions that consumers have heterogeneous and changing tastes and preferences. The discussions above show that consumer differences exist in different geographical and demographic groups in Taiwan's retail market and fulfil Hunt's assertion.

Heterogeneous consumer demands offer retailers opportunities for differentiation. For example, Company A mentioned their main customers and target market of retailer-brand products is male, while Company D's main customers of its retailer-brand products are office ladies. Company H mentioned that part of its sales were mainly from housewives, while Company E mentioned that it did not have a lot of housewife customers.

Hunt suggests that 'identifying those segments most suitable for developing market offerings should be viewed as an entrepreneurial capability that affects firm performance' (p.109). Thus consumers' diversified demands also bring convenience store retailers, who spot the opportunities to provide products new to the stores and its customers, with financial rewards. For example, Company D stores successfully introduced toys inside its stores:

*'The most successful campaign in the past year is toys. The total sales in the past year even surpassed the sales through the supplier's toy speciality store channel. The sales of our toy supplier from Company D were doubled from NT\$40million in*



*1999 to NT\$80million in 2000. Originally they sold toys in traditional toy shops or department stores, but from last year, we helped it to increase the sales and to become a top ten toy company.'*(Company D manager)

Company D's idea of selling toys can be regarded as an entrepreneurial capability. The successful idea brought Company D and its toy suppliers financial rewards and also drew other convenience store retailers to sell toys.

### **7.3.2. Consumer information**

The discussions regarding consumer information have two main concerns:

- Mechanisms retailers utilise to convey store image and products offered
- Mechanisms to maintain store quality and customers' positive impression towards stores.

Thus the discussions here can be divided into two parts:

- Mechanisms of Taiwanese retailers, particularly chain convenience store retailers, to convey information to consumers regarding their stores and to maintain positive store image
- Marketing tools to promote store image and retailer-brand products.

#### **7.3.2.1. Trademarks and CIS (Corporate Identification System)**

Trademarks have two functions in R-A theory:

- Mechanisms, termed 'institutions' by Hunt, for consumers to reduce search costs
- An index of product quality

Based on the discussions in Chapter 3, trademarks in the interviews were interpreted as store brands, retailer-brands and signs, slogans, colour schemes, and logos, which are recognised as CIS (Corporate Identification System) that chain convenience store retailers utilise.

The store brands of Taiwanese retailers may have some links with their parent companies because, by utilising parent companies' brand names, these retailers will be able to gain customers' trust more easily and rapidly. For example, Company A,

Company G, Company E, Company I and Company SB (Chinese version) adopt their parent companies' brand names. Company D even integrates its conglomerate parent company's brand name into its store sign. The manager of Company E pointed out the importance of the parent company's brand in bringing consumers' awareness of his company:

*“Consumers are familiar with Company E due to our watermelon seed products, so it was easier to establish customers' awareness if we use ‘watermelon seeds’ (in the store brand). After we established the market awareness of our convenience store, ‘watermelon seeds’ was removed from the store name (brand).”*

Four convenience store retailers mentioned that CIS is important for the corporate image. As the manager of Company I pointed out:

*‘CIS are the most important because they will give consumers direct impression...’*

Interviewed department stores also expressed their concerns of CIS. Company DB mentioned that CIS offered a mechanism for customers to differentiate one retailer from another.

*‘CIS, ...,for example, when you carry a bag with Company DB logo, people will know you shopped in Company DB; when you carry a green bag, people will know you shopped in SOGO.’*

Company DA mentioned another function of the store brand of a specific retailer: giving customers a certain image of a retailer and thus customers would know what kind of products they could expect to find in a certain store.

*‘For example, if you want to buy branded products, you will visit Shinkong Mitsukoshi or SOGO. However, SOGO does not have so many branded products as Shinkong Mitsukoshi, so Shinkong Mitsukoshi is more upmarket than SOGO. So customers have a certain idea in their minds (about where they should shop for what kind of products.)’*

The above message explains R-A theory's assertion that trademarks signal the attributes of marketing offerings.

Chain convenience store retailers, as well as retailers of other formats, change or modify their brands and CIS, i.e., visual identity (VI) and logo, to rejuvenate their images. Two voluntary chain convenience store retailers and one department store, when interviewed, mentioned that they were introducing new store brands at that time because the present brand image was either too negative or obsolete due to the company's historical background. Retailers may also modify their VI to upgrade the impression they give to customers and the majority of interviewed chain convenience store retailers mentioned this fact. Retailers expect modified CIS or refurbishment of stores to bring customers a positive image of their stores and to attract customers' patronage.

*'...from the customers' point view, it provides a new impression and feeling. If a store is not re-modelled, it has been the same for 5 years. Many things become old and thus the whole image becomes bad. After the remodel, competitiveness is strengthened because the store looks newer and customers perceived a newer store. The competitiveness is improved...'(Company C Manager)*

Good image is also maintained through mechanisms for maintaining or improving customer satisfaction, e.g., the customer service hotline and the quality assurance centre (Huang, 1994).

Company D manager points out the importance of maintaining service quality to the corporate image of his company:

*'For example, an elderly customer slipped and fell to the floor in our store. We called ambulance and his family immediately. Before his family arrived at the hospital, our store manager kept him company. When he was hospitalised, the senior managers of our company visited him and we offered him compensation. Though this might not be our fault, we still have the responsibility because this will influence our corporate image. Now we have a lot of pressure from media.'*

To ensure customers' satisfaction, chain convenience store retailers have some mechanisms to obtain customers' responses. Customer satisfaction mechanisms include:

- Customer service hotlines
- Official quality assurance certificates, e.g., ISO9000, ISO 4000 and GSP<sup>m</sup> - Good Store Practice - certificate for excellent store services

- Refund/change policy.

More details about customer satisfaction will be discussed in Section 7.3.5.2 regarding type of resources.

Chain convenience store retailers in Taiwan are vigorous in creating distinctive store image also through retailer-brand products or parent company's products. Many convenience store retailers regard retailer-brand products as a tool to differentiate their offers from their competitors', to establish customer loyalty and to improve store image (Ma, 1993; 1994).

Four mandated/authorised franchise chains and one voluntary chain mentioned that they used retailer-brand products to promote corporate identity; two further stressed the importance of retailer-brand products on differentiation. The rest of chain convenience store retailers, without retailer-brand products, mentioned they promoted their parent companies' products because the parent companies' products bring positive image for their stores.

Convenience store retailers with retailer-brand products may design sub-brands for their products and most of these retailers are proactive in protecting their sub-brands. Two convenience store retailers even applied patents for the in-store facility or registered trademarks in China. The reasons for doing this include keeping exclusivity of equipment, keeping brands as company assets and as potential business opportunities (selling brands).

#### **7.3.2.2. Marketing tools for promoting corporate image and retailer-brand products**

R-A theory mentions that advertisement is also a tool to provide information about market offerings. A survey result (Lin, 1999) shows that consumers' information about the convenience store comes from TV commercials, radio commercials and posters inside stores. The E-ICP survey (2000) has a similar conclusion and points

out that advertisement and the store presence in the market play positive roles in building consumers' awareness of a convenience store retailer.

The interview results show that chain convenience store retailers in Taiwan utilise multiple tools to convey their store and product information. However, the use of media advertisements, such as in newspapers and on radio and TV, varies among convenience store retailers. Only the top three retailers, i.e., Company A, Company B and Company D, can afford TV commercials. The manager of Company B explained the effect of advertising, especially through TV commercials:

*'Advertising is the main expenditure of our marketing budget because we did not establish a strong enough identity. Consumers only remembered 7-Eleven; the other convenience stores are in the same category, so 7-Eleven is equal to convenience store. We did not have a lot of advertising before, so Corporate Identity is not recognised.'*

The ranking of the convenience store retailers surveyed by Marketing Magazine (originally Breakthrough Magazine) in 2000 proved the effect of advertisement. According to the survey, Company A, Company B and Company D are the top three on the list. Besides advertisement, technological development also provides retailers with a new promotion tool. For example, six out of nine convenience store retailers established websites.

Six out of nine chain convenience store retailers in the interviews pointed out marketing tools which have direct contact with consumers are the most important tools to promote corporate identity or retailer-brand products. These marketing tools are DM (posters, or POP termed in Taiwan), face-to-face sales and in-store services. As a manager points out:

*'For the convenience store, every corner of a store is a display of products and advertisement. I think the most important issue for corporate image is the total layout and performance of a store, e.g., in-store service....'*

Another manager also mentioned why these marketing tools were important:

*'DM and in-store services represent a company, so if a store has good management (of DM and in-store services), it will have a positive effect on a company's image.'*  
(Company F manager)

Four convenience store retailers mentioned that PR (public relation; mainly relationship with media) was also important and several managers pointed out the importance of PR:

*'Because media is not well-developed in Taiwan, so this is a tool we can work on.'* (Company A manager)

*'We keep good relationship with journalists; it is mutually beneficial. For example, when our promotion budget is tight, we can bargain with newspapers; at the same time, we will provide these journalists with valuable news.'* (Company F Manager)

*'...PR is also important; it can be more important than CIS. You do not have to pay for PR....'* (Company G manager)

Even the pure presence of a store is a tool to attract customers' attention:

*'...another issue is the 'publicity effect' (customer awareness of the existence of your store). Sometimes a store exists due to company policy. The decision is not made purely by (financial) figures. And sometimes, it is strategy concern: to occupy a strategic location. Figures (of financial performance) are important, but after we obtain these numbers, we will check the nature of a store (to decide whether to keep a store or not).'* (Company D manager)

Trademarks - or brands - and CIS provide consumers with mechanisms to distinguish one retailer from another. For convenience store retailers in Taiwan, the association with parent companies' brands and products is conducive for customers' awareness of their stores. Besides the association with parent companies, retailers also use marketing tools such as advertising, in-store services, and retailer-brand products to gain customers' trust. However, retailers' devotion to these marketing tools will be constrained by, e.g., their financial resources and bargaining power, because marketing tools, such as advertising and retailer-brand products, require huge investment and certain bargaining power.

*Company E pointed out how 7-Eleven Taiwan took advantage of its bargaining power and promotion to influence both consumers and suppliers:*

*'...Consumers' demand of the convenience store is created by them (7-Eleven Taiwan). For example, Japanese rice balls (onigiri) are cold; this is not compatible with Taiwanese preference for a hot breakfast. However, 7-Eleven introduced rice balls, made a lot of effort on promotion and product image, and established food processing factories.'...*

*'...For example, 7-Eleven sometimes has promotion, such as 'buy China Times, get a steam bun free' because it has enough bargaining power with the publishers; Company E is not able to do so because it does not have enough purchasing power'....*

### **7.3.3. A firm's Objective**

In the interviews, retailers were asked whether they used the following indices for overall performance check:

- Sales
- Profit margins
- Net profits
- Return on assets (ROA)
- Return on investment (ROI)
- The number of stores

If retailers used other indices, they were asked to list them. All convenience store retailers mentioned they included several of the indices above when measuring performance; however, return on assets is less mentioned. This may be related to convenience store retailers' strategic goal – increasing the number of stores in a short period of time.

The majority of indices are financial. Among the financial indices, convenience store retailers' major concerns are sales, profit margins and net profits. Non-financial indices are the number of stores and the number of customers. Retailers use the number of stores as an index of market share and the number of customers as an

index of potential sales. One convenience store retailer mentioned that it also used the 'indirect labour force'<sup>n</sup> as a non-financial index.

As Hunt points out, the firm's financial performance is primary. The manager of Company D pointed out one reason why financial indices are the retailers' main concerns:

*'These indices can be accessed and measured immediately. ...These indices can be calculated immediately.'*

The managers of Company A and Company C also explained the importance of financial indices:

*'The most important is to ensure (my) company makes profits. The retailers' function is to create models (for a proper store operation); these models evolve all the time. The chain store is easy to copy. If a store can create net profits, there will not be any problem in development.'*

*'Sales and net profits are related to a company's survival.'*

The manager of Company F expressed a similar view:

*'At company level, net profits are the most important. For a company, the most important thing is whether they make profits.'*

Among all the indices, retailers have different views regarding which index a retailer should focus on; this proves Hunt's assertion that the specific measures used for comparison purposes vary from firm to firm. For example, some convenience store retailers emphasised profit margins, while others mentioned net profits were more important.

As Company A manager pointed out:

*'Net profits are the most important. Gross profits (profit margins) do not make too much sense'*

However, Company D manager has a different view:

*'Net profits involve more factors and are more complicated.'*



One voluntary chain retailer also pointed out its different concern from those of mandated/authorised franchise chain retailers:

*'For 7-Eleven and Familymart, they check sales, but for a voluntary chain, the number of stores is more important because it is still unclear who is the foremost in the voluntary chain. In the convenience store industry, we focus on the number of franchisees' stores when checking performance.'*

The indices used for measuring the performance of a single store and for the whole company are also different. For example, Company G mentioned sales and profit margins are important for measuring a store's performance but sales and the number of stores are the most important when its parent company examines its overall performance. Therefore, at this moment, the number of stores is more important than profit margins at company level performance check.

The index that a retailer emphasises also varies during different stages. Before 2000, the number of stores was the most important non-financial factor for many convenience store retailers because retailers were concerned with occupying good locations ahead of their competitors, though the financial performance may be influenced:

*'... the requirement of the Board of Directors to General Manager. For example, they may ask the target market share in terms of the number of stores.'*

*'Last year we opened more stores than usual, so the absolute growth was diluted.'*(Company C manager)

The manager of Company A explained the reason of emphasising the number of stores:

*'..., before 2000, we focused on network expansion. You must know Taiwan is a tiny island but has over 7,000 convenience stores, so we have to occupy good locations first....'*

This proves Hunt's assertion that the specific measures for performance comparison vary from time to time. The number of stores is important also because it is difficult for convenience store retailers to access competitors' information regarding financial performance, e.g., net profits or profit margins:

*'... because the difficulty of accessing (competitors') data, the number of stores becomes the only index.'* (Company C manager)

For other retail formats, the major concern is still financial performance. Both interviewed hypermarkets stressed the importance of sales. However, one was concerned with profit margins and ROA but the other was not so concerned with these two indices. Both department stores pointed out that sales and gross margins were important. Besides these two indicators, Company DA mentioned figures such as net profits, EBIT and EPS were also important because it is a publicly listed company:

*'Inside the organisation, sales, profit margins, and net profits are used in performance assessment; for shareholders, net profits, EBIT and EPS are the most important because Company DA is a public listing company.'*

Thus different stakeholders will focus on different indices.

Company SA also mentioned that, besides the indicators listed at the beginning of this section, it used indices such as sales contributed by each customer, expenses, purchasing points and profit responsibility per store. It emphasised the importance of total sales and the number of customers, while Company SB pointed out that net profits were the most important.

In summary, sales, net profits and profit margins are the universal parameters of performance checks for retailers in Taiwan. These are different from the indices emphasised by British retailers mentioned in the literature. Davies (1993) mentioned that the return on capital employed (ROCE), which is the product of net profits and sales on capital employed), is a key performance index for British retailers. Hunt points out that the parameters of performance comparison may also vary from culture to culture. The discussions of Taiwan's convenience store industry, together with Davies' conclusion, provide evidence for Hunt's contention.

The specific measures of financial performance also vary from industry to industry. In Taiwan's general merchandise retail industry, each sub-industry, i.e., the convenience store, the department store, the hypermarket and the supermarket, has

parameters of the sub-industry's particular concern. For example, the hypermarket is concerned about ROA, while the convenience store is not concerned with this figure. This may be due to different size of stores. Table 5-5 shows a convenience store normally stocks about 2,300 – 2,500 lines, while a hypermarket stocks many more - about 12,000-20,000 lines. The difference may be also due to different methods of network expansion for these two retail formats and different level of capital requirement. The majority of convenience stores in Taiwan are franchise chain stores and the 'headquarters' have smaller inputs in the stores, compared with hypermarkets' larger-scale investment and maintenance of assets in the stores.

The performance check is the basis of retailers' future goal settings and the referents are mainly competitors' performance or a retailer's own past performance. However, according to the interviews, comparison with competitors is more difficult due to limited availability of related data, so a retailer is more likely to measure performance based on its own past performance. Annual growth rate is set based on multi-indices, such as sales and the number of stores, competitors' movement, and macro-economic factors, e.g., economic growth. Sales, though not necessarily the only indicator, are most frequently compared when retailers plan future development.

The principal aim is to achieve target figures or to generate growth. These target figures are decided after a retailer considers the company's strategic concerns, weather, economic situations of the country and store locations. A retailer's financial performance may be adversely influenced by external factors but, in general, the principle is *'more than'* or *'better than'* the performance of some referents.

For example, the manager of Company SA pointed out the influence of the economic recession in 2000 and what the Senior Manager's view is regarding the future annual growth of his company:

*'...Last year, when our boss indicated the growth for this year, the situation was different. He said it was good enough if we could have 0 growth (and did not have decline of sales when) the sales of all other supermarkets declined.'*

The manager of Company HB also indicated his company's concern regarding the growth of sales and what his company's view was when the external factors were considered:

*'If you do not have a good reason and your sales decline by 5%, you will be fired.'*

But if external factors are considered:

*'..., due to economic recession, our sales declined by 8% but Carrefour's sales declined by 30%, so 8% is still ok for us; some factors are out of your control.'*

In summary, firms are always looking for ways to pursue more financial rewards. This assertion is demonstrated in Taiwan's retail industry. Convenience store retailers continuously tried to establish a larger market share and generate more sales by various actions. Table 6-18 shows, since the emergence of the convenience store in Taiwan, convenience store retailers continuously introduced new products, promotions and operation methods to improve their performance. For example, convenience store retailers utilised EOS systems and POS systems and established central distribution centres to improve efficiency and reduce costs; at the same time, they continuously introduced ready-to-eat foods and services to boost sales and profit margins.

However, a firm's pursuit of superior financial performance may be confined by extant influence and managers are then unable to maximise a firm's profits. Company A manager's point of view regarding stockholders supports the related assertion of R-A theory. When asked about the decision to maximise profits and open more stores, Company A manager made the following comments:

*'...this maximum profit is 'critical profits'. For example, we could make over 400 million profit every year, but we only make about 100 million now because we will not spend a lot of time rationalising our organisation and focusing on expanding our store number. But the public will not see the difference. They will not know if you make 200 million profit is good or not. 200 million for them is good enough. Before May, 2001, the market price of Company A shares was the highest, except Hi-Tech shares. This meant its performance was appreciated at that time. But there is a long-term restriction here; you have to exploit the market NOW. Taiwan is small, you have to occupy good locations first.'*

R-A theory mentions that a firm's pursuit of superior financial performance is also concerned with ethical issues. For example, many convenience stores are devoted to charity events and community care activities; instead of maximising profits, they utilise company resources on social responsibility. For example, Company A and Company HA donate a certain percentage of total sales every year for fulfilling their social responsibility.

More issues regarding firm's information and ethical concerns will be discussed in Section 7.3.4.

### **7.3.3.1. Implications from a firms' objectives**

Financial performance, such as sales, net profits and profit margins, is a major concern for convenience store retailers, as well as other general merchandise retailers. Besides financial indicators, non-financial indices such as the number of stores and the number of customers are also important. The emphasis of these indicators varies:

- From format to format; for example, the hypermarket checks ROA, while the convenience store does not.
- From retailer to retailer; for example, different convenience store retailers have different concerns.
- From time to time; for example, the major concern of the convenience store is the number of stores before 2000 but when the number of stores increases and reaches a certain figure, retailers may refocus on other indices. Therefore, it is possible when the convenience store develops to a certain degree, that these retailers will use other indices, e.g., the retention of customers, the retention of franchisees or the number of customers as indices.

The emphasis may also vary when checking performance of different levels in a retailer's organisation, i.e., for a store or for the whole company, and depends on retailers' definitions of competitors.

The analysis also shows that retailers may sacrifice short-term financial goals to achieve long-term strategic gains, e.g., the number of stores for the convenience store. For example, mandated/authorised franchise chain convenience store retailers expanded their network rapidly in the second half of the 1990s to establish scale economies and to occupy good locations, so they put the number of stores, instead of the profit growth, as a priority. The emphasis of number of stores also indicates that retailers' focus of performance indices depend on their strategic plans. Once they achieve their goals in network expansion, they may have different concern.

#### **7.3.4. A firm's information and social responsibility**

Hunt mentions a firm's pursuit of superior financial performance is influenced by 'imperfect and often costly to obtain information about the extant and potential market segments, competitors, suppliers, shareholders and production technology' (Hunt, 2000; p.123). The imperfection of information is due to managers' limited capability to obtain information for profit maximisation. The objective is also influenced by ethical concerns. This section will discuss retailers' limitations in acquiring market information and the influence of fulfilling social responsibilities on retailers' financial performance.

##### **7.3.4.1. A firm's information**

Retailers in Taiwan often have to make important decisions regarding operations with limited information (Trappey, 1998; Liao, 2000). As Trappey mentioned in his study, the majority of market research in Taiwan is proprietary and the cost of market information in Taiwan is often significant in terms of access and acquisition. For example, in the convenience store industry, only two companies are publicly listed and provide financial reports that can be accessed publicly; other retailers are only willing to supply only the figures for store numbers and annual sales. Other information is regarded as business secrets and cannot be disclosed even in well-known market research reports, e.g., annual surveys conducted by the China Credit Information Service (CCIS Credit On-line) and the Commonwealth Magazine.

Under these circumstances, many decisions made are the outcome of retailers' 'trial and error'.

Company DB manager, in the interview, pointed out the limited availability of retail market research in Taiwan:

*'As you know, in Taiwan, there are not so many institutes specialising in retail research. If there are any, these are some consultancy companies who provide one-off research information packages.'*

Imperfect information is evident in the discussions regarding the optimal number of convenience stores in Taiwan. For example, Huang (1994) mentioned that the number of convenience stores had reached its peak in 1992; however, the figures in the second half of the 1990s (Table 5-16) proved that this claim was made prematurely. According to Convenience Store Magazine's survey, chain convenience stores increased by 370 in 1992; however Table 5-16 indicates that the annual growth of stores after 1995 was over 370. Further evidence of imperfect information is illustrated by the forecast of optimal capacity of the convenience store industry. Table 7-7 shows that different sources have different prediction regarding the optimal capacity.

Table 7-7 The optimal capacity of the convenience store industry predicted by different parties

Source of prediction	Breakthrough Magazine	7-Eleven Taiwan (First Commercial Bank)	The Fair Trade Committee	Retail Mart Magazine
Year	1992	1997	1999	2000
Optimal number of stores	3,300	7,000	7,000-10,000	10,000 – 11,000

In fact, the dynamic market situation and unexpected events prevent retailers from knowing what the optimal capacity of the industry is and whether their decisions will lead to the best performance. For example, Taiwan Big Egg experienced rapid expansion and established good reputation but it was faced with an unexpected financial crisis due to the over-rapid expansion at the end of 1994. It went bankrupt and later was acquired by the Sino-Japan Group. If the managers of Taiwan Big Egg

could have predicted the outcome, maybe it would have slowed down its network expansion.

Based on the argument here, since the industry cannot have a solid prediction of the optimal capacity, it is difficult to make strategic plans for maximising the performance.

**7.3.4.2. Sources of market information**

Insufficient market information is not only due to the unpredictability of the market change but also due to the constraints, such as financial and technical limitations, convenience store retailers encounter.

The interview results show that information for convenience store retailers is collected from both internal and external sources and for various purposes. Table 7-8 shows the purposes of market information for different types of chain convenience stores. It also shows that mandated/authorised franchise chain retailers use market information for a strategic purpose that voluntary chain retailers did not mention, namely new retailer-brand product development.

Table 7-8 Purposes of market information for chain convenience store retailers

Types of chain convenience stores	Purpose of information
Franchise chain convenience stores	New retailer-brand product development, marketing strategy and operation adjustment
Other chain convenience stores	Strategic analysis, training, adjustment of store operation, location selection, marketing, adjustment of product assortment and sales prediction

*Source: interviews*

In general, mandated/authorised franchise chain retailers are more capable of obtaining detailed market information, compared with other types of convenience store chains. The internal sources used by mandated/authorised franchise chain retailers are mainly data from EOS systems, POS systems and in-house market surveys. The data includes customer shopping behaviour, the daily sales pattern inside a store, the sales of individual products and the store inventory. Information also comes from informal surveys, such as discussions with staff and franchisees. In



terms of external information, all mandated/authorised franchise chain convenience stores purchase information regarding sales of competitors, sales and market size of individual products, and consumer behaviour from ACNielsen. Other sources of information are the CCL of ITRI<sup>o</sup> (the Computer and Communication Lab of Industrial Technology Research Institute) and advertising agencies. One manager stated that his company also used information from more informal sources, e.g., suppliers and the media, e.g., e-news.

The collection of information could be confined by technical problems. For example, the installation of POS systems was hindered by the following technical reasons (Deng, 1992; Lin, 1996; Chau, 1997; Wang, 1997):

- The EDI interface was not available
- The utilisation of barcodes among manufacturers was low
- Each manufacturer had its own coding of merchandise
- High turnover of employees in the stores. Due to high turnover, retailers have to recruit new employees frequently; new staff was not familiar with the POS systems and this sometimes causes the breakdown of the whole system.

Besides, information is costly due to the following two reasons:

- Costs incurred in the investment of POS systems and market surveys. For example, POS system is a substantial financial investment for convenience store retailers. Chau (1997) mentions that 7-Eleven Taiwan invested NT\$800million and Circle K invested NT\$700million in POS.
- Costs incurred in purchasing information from outside sources, e.g., professional market research institutions. Due to the generally smaller size of retailers in Taiwan, compared with their Western counterpart, purchasing market information will be onerous.

The financial constraint is particularly evident in voluntary chain convenience store retailers, who have limited financial resources due to smaller company size and limited contributions from franchisees. This constraint also limits their ability to

purchase information from professional institutes because the purchase is an expensive investment for them.

Though the state-owned research institute, e.g., the CCL of ITRI, assists retailers in the collection of market information, the information collected is still limited due to the technical problems mentioned above and due to the scope of data collection. For example, the CCL co-operated with 5 convenience stores to establish a just-in-time POS system to provide the detailed sales data of the 5 top convenience store retailers. This system is the first in Taiwan to provide detailed sales data of the Taiwanese convenience store industry but it does not cover the whole industry and the information collected is limited to sales figures.

#### **7.3.4.3. Social responsibility**

Hunt asserts ethical concerns also influence firms' profits. One example of the ethical concerns is retailers' sense of social responsibility. Most convenience store retailers were aware of their social responsibility from the beginning of their operations. The description of Company E manager provides evidence for Hunt's assertion:

*'...This is our philosophy; we have to give feedback to our society. As long as we can afford it, we will sponsor community activities, in terms of personnel, money and products.'*

Two interviewed retailers mentioned that they made a certain financial contribution to social responsibility purposes every year. Noticeably, smaller convenience store retailers mentioned that they preferred to make non-financial contributions, such as participation of their employees or product donations, to support community or charity events. Table 7-9 lists the answers of interviewed managers regarding their company policy of contribution to charity and community events. Interviewed managers mentioned that their companies donate certain amount of money to charity and community every year but, for most companies, the amount and occasions are contingent and decided by the General Managers.

Table 7-9 Contributions of retailers (including all formats) to charities or social events

Company	Amount	Note
A	0.1% of annual sales	
B	No fixed budget/ the amount varies by case and is decided by the General Manager	
C	Annual budget but no fixed amount	
D	No fixed amount	
E	From marketing budget but no fixed amount	Prefer to donate product than cash
F	Not specific and fixed budget	
G	No special budget and the donation is occasional	Prefer employees' participation to cash donation
H	The budget varies and depends on the decision of headquarters	Products preferred
I	Do not have any donation	The company is under restructure.
DA	The amount depends on occasion and is decided by the General Manager	
DB	Spontaneous donation/no fixed amount	
SA	Only for special occasions such as the big earthquake in 1999; the amount varies, depending on occasion	
SB	No specific amount	The decision is made at store level
HA	NT\$25million per year	Through a special foundation
HB	No certain amount; the amount must be decided by the General Manager	

Source: Interviews

### **7.3.5. Types and characteristics of resources**

#### **7.3.5.1. Nature of resources: heterogeneous and imperfectly mobile**

Retailers may develop similar competitive advantages though they own different resource assortments. For example, Company D does not rely on any international retailer's but still creates a strong market position (One of the top five among all convenience store retailers). Both Company A and Company D have retailer-brand products in the market but they have different sources of development expertise. Company A's knowledge comes from American and Japanese retailers, while Company D recruits R&D specialists in Taiwan and obtains assistance from its parent company. While all top three convenience store retailers are successful in retailer-brand fresh food development, their emphases are different. As mentioned

earlier, 7-Eleven Taiwan focuses on mealboxes, Familymart focuses on sandwiches, and Hi-Life focuses on cold noodles.

In terms of performance, not all convenience store retailers can achieve the same results, even though the successful operational methods are public knowledge. This is due to the imperfect mobility of resources. An example of imperfectly mobile resources is human resources. Though the staff of some smaller convenience store retailers are headhunted from 7-Eleven Taiwan and Familymart, they are not ready to blend into their new organisations immediately. As Company E pointed out:

*'The way they establish the business is, first of all, to head-hunt from other companies and then mix these outsiders with people from inside the organisations. After the new entity develops towards maturity, the outsiders may be phased out. In our company, the principle is the same. We create an attractive package to recruit professional managers from big retailers such as Makro and 7-Eleven. Their experience can help develop up to a certain stage. During this period, definitely we will assign our staff as associates. When the new business has developed to a certain stage, these outsiders may have conflicts with our organisation in terms of business philosophy and these associates have already learned the operational knowledge. They replace the management of outsiders and adjust according to the company's requirements.'*

Company H manager also stated that managers recruited from other companies have to go through a period of training to adopt its company culture:

*'...These supervisors have to work in Company H for around 6 months to a year to become familiar with the system of our parent company. The know-how from these supervisors has to be modified to fit to Company H,...*

#### **7.3.5.2. Types of resources**

Resources under R-A theory are classified as financial, physical, legal, human, organisational, informational and relational. Each helps retailers to produce efficiently and effectively a market offering that has value for some market segments. Based on R-A theory's classification, resources owned by Taiwan's convenience store retailers can be defined as follow:

- Financial: availability of capital from parent companies and from capital markets.

- Physical: distribution centres, plants, raw materials, and equipment (subsidiaries and other investment), information systems, stores
- Legal: trademarks (brands) and licenses
- Human: the skills and knowledge of individual employees, training and entrepreneurship of the senior management
- Organisational: controls, routines, cultures, and competence (know-how) – a competence for entrepreneurship
- Informational: knowledge about market segments, competitors and technologies
- Relational: relationships with competitors, suppliers and customers. Hunt classified this resource as an organisational resource.

Hunt, in R-A theory, particularly mentions the value of intangible resources such as legal, human, organisational and relational. Legal, i.e., trademark issues, and informational resources have been mentioned in previous sections. Here the discussion will only cover financial, physical, human, organisational and relational issues.

### **A. Financial**

Convenience store retailers interviewed have three major financial sources: parent company, profits, and the capital market, which consists of the stock market and the over-the-counter market. They may also obtain financial resources from private sources, e.g., banks in the same conglomerate. For example, when SJExpress was newly acquired by the Sino-Japan Group, it obtained financial backing from the Hwa-Lien Business Bank, a bank owned by the Sino-Japan Group<sup>P</sup>.

In Table 7-3, convenience store retailers can be divided into two groups, according to their financial strength at the end of the 1990s. Companies established before 1990, except Company E, have better financial performance and rely on profits or the capital markets to finance further development. These companies are either publicly listed or show great interest in going public. Company E and companies in the latter

two clusters in Table 7-3, i.e., chain convenience stores established after 1990, are either not independent entities or do not have the capability to go public yet.

The main reason of going public for these retail companies is to obtain capital from the stock market or the over-the-counter market. The market capital is an important financial source for these retailers' further expansion and continuing operations. Retailers use this money for more marketing campaigns, more product development and more improvement of efficiency in facilities, e.g., distribution systems. Company D manager explained the convenience store retailers' motivation for obtaining capital from markets:

*'Take Familymart as an example, once it becomes an over-the-counter market company, it can have NT\$2 billion more capital from the market. It can have more investment with this market capital. We estimate that you<sup>g</sup> now have NT\$ 1.4 million capital and you increase to NT\$2 billion. If you release 30-40 % of these shares to the market with a premium price, you can have more investment and promotion with the capital from the market.*

*Obtaining capital from the market is a 'must-do' when you want to enlarge your company.'*

However, before these retailers are listed in the stock market or the over-the-counter market, they have to meet certain criteria<sup>f</sup>. For example, one condition of becoming publicly listed in the over-the-counter market is staying profitable for at least three consecutive years. Larger convenience store retailers, i.e., retailers in the first two clusters in Table 7-3, have met these criteria and are enthusiastic about going public. In contrast, smaller convenience store retailers, i.e., voluntary chain or newcomers entering after 1995, are still struggling to reach the break-even point, though they also show interest in going public.

What are the possible sources of capital for these smaller retailers? The interview results show that the major financial support is from their parent companies. This is also for mandated/authorised franchise retailers. Even though the leading convenience store retailers are able to make profits and stand on their own feet, they also have a close relationship with parent companies regarding finance. A unique case is Company A. Company A invested in other retail business vigorously and its parent company is an important partner in the new investment.

Meanwhile, being listed on the stock market does not just mean access of capital, it is also a symbol of the retail company's stability and positive for the corporate image. As the manager of Company F mentioned:

*'It (being listed on the stock market) is positive for a company's reputation and facilitates our marketing campaign. Secondly, it is positive for a company's image.'*

## **B. Physical**

On average, the investment needed for a new convenience store is about NT\$ 2million, excluding some managerial costs (Company F Manager). Retailers may establish competitive advantage in physical resources such as:

- Point-of-Sales
- Cash registers for service products, e.g., bill payment services. Company F Manager mentioned the initial investment for bill payment services:

*'Take our bill payment service for example, we have to put extra NT\$30million investment for deposit. Taipower charges NT\$30million; the Chunghwa Telecom too. We have to invest on the machines to print our special receipts. The machine costs several thousand NT dollars each and we have to install the machines in all stores.'*

The investment in the equipment for POS systems and bill payment services is a barrier for smaller retailers to provide these services to attract customers.

## **C. Human**

Human resources for convenience store retailers have two levels of meaning: senior managers' insight for future market development, i.e., entrepreneurship, and the skills of employees at operational level. The former will be discussed in the section regarding the role of management; here the discussion focuses on human resources at operational level.

Due to company background and management, these retailers have some special features in their training programmes or human resource management at headquarters level (Table 7-10).

Table 7-10 Special features of each retailer's training and human resources at headquarters level

Company	Features
Company A	The turnover of managers is very low.
Company C	In-store CBT (computer-based training) Co-operation with job centres Co-operation with colleges
Company B	General training for headquarters staff; everybody has to spend 1-2 hours per week on these courses
Company D	Fundamental training: concept of retailing. Store managers and staffs working in the headquarters for about one year must receive this kind of training
Company H	Supervisors recruited from other companies have to work in Company H for around 6 months to a year to become familiar with the system in the parent company, due to its state-owned nature.
Company F	General Manager was a consultant from Japan and has 20 years convenience store management experience in Japan. HQ staff has computer training to simplify document flow.
Company E	Managers may have to handle several management functions at the same time

Source: Interviews

Tsai (2000) finds that human resource management is one of the influential factors for convenience store performance. The accumulation of human resources is mainly through training. Interviewed managers mentioned that training related to store management was particularly important.

Four mandated/authorised franchise chain retailers particularly pressed the importance of supervisor training and many interviewed managers pointed out why these training programmes of supervisors/store managers are important:

*'It is the most important because supervisors are the co-ordinators between the headquarters and stores.'* (Company A manager)

*'They are co-ordinators between headquarters and stores.'* (Company B manager)

*'To establish a solid ground for operation.'* (Company I manager)

*'...a way to accumulate human resources for frontline managers'...' The fundamental level is the most important; they represent corporate image.'* (Company D manager)

*'Store managers are the most important for a store's success.'* (Company H manager)

*'...Supervisors are the co-ordinators between headquarters and staff. Supervisors are responsible for teaching any know-how, instructions and short training to franchisees. If supervisors are weak, the company can not survive, no matter how capable the headquarters are; the communications between headquarters and stores are blocked.'* (Company F manager)

*'...they are important for our corporate image...'* (Company G manager)



Only two retailers had a different emphasis. Company C focuses on training of senior and middle level management now because it considers that it has established a solid foundation for store operations. Another retailer, Company E, does not offer regular in-store staff training because its headquarters have limited capability in personnel and programmes designed to provide well-planned training. It emphasises its tailor-made franchisee training instead. It also stresses the importance of store manager/owner meetings and regards them as training sessions:

*'Store manager meetings for all stores target store owners and managers. The purpose is to convey the company strategic direction and the trend of convenience store development. The focus of this training is on market trends, such as the introduction of mealboxes and the company's future development. Information about what we want to do and how we would like franchisees to co-operate with us will also be discussed in store manager meetings.'*...

The way of accumulating human resources for voluntary chains is very different from that of mandated/authorised franchise chains. Voluntary chain retailers have smaller headquarters and limited training sessions, when compared with mandated/authorised franchise chain retailers. Voluntary chain retailers also do not have the same investment, in terms of money and efforts, for training as mandated/authorised franchise chains. Compared with mandated/authorised franchise chain retailers, voluntary chain retailers are still weak in their training programmes.

#### **D. Organisational**

According to Hunt, organisational resources include controls, routines, cultures and competences. These are parallel to the following expertise of Taiwanese convenience store retailers:

- Methods of operation. Chain store operation is an inevitable development of the retail industry in Taiwan. However, there are some resource prerequisites to run a successful convenience store chain, such as enough stores to achieve scale economies, competent headquarters, a complete set of operational know-how, sound franchise systems, good information systems and efficient distribution

systems (The First Commercial Bank, 1997; The Commonwealth Magazine, 1999)<sup>8</sup>.

- Control of franchisees. The control of franchisees is also important for convenience store retailers in Taiwan because of the way which franchisees manage their stores may influence retailers' store image and bargaining power. The failure of Weichuan Chain Store and President Bakery Chain Store in the late 1980s and the failure of many voluntary chain convenience stores during the 1990s were due to the problems of controlling franchisees. The control of franchisees is based on mechanisms such as franchising contracts, the meetings with franchisees, newsletters and the supervision of store supervisors. The control of franchisees is more difficult for voluntary chains, compared with mandated/authorised franchise chains. In the interviews, voluntary chain retailers mentioned their difficulties in controlling franchisees:

*'This is difficult to control, but as long as they do not sell illegal things or do something against our contract, our supervisors will try to communicate with them. Under a voluntary chain, a store is registered under the owner's name, not headquarters. The relationship between a store and headquarters is based on the franchising contract.'* (Company G manager)

*'We always have to make efforts to persuade franchisees to accept our know-how and product display.'* (Company G Manager)

*'7-Eleven developed its business stage-by-stage and franchisees follow the headquarters' instructions. However, our franchisees may go their own ways, though headquarters ask them to co-operate.'* (Company E manager)

- Communication inside organisations. Communication happens through intra-organisational publications and the interaction between staff in the headquarters and stores. Intra-organisational publications educate both staff and franchisees. They also help staff and franchisees to understand the corporate philosophy and update the development of the company. Convenience store retailers such as 7-Eleven Taiwan, Familymart and Hi-Life issue internal newsletters to facilitate the circulation of information around the organisations and bridge the communication between the headquarters and stores. Another method of communication is through 'back-stage' staff's working inside stores; for example, 7-Eleven Taiwan and Familymart, two leading convenience store

retailers, established systems whereby headquarters staff have to work inside stores for a certain time to experience contact with customers and have real understanding of store operations.

## **E. Relational**

Except for strong ties with parent companies, convenience store retailers' relationships with other stakeholders can be classified as relationships with customers, with suppliers, with competitors, with franchisees and with other partners. Convenience store retailers' relationships with different partners are resources and these resources have influence on one another, i.e., the establishment of a resource is constrained by other resources. For example, the relationship with franchisees is related to a retailer's organisational resources such as control of franchisees.

### **E.1. Customers**

Retailers maintain good relationships with customers through two methods:

- Participation and sponsorships of charity and community events. Convenience store retailers were involved in community events because these events are important for maintaining good relationships with customers, besides the sense of social responsibility mentioned in Section 7.3.4. Therefore, many retailers were involved in these events as early as the beginning of their operations. Table 7-11 shows when convenience store retailers started their involvement in community events. Company A started its participation in community events after it made profits; other retailers' involvement in charity and community events normally started at the beginning of their operations.

Table 7-11 When retailers started devoting themselves in social responsibility?

Company	Year of establishment	Participation of charity/community events
Company A	1978	1988
Company C	1988	1988
Company B	1988	1991
Company D	1989	1991
Company H	1995	-
Company F	1990	1991
Company G	1995	1995
Company E	1990	1993
Company I	2000	-
Company DB	1990	1991
Company DA	1969	1969
Company HA	1989	1995
Company HB	1996	-
Company SA	1986	1988
Company SB	1988	1993

- Customer service mechanisms to ensure customers' satisfaction. These convenience store retailers have some mechanisms to collect customers' opinions and comments. Most convenience stores have customer service hotlines. Two voluntary chain retailers did not have a customer hotline but they mentioned customers might phone their headquarters directly, if any problems arise. Customers may also send comments directly to the stores or through the Internet. Other customer satisfaction mechanisms include a refund and exchange policy and the official quality assurance certificates mentioned in Section 7.3.2.1. These retailers also ensure quality through staff training and education programmes, operations manuals and regular and irregular store checks.

The good relationship is maintained mainly through these two methods. It then engenders a positive corporate image and indirectly facilitates further customers' patronage. Meanwhile, two retailers also mentioned the importance of speedy customer services. As a manager pointed out:

*'After we get a call from a customer, we will ask a local manager to contact the customer and then the related department will handle the problem. The most important is that the local manager has to contact the customer in person. Speed is the most important. If you are slow in customer services, you lose.'*

## **E.2. Suppliers**

To create and maintain successful store brands and retailer-brand products, convenience store retailers have close relationships with suppliers. Particularly in the second half of the 1990s, mandated/authorised chain convenience store retailers developed a special relationship with their suppliers - 'team-merchandising', the model of retailers' co-developing retailer-brand products with suppliers.

Suppliers here mean companies selling merchandise to retailers or co-operating with convenience store retailers in offering service products, e.g., film processing. Retailers' co-operation with suppliers, especially co-operation for strategic purposes, may take the form of product development, category management and co-operation of marketing campaigns/product promotion. Retailers may also ask suppliers to participate in their promotions or special marketing campaigns. For example, Company E mentioned that it looked for suppliers' sponsors in charity/community events. Since some convenience store companies are subsidiaries of food/drink manufacturers, they sometimes co-operate with parent companies to promote these food/drink products. Two examples are Company E in the interviews and Nikomart. Company E promotes its traditional snack products in its stores. Nikomart also had promotions of Taisun's products.

In product development or the supply of some important products, e.g., fresh foods, the power between retailers and suppliers is not balanced. Mandated/authorised franchise chain retailers include fresh food suppliers in their product development and have the power to ask suppliers to provide products exclusively. They may also invest in these suppliers directly or indirectly, and even intervene in these suppliers' management<sup>1</sup>. However, the degree of retailers' intervention in the operation of fresh food suppliers among these chain retailers varies. For example, Company A invests in suppliers while Company C stated:

*'The General Manager's view is that as long as I need this, suppliers must be able to provide but Company C will not be involved in any capital investment.'*

In contrast, voluntary chain or new convenience store retailers are confined by limited number of stores and lack of scale economies and thus are not able to cooperate with specific suppliers or to exert any control over their fresh food suppliers. These retailers' limited number of stores also prohibits them from negotiating directly with manufacturers, so these weaker retailers have to contact these manufacturers' local dealers instead:

*'When you do not have enough economies of scale, suppliers are not willing to deliver these products for you. It is not economical for both of us. This is a problem of insufficient number of stores. If you have enough stores, suppliers will visit you automatically. If you do not have store numbers, you are not able to absorb the deterioration (of fresh foods).'*

*'Because Company H does not have enough stores and a distribution centre, most of our suppliers are local dealers or vendors.'*

*'We do not contact these big manufacturers; we have to deal with their local dealers. 7-Eleven has a distribution company to integrate its purchasing and delivery and can order from manufacturers directly, but Company H has to order from local vendors and dealers and can not contact manufacturers directly;...'* (Company H manager)

*'We have a limited amount of fresh foods; we include 18°C products here. We will purchase the necessary facility (ambient control cabinets) and sell this kind of product in our stores. Our suppliers will develop this kind of product too because they have market potential. However, this is a pain for us because we do not have enough sales volume due to insufficient number of stores.'* (Company E manager)

For department stores, suppliers are also concessionaires due to the special nature of department stores in Taiwan (Chen, 2001). Both department stores did not mention any strategic alliances with suppliers. Interviewed hypermarkets did not mention their relationships with suppliers in detail. Company HA mentioned that it had cooperation with suppliers in developing retailer-brand products, while Company HB asked retailers to supply products such as cars and electronic appliances exclusively. As to supermarkets, in retailer-brand product development, Company SA simply asks suppliers to manufacture retailer-brand commodities for it, while Company SB includes suppliers in its detailed product development and co-operates with leading brand suppliers in category management.

The analysis here shows that the convenience store has the most complicated relationships with suppliers. Suppliers of the convenience store not only provide

merchandise inside convenience stores but some of them also act as partners in product development. Among the convenience store retailers, mandated/authorised franchise retailers have more bargaining power against suppliers or manufacturers than voluntary chain or new convenience store retailers.

### **E.3. Competitors**

A recent development of convenience store retailers' strategic alliances is the co-operation with competitors. Four convenience store competitors - Familymart, OK, Hi-Life and Nikomart – teamed up and established cvs.com.tw<sup>u</sup>. The joint venture is an e-commerce platform for Internet shopping. Besides the provision of e-commerce, cvs.com.tw is also an agent for these four convenience stores in the procurement of retailer-brand products<sup>v</sup>:

*'The main purpose of this joint venture is to facilitate the development of E-Commerce and new brands. Under the circumstances that these four companies can operate independently, for example, we co-purchase a retailer-brand pure water - Who cares? (Shei-kwon-Ni in Chinese). This is (our) the only co-operation with competitors.'* (Company C manager)

*'we four convenience store retailers source products together from suppliers. And we also hope to combine our bargaining power in product procurement and reduce (procurement) costs. Another function is to co-develop retailer-brand products'* (Company B manager)

The formation of cvs.com.tw not only helps these four retailers to combine their bargaining power in product procurement, it also helps these four retailers to counterbalance 7-Eleven Taiwan's strong market power.

Besides cvs.com.tw, two other strategic alliances related to product procurement and distribution were also mentioned in the interviews. One is between two small convenience store retailers - Company G and Company E - and the other is that of a smaller convenience store retailer, Company H, asking one of top 5, Company D, to order and distribute products.

The relationship with competitors shows that the co-operation with competitors helps retailers with weaker market positions and bargaining power to create strategic resources, which these retailers will not be able to create alone.

#### **E.4. Franchisees**

Chapter 6 mentioned that convenience store retailers expanded through three different franchise systems that had different types of headquarters-store relationships. While regular chain stores are 100% controlled by their headquarters, voluntary chain franchisees are responsible for their own performance (Table 6-5 and Table 6-6). To some extent, voluntary chain retailers even regard franchisees as customers (Company G, Company I and Company E Managers). As mentioned in the organisational resources section, control of franchisees would determine the success of a convenience store chain and voluntary chain retailers had a weaker control upon their franchisees and subsequent brand image. Therefore, voluntary chain systems find it hard to retain franchisees and are weaker in persuading franchisees to follow the headquarters' intervention.

#### **E.5. Other partners**

Besides co-operating with different partners mentioned above, convenience store retailers also co-operate with charity organisations in various charity and community events. In the interviews, these retailers also mentioned the following partners:

- **Distributors:**

Retailers, in any format, may invest in their distributors directly or through conglomerate parent companies. Alternatively they may co-operate with large distribution companies to meet their needs. Company A and Company B invested in their exclusive distribution companies. Company F's and Company SA's products are distributed by independent distribution companies invested in by their parent companies. Retailers such as Company DB and Company HA, as well as some convenience store retailers, outsourced their distribution from large independent distributors.



- **Media:**

Company A, Company D and Company SA emphasised the importance of PR and their relationship with the press.

- **Advertising agency:**

In retailer brand product development, an advertising agency is important in branding and package design.

- **Banks:**

Convenience store retailers from 2000 are installing ATM machines inside stores on a large-scale basis to attract more customer visits. Company DB co-operates with an international bank to collect customers' information and has co-promotion campaigns with other banks. Company HA co-operates with a French bank to operate its store brand credit card, while Company HB co-operates with a local bank to issue member credit cards.

Other co-operations are also established to provide more customer services:

- Pelican/Takkyubin express home delivery service
- UPS/DHL international express delivery services
- Film processing/Laundrette services
- X-Media for electronic bulletin board
- Bill payment services for various companies, such as Chunghwa Telecom, TaiPower, parking companies and so on.
- E-tailers

The co-operations mentioned here are based on interview results but not exhaustive because convenience store retailers are planning to provide more non-traditional convenience store services by co-operating with these service providers.

### **E.6. Reasons for different types of co-operation with different partners**

The co-operation model of each retailer with its partners is a complicated issue. When asked the reasons for different formats of co-operation, retailers that have co-operated with other companies pointed out they have different co-operation models for several reasons:

- The nature of products (and services) and a company's strategic considerations caused the different arrangements: for example, some retailer-brand products such as umbrellas and matches are generic and a convenience store retailer sources these products from the market. Fresh foods are strategic products and a convenience store retailer will establish long-term relationship with suppliers of these products.
- Company's capabilities: a retailer has limited resources and thus out-sources some functions. For example, Company G and Company H are not large enough to establish their own distribution centres and thus asked competitors or professional distribution companies to deliver their merchandise.
- Partners' conditions and power: a supplier of retailer-brand foods such as steam buns may be a market leader and thus has stronger bargaining power against a convenience store retailer or has strong product development capability. Under these circumstances, a retailer will source the product but not intervene in the partner's product development process.

### **7.3.6. The role of management**

Hunt points out that, in R-A competition, senior managers play an important role in guiding a firm's strategy and opportunity.

In Taiwan's convenience store industry, senior managers, i.e., the General Manager, the Vice General Manager, CEO, and the Board of Directors, play important roles as gatekeepers regarding two major decisions inside companies:

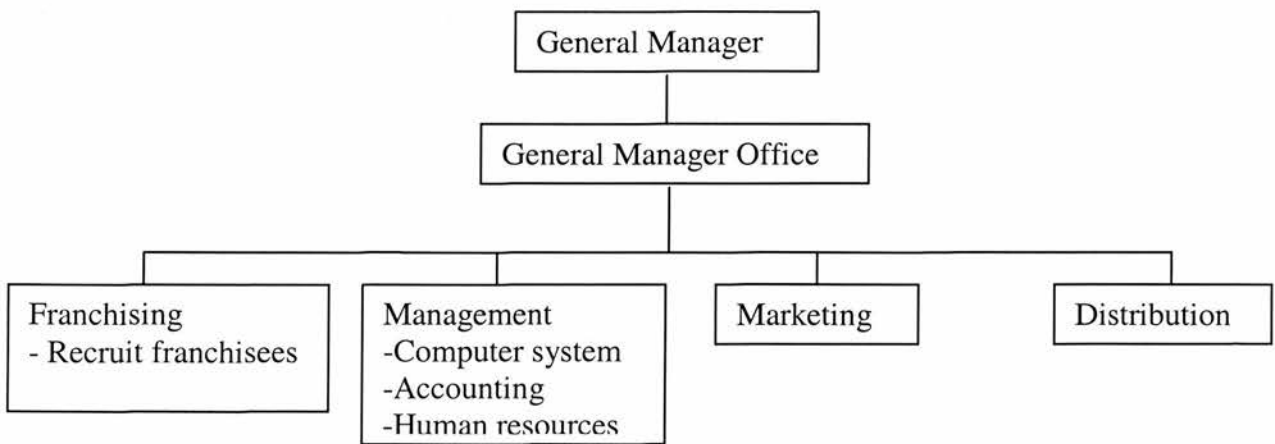
- Future direction of company development
- Future growth, both for financial and non-financial indicators

For example, the success of 7-Eleven Taiwan was due to the insight of the CEO of President Enterprise, Chin-Yen Kao, and strategies formed by the 7-Eleven Taiwan management team (Lee, 1999). Though facing huge losses before the mid-1980s, 7-Eleven Taiwan survived because Kao persisted in the strategy of maintaining a directly controlled channel for the products of President Enterprise and because the 7-Eleven Taiwan management team established and accumulated a solid and

successful expertise. Another example of distinct management is from Hi-Life. Hi-Life was established without the support from international retailers. In a case study of Hi-Life, Wang (2000) mentioned that the General Manager played an important role in the creation and accumulation of company know-how.

Therefore, as Hunt points out, the role of management is more important than defined by traditional economics theories such as perfect competition, which consider managers can only accept market conditions passively.

The CEOs or the General Managers have a strong influence on the companies' strategic decisions and performance. In particular, the senior managers of the voluntary chains, normally come from the families investing in these retail companies and are clear about what resources their companies have. They ensure the security of the retail company's financial sources and are more influential in decision making than the investors of larger retailers, e.g., mandated/authorised franchise chain retailers, which are managed by professional managers. Figure 7-1 illustrates the organisational structure of Company E in 1999<sup>w</sup> (Company E re-structured its headquarters from 2000). Company E is a private family-owned business; its CEO and General Manager are from the family investing the company.



**Figure 7-1 The organisational Structure of Company E in 1999**

Company E manager mentioned the General Manager’s role in leading its company’s development:

*‘The General Manager and senior managers of all SBUs discuss the strategy of the whole company. The top level of management is a “golden triangle”. The bottom level of this golden triangle collects information and the General Manager makes the final decisions, such as investment and R&D. If the General Manager is not happy with our proposal or an investment takes too long, or he thinks a project is not our priority at this moment, he will make comments. This style of strategic planning has pros and cons. If our General Manager makes a wrong decision, the whole organisation will be misdirected....’*

*‘We just take responsibility for our own jobs and he is responsible for the whole business. Our mission is perpetual operation, but we still do not have enough capability; so if we make any loss, as long as he can afford it, he will still support us. This is a purely family business. However, we will not be able to do this once we become a public company....’*

Mandated/authorised franchise chain retailers associated with international retailers operate on a franchising basis but international retailers - franchisers that grant licenses to these local convenience store companies – are not involved in the operation of most convenience store retailers directly. The role of international retailers is to provide know-how and new ideas in product and service development. Most senior managers of these convenience stores are Taiwanese (Table 7-12). Only Company B in Table 7-12 has representatives from its Japanese parent company because it is a joint venture business. However, Company B’s operation is localised to suit the Taiwanese market. Company B Manager explained the reason:

*‘The problem of importing know-how from Japan is that we have a different cultural background from Japan, so it is difficult to implement’.*

Table 7-12 The Nationality of the CEOs and the General Managers of convenience store companies associated with international retailers

Company	Source of know-how	Nationality of the CEO and the General Manager
A	America/Japan	Taiwanese
B	Japan	Japanese/Taiwanese
C	America	Taiwanese
D	Pure local	Taiwanese
F*	Japan	Taiwanese/Japanese

*\*Though the General Manager of Company F is Japanese, Company F’s operation is an totally independent business and does not rely on the know-how from its original Japanese affiliate at this moment.*

Strategies are reviewed and revised on a frequent basis due to the rapid change of the retail market; the review period can be from one week to one year. Eight convenience store retailers pointed out that they normally have short-term and medium-term plans but no long-term plans. Normally strategies for the coming year are planned a quarter ahead and are reviewed every quarter or even every month. This is due to frequently changing features of the retail market in Taiwan. As two interviewed managers point out:

*'It (Long-term planning) does not make sense. Unless (you are in) the manufacturing industry (and) have long-term investment. The retail industry changes quite fast; so we only have medium term planning (5 years).'* (Company A manager)

*'The strategies are reviewed and modified regularly because market situations change frequently.'* (Company G manager)

These statements also reflect the imperfect nature of information. The market situation changes frequently and managers are not able to obtain enough information for long-term planning and project an optimal long-term plan.

### **7.3.7. Competitive dynamics**

Hunt's assertion regarding competitive dynamics focuses on two issues:

- Environmental factors, particularly the structure of the industry, only influence, not determine, the conduct and performance of a firm.
- Firms in the same industry will pursue different strategies.

#### **7.3.7.1. Competition and environmental factors**

To create superior performance and pursue further growth, convenience store retailers in Taiwan not only follow the change of consumers but also proactively influence customers' attitudes and shopping behaviour. As the manager of Company D pointed out:

*'We introduce a new consumption concept to consumers and consumers guide us to introduce the products they need. For example, it is fresher, cleaner and more hygienic to buy cold noodles in convenience stores.'*

*'I think you can lead consumers in the direction you wish; they are very flexible.'*

Company A manager provides another evidence of Hunt's assertion concerning the relationship between a firm/an industry and its environment:

*'You have to be involved in product development,...'*

*'...You can not raise the price (of a product), so how can we increase the percentage of gross profits? We have to continuously introduce new products. The added value of a new product is unbeatable. Another method is to create an industrial standard and to improve the efficiency along the supply chain, from raw material to distribution.'*

Strategic movements of convenience store retailers also influence other industries. For example, the price war over mealboxes (Bentos) among convenience stores influences the lunchbox market in Taiwan. Many incumbents in the lunchbox market are forced to reduce prices (Yeh, 2002; Wu, 2002). Therefore competition within the convenience store industry has a 'spillover' effect – it influences the conduct and performance of the other industries. Company A manager explained that the convenience store substituted for the news agents to provide published products for consumers in Taiwan and it is invading other product markets:

*'...And we are beginning to compete with other retail business and retail formats; for example, now there is no news agent in Taiwan, no traditional grocery store. Now we have head-to-head competition with Mei-Uhr-Mei (a breakfast chain); so finally convenience stores may substitute for Mei-Uhr-Mei and night markets and then cafeterias in the future.'...*

In other words, convenience store retailers are 'invading' the markets of other retail businesses and even influence the survival of other retail business. This phenomenon also implies that, by re-defining its competitors, a convenience store retailer may change the structure of the industry it perceives. The statement of Company G manager supplement this claim:

*'We will classify... From the network expansion point of view, we face the problem of persuading a franchisee to join us; this is another definition of competition. If a place has a supermarket nearby, ...as long as it is a retail business, it will be our competitors. A hypermarket is less possible to be our competitor, but a supermarket and other convenience stores are definitely our competitors.'*

*'It depends on region. For example, in the south, J-Young is a major competitor. In the near future, Everyday of I-Mei will be potential competitor in the North and central Taiwan. It (Everyday) focuses on voluntary chain.'*

Therefore, instead of being constrained by the structure of the industry, convenience store retailers can re-define the structure of the industry, within which it locates. It can create new resources and competitive advantage by shifting the boundary of the industry and examining its market position in a different way. This statement means that the structure of the convenience store industry is flexible, depending on how a convenience store retailer defines its competitors. In addition, by changing the definition of competitors, convenience store retailers can possibly find potential directions of resource creation and accumulation.

### **7.3.7.2. Diversified strategies**

In the interviews, retailers of all formats expressed their strategies for the near future. These retailers pursue different strategic goals through various methods. Interviewed managers mentioned future strategic planning in the following aspects:

- Increased market share
- Expansion, market development
- Product development
- Diversification

In terms of market expansion, except Company A, convenience store retailers mentioned they would open more stores (through franchise and voluntary chain systems). However, the locations for further expansion will not be traditional locations. These retailers are seeking store expansion in places such as schools, large office complexes and holiday destinations.

The market is also expanded beyond the present geographical area, demographic targets and business scopes. For example, company A said it would expand through internationalisation and through the retail SBUs of its parent company. Company D mentioned it was invading supermarkets' target markets, e.g., housewives.

Besides market expansion, other strategies mentioned in the interviews are summarised in Table 7-13.

Table 7-13 The difference of strategies between mandated/authorised franchise chain and other chain convenience store retailers

Mandated/authorised franchise retailers	Other chain convenience store retailers
<ul style="list-style-type: none"> <li>• New product development, e.g., fresh foods</li> <li>• E-commerce, e.g., online shopping</li> </ul>	<ul style="list-style-type: none"> <li>• Economies of scale in product procurement</li> <li>• Building distribution systems</li> <li>• Office automation (including the distribution system)</li> </ul>

Source: interviews

Table 7-13 shows that while mandated/authorised franchise chains develop towards more sophisticated strategies, other chain retailers interviewed still focus on building infrastructure, i.e., distribution systems and consolidation of merchandising procurement.

As to other formats, retailers mentioned the following strategies regarding future development:

Table 7-14 Strategies of different retail formats

Format	Strategic goals
The department store	Strategy: increasing market share Company DA method: opening new concept stores with a shopping mall style Company DB method: developing new products for customers
The hypermarket	Company HA (market leader): solidification of its market presence and continuous expansion through increasing customer loyalty and improving price competitiveness and service quality Company HB: increasing market share through opening more new stores
The supermarket	Increasing market share, expanding to new markets and developing retailer-brand products

Source: interviews

The discussion regarding convenience store retailers' strategies and Table 7-14 show that all retailers focus on increasing market share but different retailers have different approaches to implement this strategy. The difference is due to the retailers' differences in formats and target markets, market positions, and methods of network expansion and related resources:



- Resources available for a retailer, e.g., mandated/authorised franchise chain convenience store retailers and voluntary/regular chain convenience store retailers in the interviews have different resource assortments. Thus mandated/authorised franchise convenience store retailers pursue more advanced strategies, e.g., e-commerce and product development, while voluntary chains still focus on the infrastructure, e.g., distribution centres.
- Retail formats. For example, the department has a longer history than the hypermarket and thus the department store pursues future growth through novelty in product and services, while the hypermarket focuses on increasing the market presence through opening more new stores.
- Market position of a retailer. For example, Company HA and Company HB have different market positions and different concerns in their strategies. Company HA is a market leader and thus put more emphasis on the retention of customer loyalty, while Company HB plans to open more stores to increase its market presence and economies of scale.

The analysis here means that, although retailers have similar goals, they will pursue this goal through different strategies. The differences in formats, historical backgrounds and formats influence resources available to retailers and the methods to achieve strategic goals.

#### **7.4. Summary**

The analysis in this focus on competition and strategic concerns of the retailers in the general merchandise retail industry in Taiwan and the discussion leads to the following conclusions:

##### **7.4.1. The development of the convenience store industry in Taiwan cannot be explained by some traditional theories of retail development**

The discussions in this chapter show that, as summarised in Chapter 5 and Chapter 6, the development of the convenience store industry in Taiwan does not follow the pattern of the traditional theories of retail format or organisational change.

The analysis shows that convenience store retailers are strongly influenced by environmental factors, such as conglomerate strategy and consumer changes and, at the same time, the industry influences these external factors. The development of the convenience store industry is a product of conglomerate strategy and consumer difference leads to the diversity in the retail market. Though environmental theories may explain the influence of external factors, they cannot explain the phenomenon that the convenience store influences conglomerates and consumers. Though conflict theories may explain the interactions between retailers, they do not include the external factors' influence. The frequently cited cyclical theories also cannot explain the emergence and development of the convenience store. Though retail formats such as the large-scale department store, the supermarket and the hypermarket developed in the 1990s, they are not substitutes for the convenience store because these formats focused on different customer needs.

The premises of R-A theory explains the interaction between the convenience store industry and external factors, the market situation and resources utilised in convenience store competition and, therefore, is a better framework.

#### **7.4.2. The premises of R-A competition explain the market situation in the convenience store industry in Taiwan**

The discussion shows that, in general, the development and market situation of the convenience store industry in Taiwan satisfy Hunt's premises of competition. Therefore, R-A theory is a viable alternative to explain competition in the convenience store industry in Taiwan.

Firstly, target consumers of convenience store retailers are heterogeneous. Even though customers of the same format have a certain degree of consistency, they differ among different geographical areas and among different demographic groups. Moreover, consumers' tastes keep changing over time and retailers have to introduce new products, new services and new image continuously to keep their novelty to customers. Thus consumers are an important factor of pushing the convenience store industry's development.

Convenience store retailers' major concern is still financial performance but different convenience store retailers have different emphases, based on the company managers' judgement or the retailer's corporate culture.

The analysis of the interviews shows a non-financial indicator – the number of stores - is a very important index for the convenience store industry. There are two major reasons for the retailers' concern about the number of stores. One is the unavailability of other statistics, e.g., profitability of individual companies, for comparison. The other is retailers' strategic concern of occupying good store locations as quickly as possible and the number of stores is a strong indicator of a retailer's presence in the market.

In terms of market information, convenience store retailers in Taiwan normally have to make decisions using limited information. This is the norm in the industry – retailers are not open to disclosing sensitive sales or profit figures. Retailers can only obtain partial market information also because of retailers' financial and technical limitations. The limited information constrained retailers' capabilities of making optimal decisions.

The results of the interviews also show that three resources for convenience store retailers are particularly important because they influence the establishment of other resources. These are financial resources, organisational resources (e.g., methods of network expansion and control of franchisees) and human resources. Financial resources influenced the establishment of distribution centres, network expansion and advertising. Organisational resources such as methods of network expansion and control of franchisees will influence the store image. The human resources such as senior managers' insights will influence a retailer's future development, while training influences a retailer's know-how accumulation and store quality.

### **7.4.3. The differences exist between mandated/authorised franchise and voluntary/regular chains**

The discussion in this chapter shows the obvious differences between mandated/authorised franchise chains and voluntary/regular chains. The differences are particularly evident in three resources mentioned in Section 7.4.2, i.e., financial, organisational and human resources. The analysis of interviews shows that mandated/authorised franchise chain retailers have a comparative advantage in these three resources, compared with the rest of chain convenience store retailers. For example, in terms of finance, mandated/authorised franchise chain retailers have 'wealthier' parent companies and are more profitable than voluntary chain retailers. In terms of organisational control, the former have more control among franchisees, compared with voluntary chain retailers. Mandated/authorised franchise chain retailers also have a more solid human resource pool and systematic training programmes, compared with voluntary chain retailers.

The difference between these two groups also appears in their strategic directions. While mandated/authorised franchise chain retailers develop more advanced strategies, voluntary/regular chain retailers still focus on infrastructure. The difference is caused by the imbalance in resources and means that the latter are slower in reacting to competition. Voluntary/regular chain retailers, in order to catch up in competition, have to seek the improvement in resources, particularly the three resources mentioned above.

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#### **Notes**

<sup>a</sup> Company B's local shareholders changed in 1998, after the financial crisis of the original local parent company. Now the major local shareholders of Company B are local food and drink conglomerates.

<sup>b</sup> Company G's predecessor was established in 1990 and expanded through a voluntary chain system.

<sup>c</sup> Company H is state-owned; it is a department of a state-owned conglomerate. Though Company H defined itself as a mini-market, it quite often is included in the discussion of the convenience store, so it is classified as a convenience store in this research.

<sup>d</sup> Company I originally was established in 1991 and expanded through a voluntary chain system.

<sup>e</sup> 67% of Company HB shares were sold to a French retailer at the end of 2000.

<sup>f</sup> Company B became publicly listed from 2002.

<sup>g</sup> There used to be franchising stores in the supermarket and the hypermarket but they were rare cases. The interviewed companies in this research all expand through corporate chain systems.

<sup>h</sup> These three types are the store for all customers, the store for organisational customers, and the store exclusive for members. Kao (2000) considers the hypermarket has four types: the general merchandise store, the wholesale store, the hypermarket and the warehouse store.

<sup>i</sup> Under these circumstances, franchisees are regarded as convenience store retailers' customers as well.

<sup>j</sup> These people are vaguely defined as 'the working group', or 'Shang-Ban-Zu' in Chinese

<sup>k</sup> The way consumers approach a convenience store varies in the northern, the central and the southern Taiwan (Table 7-15; Huang, 1998).

Table 7-15 Consumers' ways of approaching a convenience store

Year	1996			1997		
	Northern	Central	Southern	Northern	Central	Southern
Walking	83.7	40.9	48.7	83.2	50.4	49.4
Motorcycle	10.9	37.8	37.0	8.9	30.9	33.4
Auto	4.2	9.4	6.3	4.3	11.4	6.1
Bike	1.3	11.0	7.4	2.0	6.5	10.6
Bus	0.0	0.8	0.0	1.7	0.0	0.0
Other	0.0	0.0	0.5	0.0	0.8	0.6
Total	100	100	100	100	100	100

Source: *Convenience Store Magazine (1997) TCR Survey.*

<sup>l</sup> 7-Eleven Taiwan website.

<sup>m</sup> The GSP, or Good Store Practice, was introduced in 1996. The purpose of GSP is to provide an incentive for retailers to maintain overall store quality. Currently there are 21 types of retail businesses, including the convenience store, under the GSP's scrutiny.

<sup>n</sup> How many stores each headquarters staff supports.

<sup>o</sup> The Ministry of Economic Affairs co-operated with the CCL of ITRT in developing the 'Joint Sales Information System'. So far there are 6 convenience stores participating in the system: Company A, Company B, Company D, Company F, Company C and Company G. The system is a pioneer in Taiwan and provides these retailers with just-in-time information regarding sales.

<sup>p</sup> The Economic Daily News, 19, Jan., 1995.

<sup>q</sup> Here the manager means 'Familymart'.

<sup>r</sup> They must maintain the growth of net profits for three consecutive years.

<sup>s</sup> Commonwealth (1999) Top 1000 - The Best Enterprise in Taiwan's Service Industry. <http://www.cw.com.tw/t1000-99/analyze03.htm>

<sup>t</sup> However, Company A mentioned that the reason for investing in suppliers in fresh foods development is that many of the resources that Company A needs for fresh product production are not available in Taiwan and its present suppliers do not want to make a risky investment. 7-Eleven Taiwan and Familymart also encounter some problems with their suppliers in fresh food development, such as the speed of product development and suppliers' capability to produce products following the specifications required.

<sup>u</sup> The Taiwan Economic News, October, 18, 2000

<sup>v</sup> cvs.com.tw; The Taiwan Economic News, October, 18, 2000; [www.taiwanheadlines.gov.tw](http://www.taiwanheadlines.gov.tw)

<sup>w</sup> This is a previous organisational structure before Company E re-structured its headquarters in 2000. However, the present General Manager is still from the family investing in Company E.

## Chapter 8

### **The Evolutionary Process of the Convenience Store Industry in Taiwan under the R-A Competition diagram**

#### **8.1. Chapter overview**

Chapter 7 examined the market situation of the convenience store and concluded that the development fitted the premises of R-A theory. This chapter will discuss the evolution of the convenience store industry in Taiwan, based on the revised R-A Competition diagram (Figure 3-4) and provide a systematic analysis to the development of this industry.

First of all, the stage by stage development of the convenience store in Taiwan will be reviewed. Each stage will start from innovations and organisational learning, which trigger the competition. The external factors, which influence competition in the convenience store industry, will be explained. Competitive process and comparatively advantageous resources in that specific stage will be mentioned. Then the discussion of the market positions and financial performance of convenience store retailers will close each stage.

Secondly, the nature of the competition in the convenience store industry is discussed; in other words, why the process is evolutionary, what the influential factors of comparative advantageous resources are, and the pattern of resource accumulation are discussed.

Finally, what outcomes convenience store competition in Taiwan brings about at this moment will be discussed.

## **8.2. Stages of the convenience store industry development in Taiwan**

The discussions in Chapter 3 mentioned the emergence and decline of retailers, the proactive innovations, and generative organisational learning signal a new period of competition. Based on this conclusion and discussion of the convenience store development in Chapter 6, the development of the convenience store industry in Taiwan to date went through four distinct stages:

- 1977 – 1988: pioneers' market test
- 1988 – 1995: building the foundation, such as information systems and distribution centres, and framing the industry
- 1995 – 1999: elaboration of competitive resources, e.g., the POS systems and retailer-brand products
- 1999/2000 – to date: expanding beyond core business to support core business

There are 2 – 3 years overlap between two consecutive stages.

### **8.2.1. The first stage: 1977– 1988, pioneers' market test (Figure 8-1)**

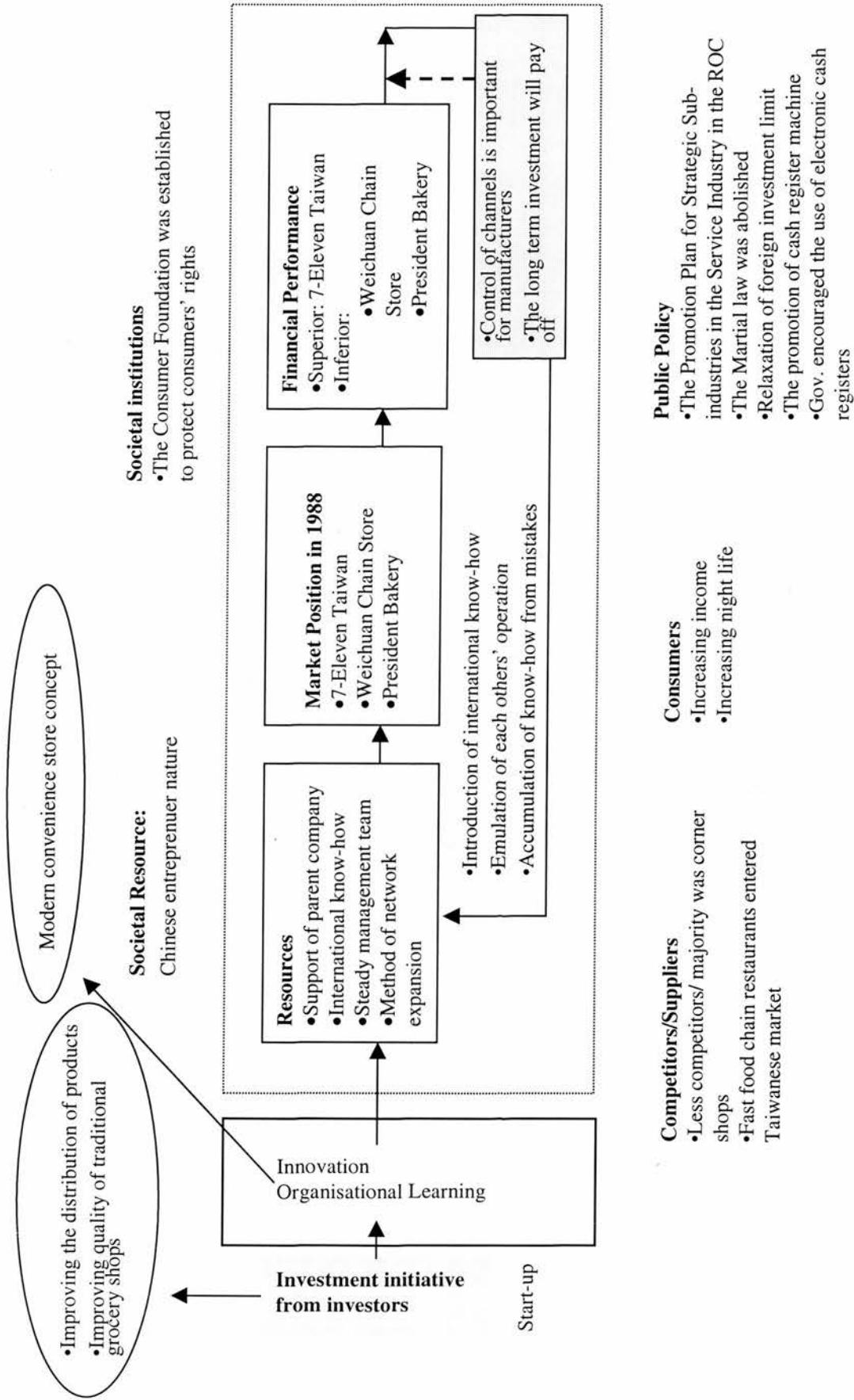


Figure 8-1 The first stage competition in the convenience store industry in Taiwan



### **8.2.1.1. Start-up**

This stage started with the opening of 16 modern grocery stores, named as China Youth Store, established by the China Village Rejuvenation Joint Committee, and the establishment of the President Chain Store Co., Ltd. by President Enterprise in 1977. These two attempts can be regarded as proactive innovation and generative organisational learning of the convenience store concept in Taiwan. The innovation was due to the government's policy of improving traditional grocery stores and food/drink manufacturers' seeking a new method of controlling product distribution.

However, both companies suffered from huge losses due to the lack of retail experience. Thus the China Youth Store Corporation, without further government subsidies and capital injection, was sold to the Weichuan Group. The President Chain Store Co., Ltd. lost its independence and became a department in President Enterprise. The failure of these two attempts prompted these two food conglomerates - President and Weichuan - to seek international retail know-how. Consequently the concept of the chain convenience store were imported from Southland in the USA and from Zennisyoku in Japan.

Both companies - President Enterprise and the Weichuan Group - sensed the opportunity of distributing their products via a new channel. Thus the establishment of the President Chain Store Corporation and the China Youth Store Corporation, together with the establishment of President Bakery mentioned in Chapter 6, can be regarded as the result of generative organisational learning and proactive innovation of their parent companies. Both conglomerates later learned, from the performance of the President Chain Store Corporation and the China Youth Store Corporation, that their offers did not satisfy consumers and they needed new methods for survival. Then they imported international know-how. Thus the transformation of the China Youth Store to Weichuan Chain Store and the import of 7-Eleven and Zennisyoku know-how can be regarded as the result of adaptive learning.

### **8.2.1.2. External factors**

During this period, Taiwan experienced the following important changes:

In the early 1980s, the Taiwanese government drafted 'The Promotion Plan for Strategic Sub-industries in the Service Industry' to encourage the development of 14 sub-industries in the service industry<sup>a</sup> (The Economic Daily News, 1991). The purpose of this plan was to provide companies which have market potential and which sells daily necessities or services with the following services:

- Business diagnosis. The government assigned specialists to conduct organisational diagnosis for a client, to find out the problems, and then to provide ideas for improvements.
- Design of business. The government provided advice regarding business structure, format, scale and operational plans.
- Consultancy. The government provided companies with the assessment of investment, the training of personnel, the design of software and hardware, and the design of marketing information systems.

The government also provided companies with assistance in the following aspects: financing, investment incentives, and marketing.

**1980** The Consumers Foundation, Chinese Taipei (CFCT; [www.consumers.org.tw](http://www.consumers.org.tw)) was established. The purpose of this non-profit organisation is to promote and protect consumers' rights through consumer education, research and lobbying; this organisation plays a role as a societal institute to ensure retailers' fair trading. A recent example is the investigation among the department stores in Taipei City in 1998 to understand these retailers' customer satisfaction, labelling, services, hygiene and safety.

**1984** McDonald's, Kentucky Fried Chicken and Wendy entered the Taiwanese market. This prompted 7-Eleven Taiwan's development of fast foods.

**1986** Government revised 'The Statute for Investment by Foreign Nationals', announced 'The Negative List for Investment by Overseas Chinese and Foreign

Nationals', and reduced restriction on foreign exchange. The purpose of these changes is to encourage international companies to invest in the service industry.

**1986** The Ministry of Finance instructed retailers to use cash registers to produce uniform invoices for customers' purchase. The Ministry of Finance provided discounts for the purchase of blank uniform invoices and offered 10% tax allowance for retailers following this policy. This policy forced retailers to invest in cash registers but brought them the following advantage: saving on taxes, having better inventory management and producing better accounting reports.

**1987** Government abolished Martial Law and consequently the opening hours of stores became more flexible. Before the abolition, the 24-hour opening of convenience stores was illegal and retailers would get fined<sup>b</sup> if the stores in their chains were opened after mid-night.

**Other external factors:** Taiwanese had more nightlife, following the economic development.

### **8.2.1.3. Competition process and comparative advantage**

#### **8.2.1.3.1. Competition process**

As mentioned in Chapter 6, from 1978 to 1989, Taiwan's convenience store industry was a battlefield for 7-Eleven Taiwan and Weichuan Chain Store. The competition existed in the fact that both retailers and their conglomerate parent companies emulated each other's operations through this stage (Lee, 1999). For example, Weichuan's entry of the convenience store industry was partly influenced by President Group's investment in 7-Eleven Taiwan (Ho, 1986).

Both chain stores had the following common resources:

- Backed by local large food conglomerates. 7-Eleven Taiwan obtained support from the President Enterprise Corporation, while Weichuan Chain Store obtained support from the Weichuan Group.
- Financial and logistic support from parent companies. For example, the President Chain Store made huge losses in the initial three years - only half of the original NT\$190million investment left. President Enterprise thus bought back

President chain stores from other shareholders through exchange of shares. The Weichuan Group invested NT\$8million in the China Youth Store Corporation and transformed the company to Weichuan Chain Store. The Weichuan Group also invested a distribution centre in 1983 to distribute products for the stores of Weichuan Chain Store.

- International know-how. The President Chain Store obtained know-how from 7-Eleven in the USA and Weichuan from Zennisyoku in Japan

At the same time, both retailers differed in the following aspects:

- The expansion of 7-Eleven Taiwan was purely through a regular chain (or corporate) system, while Weichuan Chain Store expanded through a voluntary chain system.
- Through the voluntary chain system, Weichuan Chain Store expanded rapidly to 100 stores in 1984. 7-Eleven Taiwan did not reach the same number of stores until 1986 because, before then, its corporate chain system expanded very slowly and had huge losses.
- Another difference between Weichuan Chain Store and the 7-Eleven Taiwan was the management team. The 7-Eleven Taiwan was managed by professional managers, while members of the Huang family that owned the Weichuan Group led Weichuan Chain Store. Meanwhile, the senior managers of Weichuan Chain Store were changed frequently, especially after the establishment of the Sungching supermarket.

After 1986, the market situation for Weichuan Chain Store and 7-Eleven Taiwan changed. The management of Weichuan Chain Store was weakened due to too rapid expansion and the shift of the Weichuan Group's focus from the convenience store to the supermarket business. Loose control among the franchisees of this voluntary chain also led to this chain's failure. Finally, weak management and discontinuous investment in resources caused the collapse of Weichuan Chain Store. On the contrary, 7-Eleven Taiwan started making profits from 1986; it was spun off from President Enterprise and became an independent subsidiary again from 1987. Since 1987, 7-Eleven Taiwan gradually built up its solid hold in Taiwan.

### **8.2.1.3.2. Comparative advantageous resources**

Based on R-A theory, 7-Eleven Taiwan has comparative advantages over Weichuan Chain Store in the following resources:

- Organisational: control of stores, management of professional managers and steady growth. 7-Eleven Taiwan's corporate chain system had more controls, e.g., on service quality, among stores and is more conducive for the accumulation of operational know-how, compared with a voluntary chain system. In terms of strategy and store operation, 7-Eleven Taiwan emulated 7-Eleven in the USA, applied international know-how, adjusted positioning strategy, developed fast foods and established 'COS' (the Chain Operation System) to standardise store operation model. This model ensured 7-Eleven Taiwan's stores were opened with consistent quality. Besides the COS, 7-Eleven Taiwan also produced a manual for standard shelf display (Lee, 1999).
- International know-how: know-how such as store management, catchment area assessment and concept of services from Southland in the USA.
- Parent company's resources/support: financial support and vision of the CEO and the General Manager. As mentioned above, the loss-making 7-Eleven Taiwan was bought back and established as a SBU of President Enterprise in 1982. 7-Eleven Taiwan continued to make a loss until 1985. During this loss-making period, 7-Eleven Taiwan was still supported by the General Manager of the President Enterprise - Kao, Chin Yen (Now Chairman of 7-Eleven Taiwan) (Lee, 1999).

In comparison with 7-Eleven Taiwan, Weichuan Chain Store had the following two weaknesses:

- Members of the Huang family controlled Weichuan Chain Store and the core managers were rearranged to work for Sungching, the new supermarket business. Thus the preference of non-professional managers and the sudden withdrawal of management weakened Weichuan's convenience store business.
- Weichuan Chain Store used a voluntary chain system, which had weak control over franchisees and thus had difficulties in maintaining the whole system and

consistent store quality. The weakened management and franchisees' non co-operation finally led to its failure.

#### **8.2.1.4. Market positions and financial performance**

The outcome of competition between 7-Eleven Taiwan and Weichuan Chain Store closed the first stage of convenience store competition in Taiwan: 7-Eleven Taiwan established its market leader position, while the expansion of Weichuan Chain Store ceased. Weichuan Chain Store gradually phased out its voluntary chain stores and opened a new corporate chain - Chuenching stores, which had the size of 60-65 pings on average. Another chain store established by the President Enterprise Corporation, President Bakery Chain Store, also encountered franchisees' co-operation problems in store management and had difficulties in controlling franchisees. In 1986, President Bakery encountered a food poison crisis and decided to transform this loss-making bakery chain into a convenience store chain.

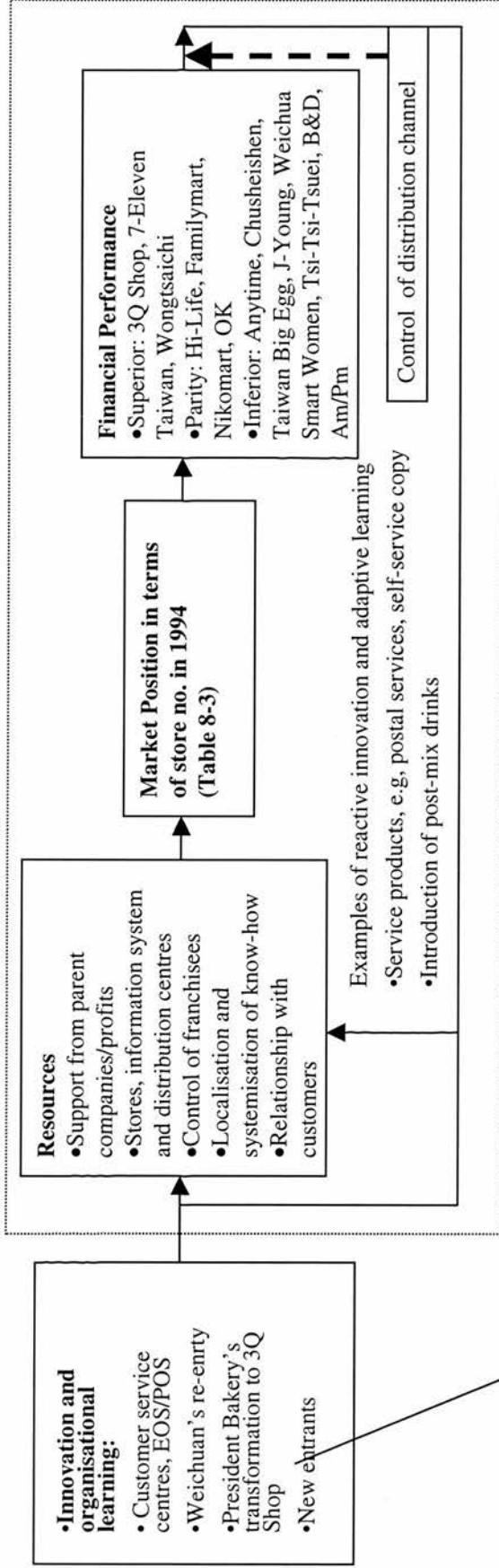
7-Eleven Taiwan's success attracted new entrants. Other manufacturer-conglomerates also started investment in the convenience store because they saw the success of 7-Eleven Taiwan and sensed the importance of distribution channels (Chung, 2000).

#### **8.2.2. The second stage: 1988 – 1995, building the foundation and framing the industry (Figure 8-2)**

**Figure 8-2 The second stage competition in the convenience store industry in Taiwan**

**Societal resources and institutions**

- More international retail know-how entered Taiwanese market
- Independent distribution companies
- Booming of the stock market
- The establishment of the Taiwan Chain Store Association
- The popularity of cable TV
- Creation of TANET for academic purposes



**Competitors/Suppliers**

- New convenience store retailers joined the competition and the number of stores increased dramatically
- Franchise chain retailers focused on the Taipei metropolitan market, while voluntary chain focused on regional markets
- Suppliers were large foods manufacturers and in charge of new product development
- The fresh food suppliers were still quite small

**Consumers:**

- Increasing purchasing power due to stock market boom
- Changing consumption behaviour

**Public Policy**

- Charity lottery draw was ceased
- The Business Automation Ten Year Plan in the ROC
- Gov. introduced the uniform invoice cash prize lottery
- Enforcement of Fair Trade Law
- Gov. deregulated the provision of public service, e.g. stamps and phone cards
- Gov. deregulated the print of blank uniform invoice

### **8.2.2.1. Start-up**

The parent companies of many new entrants spotted an opportunity in the convenience store industry and entered this industry. These manufacturers knew that the control of channels would be important for the future distribution of their food or drink products. Thus the process of these new entrants' participation can be defined as generative organisational learning and proactive innovation.

At the same times, adaptive learning prompted the participants of the previous stage competition - the Weichuan Group and President Bakery to renovate their chain store businesses. The former imported new convenience store know-how from Am/Pm in the USA; the latter learned from the experience of the first stage and transformed the bakery chain into the 3Q convenience store.

This new stage of competition was triggered not only by the renovation and new entry, but also by the innovation in retailers' operations.

In terms of store operation, the introduction of technological innovation such as Am/Pm's EOS and POS (the Electronic-Ordering-System and the Point-of-Sales) systems in 1988 led to competition in building information systems. Since Am/Pm installed EOS and POS, the utilisation of information systems has always been an important source of competitiveness for convenience store retailers in Taiwan.

Further evidence of innovation appeared also in 7-Eleven Taiwan's operation after its turnaround in 1986:

- Improving its customer services through the establishment of a quality assurance centre and a customer service centre
- Investing in EOS to improve ordering efficiency and a new distribution system to improve distribution efficiency. In 1989, it completed an island-wide EOS system and in 1990, it integrated the orders of all stores and established a joint distribution centre.



### **8.2.2.2. External factors**

From 1988 to 1994, the following external factors shaped Taiwan's convenience store industry:

**1987 – 1990** The index of Taiwan's stock market soared from less than 3,000 points in 1987 to a record high 10,000 points in 1989 (please refer to Table 5-9 for the index of stock prices). Taiwanese were frenzied with speculating in the stock market. Many made a fortune through this opportunistic investment and became very extravagant.

**1988** The Charity Lottery Draw ('The Patriotism Lottery' is its Chinese name) ceased due to derived gambling from this lottery. Therefore, many shops selling the lottery tickets were closed down and these locations became available for convenience store retailers.

**1989** The Ministry of Economic Affairs advocated the utilisation of information systems in the retail industry and drafted 'The Business Automation Ten Year Plan in the ROC'. Under this project, the government provided subsidies and technology to encourage retailers, including convenience store retailers, to install information systems, e.g., EOS. This policy is particularly beneficial for smaller convenience store retailers because these retailers have limited financial resources to invest in the development of information systems. The major benefits for smaller convenience store retailers were obtaining government subsidies if they joined the project and installing information systems to facilitate their inventory and merchandising management.

**1990** The Ministry of Education established the TANET, an information network service, including the Internet and the BBS, for academic purposes; students can access the Internet and the BBS for free through the TANET. This prompted convenience store retailers to establish chatrooms on the Internet in the later stage.

**1991** The Fair Trade Committee started enforcing the 'Fair Trade Law'. This law impacted the convenience store industry in the following ways (Chuang, 1991; Lee, 1992; Wang, 1992, Lee, 1993):

- **Article 18 regarding resale price:** no seller may restrict its trading counterparts' pricing. Therefore, any pricing agreement between convenience store retailers

and their franchisees will be regarded as illegal and subject to government investigation.

- **Article 6, 11, 13, and 40 regarding the expansion of a company's network to prevent oligopoly:** any retail chain, including a convenience store company, must apply for permission before acquiring more stores to increase its market share over 1/3 of the total market as defined by the Fair Trade Committee.
- **Article 19 regarding company conduct which discourage competitions or impedes fair trading:** no company may conduct any activity to hinder fair trading. Therefore, common conduct in the convenience store industry such as asking for slotting allowances from trading counterparts is subject to Fair Trade Committee investigation.

**1991** Government partially deregulated private sectors' provision of public services (e.g., selling stamps and collecting payments of phone bills and electricity bills). The deregulation created opportunities for retailers to provide services and attract customers to visit stores.

**1991** Government allowed businesses meeting certain conditions<sup>c</sup> to print blank uniform invoices and consequently large convenience store retailers have one more marketing tool.

**1991** The Taiwan Chain Store Association was established (re-named as the Taiwan Chain Store & Franchise Association in 2000). The organisation provides information and training sessions for retail operations. It has 7 convenience store members in 2000.

**1993** The legalisation of the cable TV industry facilitated the development of Japanese style products in the convenience store industry. Taiwanese Cable TV channels show a lot of Japanese TV dramas and movies and consequently create Japanese culture frenzies in the second half of the 1990s.

**Other external factors: the establishment of professional distribution companies.** These companies provided services to small retailers who could not afford to build centralised distribution centres. These distribution companies did not provide exclusive services to a specific retailer; thus though competing in the market, several retailers may use the same distributors.

**8.2.2.3. Comparative advantage of resources and the competition process**

**8.2.2.3.1 The competition process**

The convenience store industry during this period had the following features:

- The majority of convenience store retailers were related to food or drink manufacturers
- Government’s policy and change of regulations helped the expansion of the convenience store industry
- Two major methods of network expansion: the mandated/authorised franchise chain system and the voluntary chain system
- The number of stores increased dramatically
- The introduction of EOS/POS and the establishment of centralised distribution centres
- The emergence of service products and retailer-brand fast foods

The background of many parent companies/investors of new convenience store companies was similar to the background of President Enterprise and the Weichuan Group, i.e., food or drink manufacturers (Table 8-1).

Table 8-1 Convenience store companies established between 1988 and 1994 and the backgrounds of their parent companies

Company	Background of parent companies
Familymart	Automobile dealer*
Circle K	Food and retail
Am/Pm	Food
Hi-Life	Drink
EN (Eight.Nine)*	N/A
B&D	N/A
Weicha Smart Woman	N/A
Nikomart	Drink
Tsi-Tsi-Tsuei	Food
Taiwan Big Egg	N/A
Wongtsaichi	Food
J-Young (originally EN)	N/A
Smart	N/A
Chusheishien (Chufu)	Food
Anytime	Food

\* Familymart’s original parent company – the Chinese Automobile – owned a dairy product company licensed by Yoplait.

International retailers' know-how still played an important role during this stage because many new establishments counted on international retailers' help. Though international retail expertise facilitated convenience store retailers' establishment and expansion, it could not be 100% transplanted to Taiwan's retail market. The cultural differences among different countries mean retailers have to adapt to local operation. Company A manager explained the necessary change due to the difference between Taiwan and Western societies:

*'...city and community types in Taiwan are different from those in Western countries. Traditionally, (in Taiwan) there is no obvious distinction among different functions, i.e., business, residence and industrial, in Far-Eastern countries, even in Japan. We do not have sound urban planning revolution. So (in western societies,) it is natural that they do not open stores, except pubs and restaurants, in the downtown. It is impossible that you will open a shopping mall in downtown. Stores will be open at locations close to subway stations or residential areas. This concept does not exist in the Orient; there is no obvious distinction between residential areas and business areas. So once a store was opened, we have no idea which area the store was located in...'*

In the beginning of this stage, many convenience store retailers started from scratch and thus the most important factor for convenience store retailers' survival was parent company's financial support. In the early stage of network expansion, convenience store retailers also counted on parent companies' support in establishing infrastructure. Investment such as physical facilities, information systems and distribution systems needed parent companies' capital injection.

These retailers competed in network expansion. The boom of the stock market and the cessation of the Charity Lottery Draw facilitated the expansion of these retailers. Among these convenience stores, Am/Pm, Circle K, Nikomart, Familymart and Hi-Life expanded their store networks through the corporate chain, mandated and authorised franchise chain systems<sup>d</sup>, while other purely local chain convenience stores adopted voluntary chain and FVC<sup>e</sup> systems. However, these chain convenience store retailers still maintained a certain number of corporate chain (regular chain) stores. 7-Eleven Taiwan, originally expanding through a corporate

chain system, also introduced a mandated and an authorised franchise system in 1989 (Lee, 1999; p.54).

The number of stores during the second stage increased from around 1,600 in the beginning of the 1990s to over 5,000 at the end of 1994. Voluntary chains expanded more rapidly and have advantage in market presence owing to the lower thresholds for franchisees to join their chains.

After the number of stores increased, the control over franchisees' stores became an important issue, based on the failure of Weichuan Chain Store and President Bakery Chain at the first stage. The control over franchisees' stores is important because the quality of stores, such as store ambience, services, products sold and promotions, will influence consumers' perception of stores. Mandated/authorised franchise chains can exert more control over franchisees and store quality, compared with voluntary chain headquarters. They can ask franchisees to follow headquarters' requirements to maintain the corporate image and the group strength. Franchisees will be fined if they do not follow the rules. On the contrary, under a voluntary chain contract, franchisees and the headquarters are equal and the relationships between franchisees and headquarters in the voluntary chains are reciprocal. Franchisees have the ownership of merchandise inside their stores and the headquarters only provide franchisees with the right of using the store brands and advice for running stores. Due to tighter controls, the quality of mandated/authorised franchise chain stores in general surpassed voluntary chain stores (Huang and Chang, 1995). Though the loose control helped the voluntary chains to expand more quickly, it caused problems of control over stores and franchisees, which were one of the major reasons for some voluntary chains' collapse.

The growing power of the convenience store also raised government's attention at this stage. In 1991, the Fair Trade Committee promulgated Fair Trade Law, of which some articles were related to the competition in the convenience store industry. Since then, the convenience store has been a regular target of the Fair Trade Committee's investigations regarding unfair competition and oligopoly.

As mentioned earlier, the beginning of this stage witnessed an important innovation for retailers: the introduction of the EOS and the POS by Am/Pm. This prompted the government to start a project for 'business automation' and retailers to invest in information systems (Table 6-6). The information system, i.e., POS and EOS, was copied from international retailers. The CCL of ITRI's VAN system<sup>f</sup> also developed an information system based on the concept of Japanese Bentham system<sup>g</sup>. However, several factors mentioned in Section 7.3.4.2, i.e., financial and technical problems, limited most retailers' applications of information systems at this stage to the EOS system.

Besides the utilisation of information systems, this stage also saw retailers or their parent companies competing in establishing distribution centres. Kanko Marketing of the Weichuan Group is the first of this kind, followed by Taiwan Distribution of Familymart, Retail Support International of 7-Eleven Taiwan and many others (Table 8-2). These centres were invested in by the conglomerate parent companies mainly to distribute room temperature products for these retailers. Centralised distribution centres facilitated the efficiency of convenience store retailers' product distribution and reduced retailers' distribution costs. 7-Eleven Taiwan mentioned that the centralised distribution helped it to reduce out-of-stock rate from 20% in 1980 to 3% in 2000 and the number of deliveries per store decreased from 52 per day to 12 per day<sup>h</sup>.

Table 8-2 Distribution companies or centres invested by conglomerates

Distribution centre or company	Year of establishment	Parent company or headquarters	Affiliate convenience stores	Products delivered
Retail Support International	1990	President Enterprise/7-Eleven Taiwan	7-Eleven Taiwan, 3Q, Taiwan Big Egg	Room temperature products
Taiwan Distribution	1989	China Automobile	Familymart	Room temperature and ambient controlled delivery
Kanko Marketing	1989	Weichuan	Circle K, Am/Pm, Taiwan Big Egg	Room temperature and ambient controlled delivery
Pin-Tai	1991	Taisun	Nikomart, Circle K, Taiwan Big Egg	Food and drink
Chumen Marketing	1989	Chusheishien	Chusheishien	Room temperature product
Wongtsaichi	1991	Tachi Foods	Wongtsaichi	Room temperature and ambient controlled delivery
Hi-Life	1994	Hi-Life	Hi Life	Room temperature products
Shing Tong Yang	1993	Shing Tong Yang	Anytime	Room temperature products

Source: *Convenience Store Magazine (1996) 'The separation of transaction process and distribution leads to business modernisation'*, *Convenience Store Magazine*, July 1996, p. 49

This stage also saw retailers' development of retailer-brand products. The development in general also followed the patterns of international retailers, e.g., the introduction of hot dogs and soft drinks. The entry of international fast food chains to Taiwan also inspired convenience store retailers' development of fast foods, including microwave foods (consumers could use in-store microwave ovens to re-heat food) and hamburgers. Retailer-brand products at this stage also included ready-to-eat foods such as hot dogs, deep-fried foods, in-store microwavable foods. However, consumers' acceptance of these fast foods in convenience stores was still low and thus retailers had to introduce more local 'flavours' such as stewed tea eggs and steam buns.

Retailer-brand foods at this stage did not contain complex development knowledge. The differences of these products among different convenience stores were mainly from marketing. This situation remained until 7-Eleven Taiwan introduced 18°C fresh foods in 1994.

After the deregulation of the provision of some public services, convenience store retailers also started to sell services, e.g., stamps and phonecards, originally provided by the government. 3Q was the first retailer to provide simple postal services; other convenience store retailers soon copied these services. Other products, such as self-service photocopy, sales classified ads on newspapers, laundrette service and film processing service were also gradually introduced by convenience store retailers to attract customers' patronage.

Government deregulation also gave retailers one more marketing tool – the uniform invoice. The Ministry of Finance allowed retailers meeting certain conditions to design and print blank uniform invoices. Circle K was the first retailer to apply, followed by other franchising chain retailers. However, voluntary chain retailers were not able to benefit from this policy because voluntary chain stores normally were registered under the franchisees' names, not the headquarters'.

#### **8.2.2.3.2 Comparative advantage of resources**

The survival of convenience store retailers at this stage depended on the following resources:

- Financial: sufficient capital for expansion. For example, Taiwan Big Egg, J-Young and other voluntary chain retailers (Weichua Smart Women, Tsi-Tsi-Tsei and B&D) failed due to the financial crisis caused by over rapid expansion.
- Methods of expansion: retailers expanding through mandated/authorised franchise chain systems experienced steady growth, while many retailers expanding through a voluntary chain system stopped expansion or even encountered a financial crisis at the end of this stage.
- Physical: the physical investment in the stores, the EOS, and the investment of distribution centres under the financial support of parent companies.
- Organisational: control of franchisees and localisation/systemisation of operational know-how.
- Relational: relationships with customers and franchisees.



#### **8.2.2.4. Market positions and financial performance**

The following events ended this stage of competition:

- The withdrawal of Am/Pm, together with other voluntary chain retailers
- The change of Taiwan Big Egg and J-Young ownerships

Am/Pm was not able to achieve a sufficient number of stores and accumulate enough and solid know-how for its operation during this stage to compete in this market. The Weichuan Group finally terminated this business and focused on the supermarket business in the Taiwanese market. Other voluntary chain convenience store retailers such as Weichua Smart Woman, Tsi-Tsi-Tsuei, also withdrew from the market due to two major reasons: insufficient capital and control of franchisees.

Though Taiwan Big Egg and J-Young finally made profits at the end of this stage, the ownership of Taiwan Big Egg and J-Young changed because the headquarters encountered financial crisis due to too rapid expansion.

The top five chain convenience stores in terms of the number of stores and profits at the end of this stage were 7-Eleven Taiwan, 3Q Shop, Circle K, Familymart, and Wongtsaichi. Other smaller retailers such as Hi-Life and Nikomart also made profits. However, except 7-Eleven Taiwan, 3Q Shop and Wongtsaichi, these retailers just started making profits and performance was still unstable.

Table 8-3 shows that the ranking of convenience store retailers based on the number of stores is related to these retailers' financial performance. The end of this stage also saw the obvious difference in performance between mandated/authorised franchise chain retailers and voluntary chain retailers. All the mandated/authorised franchise chain retailers survived and made profits, while many voluntary chain retailers, e.g., Am/Pm, Taiwan Big Egg, J-Young, Weicha Smart Woman, Tsi-Tsi-Tsuei, and B&D, had to withdraw from the market due to financial problems and the difficulties in the network expansion.

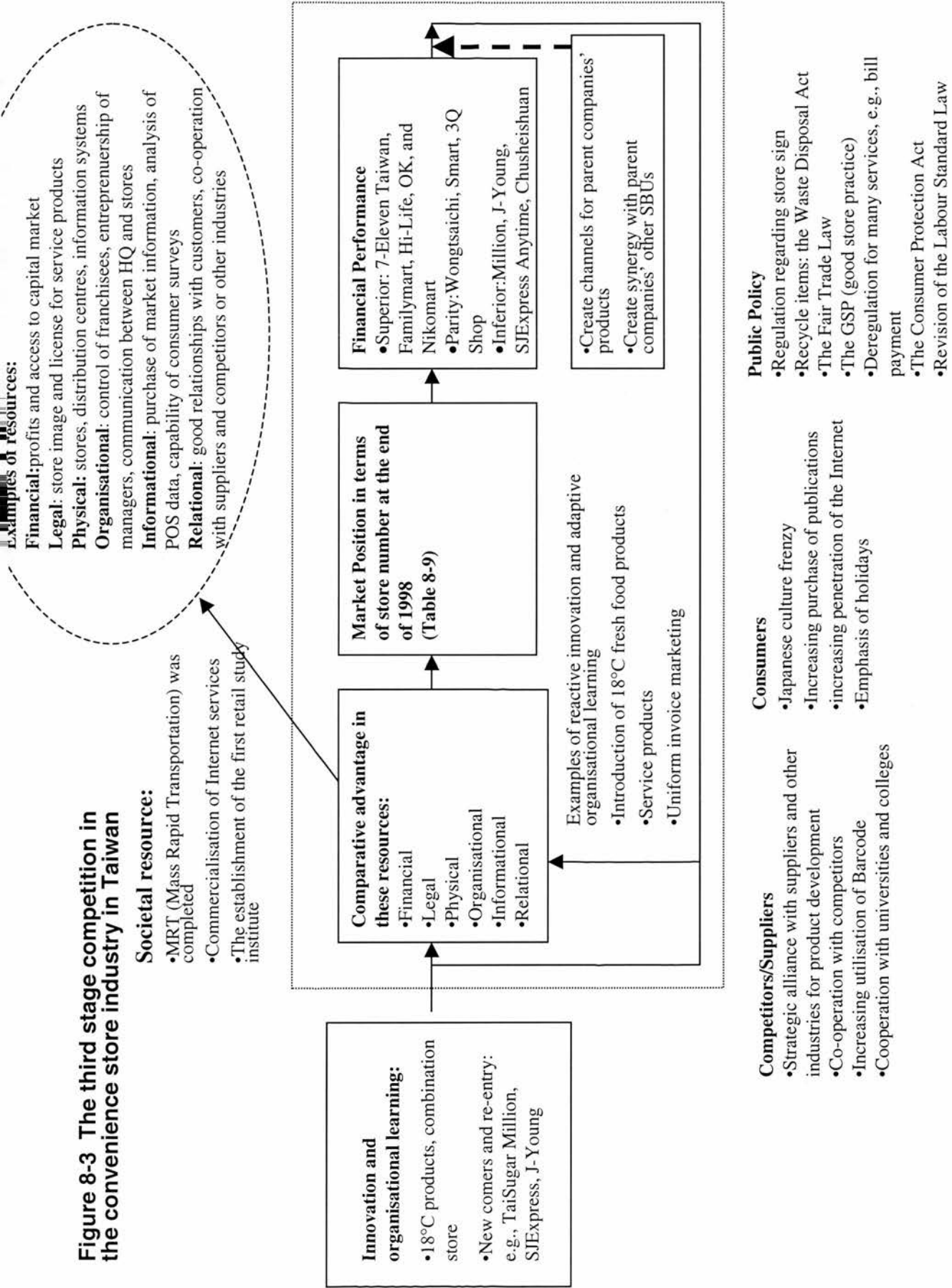
Table 8-3 Chain convenience store retailers' performance at the end of 1994

Company	Major method of network expansion	Market position determined by store number	Financial performance*
7-Eleven Taiwan	Franchising chain	1	P
3Q Shop	Voluntary chain	2	P
Familymart	Franchising chain	3	P
Circle K	Franchising chain	4	P
Wongtsaichi	Voluntary chain	5	P
Hi-Life	Franchising chain	6	P
Taiwan Big Egg	Voluntary chain	7	P
Nikomart	Franchising chain	8	P
J-Young	Voluntary chain	9	-
Chisheishien	Voluntary chain	10	-
Am/Pm	Voluntary chain	11	-
Anytime	Voluntary chain	12	-
B&D	Voluntary chain	Withdrew	N/A
Weicha Smart Woman	Voluntary chain	Withdrew	N/A
Tsi-Tsi-Tsuei	Voluntary chain	Withdrew	N/A

*\*No detail financial data is available; there is only information to show whether a convenience store retailer has made profits or not. P here means the retailer has profits*

*Source: Convenience Store Magazine (1995) The Power of Chain Store Survey, Convenience Store Magazine, February*

**Figure 8-3 The third stage competition in the convenience store industry in Taiwan**



### **8.2.3. The third stage: 1995 – 2000, elaboration of competitive resources (Figure 8-3)**

#### **8.2.3.1. Start-up**

The following events marked the start of this stage:

- The emergence of combination stores<sup>i</sup>
- 7-Eleven Taiwan introduced 18°C fresh foods, such as Japanese rice balls, and other chain convenience stores followed
- The re-birth of Taiwan Big Egg as SJExpress and the change of ownership of J-Young
- The entry of several newcomers, e.g., TaiSugar Million, Life Drugstore and Colourful Life

Taiwan Big Egg was sold to the Sino-Japan Group after a financial crisis and re-named as SJExpress. SJExpress, like Taiwan Big Egg, expanded its network through a voluntary chain system but the new headquarters owned several directly controlled stores for testing new products and for accumulating operational knowledge. J-Young was sold to Chinkuan Distribution (Shiweishi) when its original owner was faced with a financial crisis in 1994. This stage also saw new entrants, e.g., TaiSugar Million, Smart and some other voluntary chain retailers, entering this market (Table 8-4).

Table 8-4 New entrants of the convenience store industry in Taiwan after 1994

Company	Year of establishment	Note
TaiSugar Million	1994	Some stores are combination stores
Smart	1995	
Life Drugstore	1995	Combination of the convenience store and pharmacy
Colourful Life	1995	
White Heron	1996	Combination of the convenience store and organic food shop
Big River	1997	

### **8.2.3.2. External factors**

This stage saw the following environmental factors influencing the competition among the convenience store retailers:

**1994** The Consumer Protection Act was passed by the Legislation Yuan. The law defines companies' obligation in selling products and commands the establishment of a 'Consumer Protection Officer' in the government. Under this law, consumers may ask for free legal advice and seek compensation in case of disputes regarding their purchase.

**1995** The Telecommunication Bureau (now Chunghwa Telecom) of the Ministry of Transportation and Communication introduced the HiNet and became an ISP (Internet Service Provider), followed by III's (The Institute for the Information Industry) SeedNet. TANET, HiNet and SeedNet became the three major ISPs in Taiwan. Since the introduction of the latter two ISP services, Taiwanese could easily gain Internet access and Taiwanese businesses have one more marketing tool.

**1996** Government advocated GSP, Good Store Practice, to encourage stores to offer superior services. The GSP is a certificate to prove the excellence of a store's overall quality and provides consumers with a mechanism to judge the service and quality of a store.

**1996** The Taipei Mass Rapid Transportation System (Taipei MRT) started operation and provided convenience store retailers with potential locations for expansion. This opportunity prompted convenience store retailers to further compete in other similar locations, such as stations of Kaohsiung MRT and High Speed Train.

**1996** Government added in the Labour Standard Law that labours should have two days off per week<sup>1</sup>. This means that people will have more time for short trips and holidays over the weekends. Consequently, the number of visits to holiday destinations in Taiwan increased dramatically during the second half of the 1990s (Table 8-5). This change prompted convenience store retailers to open new stores in leisure or holiday destinations, e.g., theme parks, or main traffic routes to these places.

Table 8-5 Frequency of Taiwanese' visits to holiday destinations in Taiwan (unit: times/10,000 persons)

Year	1991	1996	2000
Frequency	17,975	24,248	43,275

Source: [www.dgbasey.gov.tw](http://www.dgbasey.gov.tw)

**1996** The first institute for retail education – The Department of Marketing and Distribution Management - was established at the National Kaohsiung First University of Science and Technology. The institute co-operates with retailers to establish internship programmes and facilitates the creation and training of human resources for the retail industry, including the convenience store.

**1997** The Construction and Planning Administration of the Ministry of Interior revised 'The Rules for Administration of Advertising Signage'. This was the first revision since the promulgation of the law since 1967. The revised law put stricter standards regarding the size and installation of store signs. Because 90% of store signs did not fit the standards of the revised regulation, many chain convenience store retailers were faced with huge costs in revising store signs. Moreover, since the store signs will be smaller under the new regulation, customers will not be able to see its store from far away. One company in the interviews mentioned that this would influence the significance of its stores and customers' patronage.

**1998** Government deregulated the restriction on the mobile phone industry. The deregulation facilitated the emergence of private mobile phone companies. Convenience store retailers co-operate with these mobile phone companies to sell various mobile phone products.

**1997** The Waste Disposal Act promulgated by the Environment Protection Bureau regulates that the convenience store retailers have to accept customers' recycled wastes.

**1998** Convenience store retailers were included in the Standard Labour Law from 1998. The revised law requires convenience store retailers to provide the same benefits for full-time and part-time employees and thus increases convenience store retailers' burden of personnel costs.

**1999** The Fair Trade Committee published the principles regarding the disclosure of franchisers' information (the headquarters of the convenience store). The purpose of these principles is to protect franchisees' rights.

**Other factors:**

The number of Internet users in Taiwan was increasing (Table 8-6). This development prompted retailers to establish websites to convey their marketing messages and provide Internet shopping services.

Table 8-6 The number of the Internet users in Taiwan from 1996 to 2000 (Unit: million people)

Year	1996	1997	1998	1999	2000
Number of Internet users	0.6	1.66	3.01	4.80	6.26

Source: *www.find.org.tw*

**8.2.3.3. Comparative advantages of resources and competition process**

**8.2.3.3.1 Competitive process**

At the beginning of this stage, retailers such as J-Young, Anytime and Chusheishien and Nikomart had less than 100 stores. There are two features of these retailers:

- Three expanded through a voluntary chain system
- All introduced combination stores

From 1995, Nikomart, Chusheishien, J-Young, Anytime introduced combination stores, followed by some other new convenience store retailers (Table 8-4). The combination store format was conducive for convenience store retailers' competitiveness and store image; this type of convenience store was a method for differentiation and survival, particularly for smaller convenience store retailers such as Anytime and Chusheishien.

Chain convenience store retailers also started opening stores in special locations after the market on the West Coast was saturated. The company interviews and secondary data (Huang, 1996) show that several retailers started expansion in the Eastern Taiwan market and special locations, e.g., railway stations, the MRT stations, hospitals, department stores, large-scale office complex and universities. Following

the revision of the Labour Standard Law regarding 2 days off per week, convenience store retailers also sought expansion near holiday destinations or along the routes to these places.

Though most convenience store retailers tried to establish an island-wide presence, Nikomart withdrew from the southern Taiwan market and focused its expansion on the northern and central Taiwan market. There were two major reasons:

- The difficulty of logistics
- The returns from the southern Taiwan operation were relatively low, compared with those in the northern Taiwan

In terms of products, 7-Eleven Taiwan's introduction of 18°C fresh foods triggered mandated/authorised franchise chain retailers' competition in fresh food development. The popularity of Japanese style fresh foods was partly due to the influence of Japanese TV dramas broadcasted on cable TV channels. After the introduction of fresh foods, the product lines grew broader and deeper - products were extended in terms of storage temperatures, product varieties and product line depths:

- From 18°C products to 4°C products, e.g., crème caramel, teatime desserts and cold noodles, were introduced in the stores.
- More varieties, for example, from rice balls to sushi rolls, handrolls, sandwiches and mealboxes
- From fewer to a wider selection of flavours of a single product line. For example, retailers develop more varieties of rice balls

Voluntary chains also tried to catch up with mandated/authorised franchise chains and introduced fresh foods but had difficulties in sourcing these products and persuading franchisees to sell them. They also lacked money and expertise to develop these products and thus could not compete with mandated/authorised franchise chains.



More service products, especially collection of bill payments, were also introduced during this stage. These new services were introduced under certain conditions, e.g., a certain number of stores and the requirements of the service providers. Interviewed voluntary chains mentioned that they found it hard to match these requirements. Details will be discussed in the physical resource section.

The installation of TANET in the previous stage cultivated some student Internet users, who were convenience store retailers' target customers. The commercialisation of the Internet service in Taiwan prompted convenience retailers to establish websites and chatrooms to attract these student customers. The purpose was to attract and retain these target customers. The increase of Internet users further prompted retailers to put more information and services via the Internet.

Chapter 7 mentioned that mandated/authorised franchise chain retailers were more vigorous in using the Internet as a marketing tool, compared with voluntary chain retailers. Nikomart was the first convenience store retailer to establish a website, followed by 7-Eleven Taiwan, Familymart, Hi-Life<sup>k</sup>, Circle K, SJEpxress and J-Young. Convenience store retailers used the Internet to promote their corporate image, posted promotion information and organised member clubs through a BBS.

Besides the Internet presence, retailers were also vigorous in developing other products or services. After 7-Eleven Taiwan introduced its catalogue shopping, Familymart and Hi-Life also introduced catalogue shopping. Other products such as mobile phone services, computer and game software, and X media were also introduced and copied by most convenience store retailers before the end of this stage.

#### **8.2.3.3.2 Comparative advantage of resources**

The resources required for competition during this stage are:

- Financial: capability to obtain capital, e.g., from profits or stock markets, for further expansion

- Physical: the number of stores, the investment in physical facilities such as POS systems and expansion of distribution centres
- Legal: brand image, licenses for collecting bill payment and selling tickets for public transportation
- Organisational and human: control of franchisees, training programmes, communication between headquarters and stores, and management of combination stores
- Informational: capability of obtaining and analysing data from POS systems and from professional market research institutes, and capability of developing retailer-brand products
- Relational: relationships with suppliers, customers and competitors.

The details are explained below:

### **A. Financial**

The reliance of leading convenience store retailers on parent companies' financial support decreased at this stage.

According to the interviews, the financial resource for mandated/authorised chains' further expansion is mainly from profits (retained earnings). These retailers also consider the access of capital from the public capital market as a financial source for further expansion. On the contrary, voluntary chains still relied on parent companies' support and struggled to meet break-even-point.

Two important events in terms of the convenience store industry's financial resource during this period were 7-Eleven Taiwan's becoming a publicly listed company in 1997 and Familymart's becoming a publicly issued company in 1995<sup>1</sup>. 7-Eleven Taiwan's access to the market capital ensures its extra capital for expansion. After it went public, other companies, such as Familymart, Nikomart and Hi-Life also showed their interest in becoming publicly listed.

## **B. Physical**

Physical resources include facilities such as distribution centres, physical facility inside stores, facility for service products, and hardware of information systems. The store presence and centralised distribution built in the second stage were further expanded at this stage. These resources became entry barriers for new entrants or a limitation for smaller retailers. They also became the foundation for further innovations. For example, based on the store presence and distribution systems, retailers such as 7-Eleven Taiwan and Familymart, were able to introduce catalogue shopping services.

At the end of 1995, only 7-Eleven Taiwan, 3Q, OK, Hi-Life and Familymart owned over 200 stores; other companies were still quite small. SJExpress (previously Taiwan Big Egg), Nikomart, J-Young had less than 200 stores each. Anytime and Chusheishien had less than 100 stores and finally withdrew from the market in 1999. As mentioned previously, the number of stores creates economies of scale and the presence of a retailer in the market and thus it influences convenience store retailers' competitiveness.

The scale of the companies, i.e., the number of stores, was also a determinant of introducing fresh foods and services such as collection of bill payments. Expanding very rapidly during this stage, mandated/authorised franchise chain retailers surpassed voluntary chain retailers in term of size/economies of scale. From the interviews, voluntary chain and new retailers mentioned that they were not able to obtain licenses for collecting bill payment due to insufficient number of stores. For example, Company H manager mentioned the problem they encountered:

*'Headquarters asked us to plan this kind of service (bill payment). We contacted Chunghwa telecom before but they rejected it because we are too small and do not have enough stores. They do not want to sign contract with us because they will encounter huge costs in checking accounts. They thought it would not pay off because they need a person to check accounts for 50 stores, while they can use this person to check accounts for, say, over 2,000 stores of 7-Eleven. We only have 50 stores....'*

Company E manager also pointed out their difficulty:

*'...We do not offer a lot of services, I mean, bill payment services. Because we do not have enough store numbers; according to regulations, we are not able to provide this service.'*

Because of their limited number of stores, voluntary chains or new retailers also had trouble exerting power over their suppliers and thus were not able to develop their own fresh food products.

*'Fresh foods are outsourced from local dealers because these products have high abandonment rate. They may seriously influence our performance. We try to co-operate with local dealers. We are on the same boat. Today Familymart and Hi-Life have the capability to produce their own retailer-brand fresh foods. Those who are not able to do so will count on local dealers. They produce similar products but will not be able to enter big convenience stores; so they sell products in smaller convenience stores and even traditional corner shops. If we co-operate with these dealers, they can supply our products and absorb costs from abandonment. However, they will only supply our stores, which their distribution system can reach.'* (Company E Manager)

The opening of new stores also means retailers' investment in physical facility and management. An interviewed manager mentioned the costs of opening a new store:

*'...We have to invest over NT\$2million per new store and there are some following managerial costs....'*

New equipment for new services also incurred some costs as mentioned in Section 7.3.5.2, p. 193. Besides the above development, convenience store retailers, such as 7-Eleven Taiwan, Familymart, and Hi-Life also expanded the capacity of their distribution centres to include publications and ambient controlled products and established regional distribution centres.

### **C. Legal**

Legal resources for the convenience store retailers in Taiwan include the store brand and the legal rights to provide some services. Brand names can attract customers' attention and increase the possibility of consumers' 'patronage'. Section 7.3.2.1 discussed the importance of retailers' brands and CIS. All convenience store brands

have copyrights. Any illegal copy of their brand names, including store brands and retailer-brand products, will be against Trademark Law and corrected by the government. This will protect these retailers' right to utilise their brands.

Another legal resource is the right to provide some services, e.g., collection of bill payment services. The previous section mentioned that retailers, who do not have sufficient stores and tight control over franchisees cannot obtain the license for collecting bill payments. At the end of 2000, all convenience store retailers providing these services were mandated/authorised franchise stores and each had over 250 stores. The license thus is a comparatively advantageous resource for larger convenience store retailers, who can reach the threshold.

#### **D. Organisational**

Organisational and human resources at this stage include:

- The control over franchisees
- Methods of operation: expansion through mandated/authorised chain systems or voluntary chain systems, management of combination stores
- Expertise of developing new products

As mentioned in the previous stage, the number of convenience stores increased dramatically. During this stage, network expansion continued; the growth of stores was particularly from mandated/authorised franchise chain stores (Table 6-3; Table 8-7).

Table 8-7 The annual growth of store numbers of chain convenience stores between 1995 and 1999

Year	1995	1996	1997	1998	1999
Mandated/authorised franchise chains	447	430	643	635	713
Voluntary chains	123	81	-21	77	-219
Total	570	511	622	712	494

Note: The numbers are based on store numbers of 12 major chain convenience stores<sup>m</sup>  
 Source: *Retail Mart Magazine*

Because of the increasing percentage of franchising stores and sheer number of stores, the control of stores was even more important than the previous stage. Many

retailers thus emphasised training of their store supervisors and communication with franchisees.

At this stage, chain convenience store retailers did not rely heavily on international retailers, except for the knowledge from Japan concerning the development of fresh food products. The expertise of developing retailer-brand products is an important organisational resource for convenience store retailers. Interestingly, the majority of 18°C fresh foods were first introduced by mandated/authorised franchise chains, while combination stores were created mainly by voluntary or smaller chains. One reason for this development is the gap in economies of scale. In general, the former was larger and had more resources, e.g., capital and expertise, in developing retailer-brand products. Another reason leading to this difference is related to the control of franchisees. Mandated/authorised chains preferred to maintain the consistency and quality of stores and stick to the pure convenience store operation. Moreover, their franchise contract is stricter, compared with voluntary chain contracts (Table 6-4 and Table 6-5). For example, when headquarters introduce new products, mandated/authorised chain franchisees must accept and co-operate with headquarters and if they deviate from the businesses defined in franchise contracts, they will be 'punished' by headquarters. On the contrary, voluntary chain retailers have weaker power and loose control over their franchisees. Voluntary chain franchisees have larger discretion regarding what they want to sell inside stores and have the right to refuse promotion of products that headquarters recommend.

The know-how of managing a combination store is a resource. The knowledge of running a combination store is more complicated because it includes the knowledge of two kinds of retail businesses. Therefore, not every retailer succeeded in running combination stores. A survey of Convenience Store Magazine in 1998 shows that many convenience store retailers have abandoned the idea of combination stores. The interviews of this research found that only three convenience store retailers still have combination stores. Thus the success of combination stores will provide a unique competitive advantage.

The Company E Manager stated in the interview how Company E managed combination stores:

*'The focus of store management consultation is to provide advice of integrating his fruit business into our convenience store operation harmonically. We are not familiar with running a fruit shop. We can only assist him in POS, human resource management and shift scheduling. We try to simplify the whole store management process. The only job a store staff should do is to sell products. This is how a combination store succeeds. If we combine with a complicated business, the staff may be deviated to the adjacent business. For example, if you run a cake combination store, you may need a lot of staff to take care of these cakes. You do not need a lot of labour force to take care of your convenience store business. This is not a combination store; you are running TWO stores at the same time. This is not our idea of combination store. So our concept of combination store is based on the simplification of potential compatible retail business.'*

### **E. Informational**

Section 7.3.4.2 mentioned that convenience store retailers collected information from various sources. Internal source, especially for mandated/authorised franchise chains, is mainly from POS (Table 8-8) and market surveys.

Voluntary chain retailers' experience of POS systems is relatively new. In the interviews, one voluntary chain retailer mentioned it did not use a POS system and only has EOS. Other voluntary chain/regular chain retailers just began to use POS systems or used POS systems only for limited purposes, such as accounting and adjustment of product assortment. Voluntary chain retailers were not capable of conducting market surveys either and thus relied on other sources of market information such as franchisees and stores.

Table 8-8 Retailers utilising POS systems after 1995

Year	Company
1995	TaiSugar Million
1996	7-Eleven Taiwan
1997	Familymart
	7-Eleven Taiwan (POS II)
1999	Nikomart
	Circle K (POS II) <sup>n</sup>
2000	Hi-Life, J-Young

Source: Convenience Store Magazine

Product development is an example of how retailers utilised market information. The product development was mainly based on the market information from professional market research companies and on the information from POS systems. For example, 7-Eleven provided Du Royal, an ice cream company, with information of consumers' consumption patterns inside stores from POS systems. This information, combined with manufacturers' market trend data of a certain product, facilitated the development of a new ice cream product. After being developed, this ice cream was sold exclusively in 7-Eleven Taiwan for three years<sup>o</sup>.

Therefore, retailers' capability to purchase market information and capability to analyse these data will determine their capability to develop fresh food products. Apparently, mandated/authorised franchise chains outclassed voluntary chains in the two capabilities mentioned above.

In summary, mandated/authorised franchise chains have more detailed market information. They are more capable of analysing information from POS systems or marketing surveys conducted by a specific department than voluntary chain retailers who have limited expertise and financial capability and rely on publicly accessible information. This puts voluntary chain retailers at a disadvantage and, as a result, they are slower in catching up with market changes.

## **F. Relational**

Besides the importance of relationships with customers, relationships with suppliers and competitors were also emphasised at this stage. The relationships with suppliers and competitors were re-defined, especially for mandated/authorised franchise chains.

In the previous stage, the suppliers of convenience store fast foods developed products and then sold to convenience stores; in this stage, mandated/authorised franchise chains co-operated with smaller food manufacturers and were involved in the development process and the procurement of raw materials. In developing retailer-brand products, convenience store retailers dominated the supply chain. The



development of fresh foods means that the relationships between retailers and suppliers changed. The relationship between convenience store retailers and suppliers went beyond the definitions in traditional distribution channels. Retailers and retailer-brand product suppliers were partners in product development from the third stage. These retailers established long-term relationships with their fresh food suppliers; this relationship is termed 'team merchandising', which originated from Japan and was introduced by 7-Eleven Taiwan to the Taiwanese market. These fresh food suppliers grew, following the increases of fresh food sales of these convenience store retailers.

The relationships with competitors also changed. Competitors also can be partners. The purpose of this partnership may be to provide more products/services or to rely on competitors' resources. The example of the former is the strategic alliance of 7-Eleven Taiwan, Familymart and President property insurance to provide insurance products in 1998. The example of the latter is OK's reliance on Pintai's distribution.

Section 7.3.5.2 mentioned that, to provide more services, convenience store retailers were also vigorous in co-operating with various industries. The models of co-operation will depend on the nature of the products, e.g., whether the product has strategic meaning for a convenience store retailer and a partner' bargaining power. As Company D manager points out:

*'It depends on the nature of a product. If this product only needs a company D logo (and does not require any special development know-how), it does not matter which supplier provide us with this product, as long as quality is ok. Product margins will be the first concern in this kind of product.'*

The co-operation with these partners provided convenience store retailers with a quick access to a resource or product, which they did not have or had to spend a long time to develop. The example of the latter can be found in Company H's reliance on Company E and Company D in the distribution of products before Company H builds its own distribution centre. The former is illustrated by convenience store retailers' co-operation with service providers, e.g., film processing companies. Company A Manager also provided an explanation:

*'There are two reasons for co-operating with other partners: obtaining the counterpart's know-how – the model of co-operation depends on the counterparts' condition and power. Another reason is that you can not obtain related resources in Taiwan<sup>p</sup>.'*

#### **8.2.3.4. Market positions and financial performance**

The end of this stage saw some radical change of voluntary chain retailers – most voluntary chain retailers established in the beginning of this stage disappeared or withdrew from the market (Table 8-9). Anytime, Chusheishien and 3Q Shop also withdrew from the convenience store industry at the end of this stage, though they survived at the second stage. 3Q Shop withdrew from the convenience store industry partly because it was faced with the problems of store quality control and partly because its parent company – President Bakery Factory - was changing focus to the new bakery business – Semeur de Pain. Anytime and Chusheishien, with less than 100 stores at the end of this stage, eventually withdrew from the convenience store market<sup>q</sup>. Their parent companies decided to change focus to specialty chain stores, i.e., wedding cakes and snack chain stores because, after struggling for several years, Anytime and Chusheishien still could not establish a sufficient number of stores and scale economies. The franchisee stores of 3Q Shop, Anytime and Chisheishien with still valid contracts stayed in business until the contract expired.

The future of other large voluntary chain retailers such as SJExpress, J-Young, and Wongtsaichi, were still unknown. SJExpress had not reached break-even point at the end of this stage. J-Young was sold to the Sanyo Whisbih Group at the end of 2000. The parent company of Wongtsaichi was restructuring its companies and integrating Wongtsaichi with its production SBU.

Compared to voluntary chain retailers, mandated/authorised franchise chain retailers became full-fledged. 7-Eleven Taiwan, Familymart, Circle K, Hi-Life and Nikomart made profits and started expansion beyond their core businesses.

Table 8-9 Chain Convenience store retailers' performance at the end of the second stage

Company	Major method of network expansion	Market position determined by the number of stores	Financial performance* (p: profit; L: loss)
7-Eleven Taiwan	Franchising chain	1	P
Familymart	Franchising chain	2	P
Circle K	Franchising chain	4	P
Hi-Life	Franchising chain	3	P
SJExpress	Voluntary chain	5	N/A
J-Young	Voluntary chain	6	P
3Q	Voluntary chain	7/withdrew	P
Nikomart	Franchising chain	8	P
Wongtsaichi	Voluntary chain	9	P
TaiSugar Million	Regular chain	10	L
Smart	Voluntary chain	11	P
Chisheishen	Voluntary chain	Withdrew	-
Anytime	Voluntary chain	Withdrew	-

\*1999 data are not available. The data here are based on Convenience Store Magazine Survey for 1998

Source: Convenience Store Magazine (1999) *The Power of Chain Store Survey*, Convenience Store Magazine, February

#### **8.2.4. The fourth stage: after 2000, expanding beyond core business to support core business**

##### **8.2.4.1. Start-up**

Despite apparent fierce competition in the convenience store industry, some conglomerates were still drawn to this industry. In 2000, J-Young again was sold to the Sanyo Whisbiih due to Chinkuan's financial problems. I-Mei, a food conglomerate, also entered the convenience store industry through Everyday, a new convenience store chain expanding through a voluntary chain system.

Meanwhile, four retailers, Familymart, Hi-Life, Nikomart and OK set up a joint venture – cvs.com.tw in 2000.

Convenience store retailers also tried to introduce more services to attract customers. Services such as sales of package tours and large-scale<sup>r</sup> ATM machine installation were introduced in convenience stores.

This stage is also characterised with more services such as express home delivery services and Internet shopping. These services were introduced because convenience store retailers have established sufficient number of stores. Familymart, Hi-Life and OK were the first three retailers to introduce express home delivery services – Pelican<sup>5</sup>, followed by 7-Eleven Taiwan’s Takkyubin. Another new service is the introduction of Internet shopping. However, at the end of 2001, only mandated/authorised franchise chain retailers were able to introduce these services.

#### **8.2.4.2. External factors**

Since 1999, Taiwan suffered from several natural disasters such as earthquakes and floods. From 2000, there were also some signs of economic slow-down. These external factors made consumers more cautious in their spending. In the interviews, retailers stated these factors had negative influence on their businesses.

In 2002, Taiwan became a formal member of the World Trade Organisation. It is expected that retailers will benefit from joining this organisation, because they are allowed to source products at lower prices in other countries and reduce procurement costs.

#### **8.2.4.3. Further development**

The trend shows that convenience store retailers are developing beyond their present business boundaries, in terms of geography and business scope. There are three possible directions in terms of strategic development:

- Following the path of the convenience store industry in the USA and Japan and providing more services such as simple retail banking services and developing ‘auto-shops’.
- Based on the present online shopping and home delivery services, convenience stores may co-operate with various counterparts, such as other retail formats and special suppliers.
  1. Other retail formats. Convenience store retailers may form strategic alliances with other retail formats such as the hypermarket and the department store. The long opening hours and easy access of the convenience store provide the

hypermarket and the department store with incentives to co-operate with the convenience store. For example, customers order products from hypermarkets and department stores through on-line and catalogue shopping can pick up the order from the convenience store near home.

2. Retail subsidiaries owned by the same parent company. The purpose of co-operation is to achieve economies of scale in product procurement.
  3. Special suppliers such as farmers' organisations in different regions. Convenience store retailers co-operate with regional farmer organisations to provide delivery services of special agricultural products. Customers can order special agricultural products from regional farmers and pick up the order from a convenience store near home.
- Providing services to business customers. For large convenience store companies, which have developed sophisticated product development and market research know-how, the expertise and the available database provide a business opportunity. Customer profiles collected through online shopping and home delivery services can become a valuable product. The expertise in market research and assessment of store locations may offer convenience store retailers an opportunity to establish consultancy and provide services to business customers.
  - Expanding beyond Taiwan. Convenience store retailers may 'export' know-how to other markets in Asia, especially China and smaller retailers may co-operate with retailer in other Asian markets in product procurement

At the same time, resources are developed in the following ways:

- Financial resources: leading retailers are striving to meet the financial threshold for becoming publicly listed and smaller chain store retailers have to rely on conglomerate parent companies' support
- Organisational resources: the control of franchisees will still be an important issue for retailers. Because voluntary chains always have the problem of control over franchisees, many voluntary chain retailers will revise their contracts or increase incentives to gain more controls over franchisees. Pure voluntary chain systems may disappear in Taiwan in the long run because past experience shows

that most retailers adopting this system hardly survived competition. Moreover, the communication between stores and headquarters will be more efficient; the communication in the future will take electronic forms, such as the Intranets and E-mails.

- Relational resources: relational resources in the future not only include the relationship with customers, suppliers and competitors but also the relationship with the government. The reason for emphasising relationship with the government is that the change of government policies and regulation will influence convenience store retailers' future expansion. Meanwhile, strategic directions show that the success in the future depends on the management of relationship with various partners. To maintain the strength of important resources generated from strategic alliances, convenience store retailers must retain their partners and prevent them from partners' 'betrayal'.
- Informational resources: the elaborate utilisation of data from POS systems, home delivery services and on-line shopping. The development will facilitate micro-marketing, i.e., the attempts to sell specific products suitable for a specific group of customers.

### **8.3. The evolutionary process in Taiwan's convenience store industry**

The discussion in Section 8.2 was based on the revised R-A Competition diagram and divided the development of Taiwan's convenience store industry to date into four stages. The diagram shows that through proactive innovation and generative organisational learning, convenience store retailers created a market, within which they competed.

Convenience store retailers' resource accumulation, which was prompted by reactive innovation and adaptive organisational learning, continuously shaped the competition of each stage. Thus this section will discuss the three elements mentioned here:

- The roles of innovation and organisational learning in shaping the industry
- The evidence of evolutionary process of the convenience store industry
- The creation and accumulation of resources over time

### **8.3.1. The role of innovation and organisational learning**

#### **8.3.1.1. Proactive innovation and generative organisational learning**

Section 3.4.1.1 and Section 3.4.2 mentioned that proactive innovation and generative organisational learning helped firms spot opportunities in the market, prompted companies to create new competence and caused competitive disequilibrium.

Discussion in Section 8.2 showed that proactive innovation and generative organisational learning opened each new round of competition in Taiwan's convenience store industry. The proactive innovation and generative organisational learning, which facilitated the emergence of the convenience store industry in Taiwan, were evident in two aspects:

- Before the establishment of the China Youth Store by the government and the establishment of President Chain Store by President Enterprise, traditional corner shops were places for convenience grocery shopping in Taiwan (Section 6.3.1). These two convenience store chains brought an innovative format to the Taiwanese retail market. Based on the definitions in Section 3.4, this new format can be regarded as the outcome of both companies' generative organisational learning and proactive innovation.
- The generative organisational learning also came from the fact that President Enterprise and the Weichuan Group spotted an opportunity in the convenience store industry.

The second stage started from:

- The entry of many new convenience store companies
- The introduction of 7-Eleven Taiwan's new quality assurance policy
- Am/Pm introduced its EOS and POS systems

The local investors or parent companies of new convenience store companies sensed the opportunity in this market and established these companies by bringing in international know-how. Under these circumstances, these local investors' proactive

innovation and generative organisational learning generated new market offerings and created new competence (retail management expertise) for themselves and for their retail businesses. Meanwhile, proactive innovation and generative learning was also witnessed in these aspects:

- The introduction of the EOS systems and the POS systems
- The incumbents introduced new services, e.g., 3Q Shop's postal service, into the market after the government de-regulated the provision of the postal service
- The introduction of quality assurance mechanisms

The third stage saw some convenience store retailers competing at the second stage disappearing but newcomers entered this market, especially through the new concept store – the combination store. This stage also saw that 7-Eleven Taiwan triggered the competition in developing retailer-brand fresh foods. The new concept store and new products can be regarded as proactive innovation and generative learning in this market.

The fourth stage started from the introduction of on-line shopping, home delivery services and many other value-added services, e.g., package tours and the collection of bill payments. These products were introduced after further government deregulation regarding telecommunication services, collection of bill payment and provision of some public services, such as the sale of tickets for public transportation. Retailers' adaptation to these policy changes can be regarded as their generative organisational learning and their introduction of these new products can be regarded as proactive innovation.

#### **8.3.1.2. Reactive innovation and adaptive organisational learning**

The reactive innovation and adaptive organisational learning is a subtle continuous process. They are shown in convenience retailers' daily operation. The reactive innovation and adaptive organisational learning were witnessed in convenience store retailers' emulation and benchmark of each other's operation; for example:

- Product introduction (e.g., the introduction of post-mix drinks and fast foods)



- Marketing (e.g., using the uniform invoice lottery draw as a marketing and promotion tool)
- Infrastructure of operations (e.g., information systems and distribution centres)

Due to their continuous and complex nature, this section will only highlight the process by providing some examples to illustrate the reactive innovation and adaptive learning at each stage.

During the first stage, President Chain Store and Weichuan Chain Store survived after consulting 7-Eleven in the USA and Zennisyoku in Japan for the expertise to run a chain convenience store. Until 1988, these companies continuously adjusted their strategy, adjusted their target market, localised international retailers' know-how and established basic store operation systems, such as distribution systems and manuals. This process can be regarded as adaptive organisational learning. For example, 7-Eleven Taiwan's adjustment of its target market, the 'Chain Operation System', and shelf display manuals were the outcome of 7-Eleven Taiwan's continuous learning and adaptation. Being adaptive and innovative, it survived being closed down in the early 1980s and later obtained and retained its market leader position. And the same time, 7-Eleven Taiwan stimulated the revolution of Taiwan's general merchandise retail industry (Liu, 1995).

During the second stage, incumbents, who were not very successful in terms of network expansion and financial performance, e.g., President Bakery Chain and Weichuan Chain Store – renovated their businesses. President Bakery Chain changed its brand name to 3Q Shop and transformed its bakery stores to convenience stores (President Bakery Chain's adaptive organisational learning and reactive innovation) and the Weichuan Group introduced a totally new brand and store format - Am/Pm (the Weichuan Group's generative organisational learning and proactive innovation). Convenience store retailers' installation of EOS and POS systems provided further evidence of adaptive learning and reactive innovation. Following Am/Pm, 7-Eleven installed an EOS system. 3Q Shop also introduced similar information systems and planned its POS system in 1989. Service products such as

postal service, self-service copy, and phonecard sales were introduced in the early 1990s; these products were soon adopted and became regular products in convenience stores.

The third and the fourth stages saw convenience store retailers' competition in the introduction of fresh foods and more services. 7-Eleven Taiwan first introduced 18°C rice balls in 1994 and other mandated/authorised franchise chains followed. The first response to 7-Eleven Taiwan's 18°C products was Familymart's 18°C sandwiches. Smaller chain retailers, i.e., retailers with insufficient human resources and number of stores, did not have the capability to develop these products but still tried to introduce them through sourcing from local small suppliers. Regarding service products, after Hi-Life introduced package tours in 1999, 7-Eleven Taiwan and Familymart follows. Another example of retailers' adaptive learning and reactive innovation is the introduction of home delivery services. 7-Eleven Taiwan co-operated with the Yamato Transport Co., Ltd., in Japan and established Transnet. Familymart and Hi-Life soon copied the innovation and introduced a home delivery service under the co-operation with the Pelican Taiwan in July 2000, before 7-Eleven Taiwan introduced the Takkyubin home delivery service in October 2000. These examples illustrate convenience store retailers' adaptive learning and reactive innovation to counterbalance competitors' power and to survive.

### **8.3.2. Conditions for an evolutionary theory**

Chapter 3 explained that R-A theory was evolutionary and pointed out that the evolutionary process was based on three conditions:

- Heritable and durable resources and entities
- Competition is an ongoing and never-ending process, which firms struggle with for existence
- The result of competition is the 'locally fitter', not the 'universally fittest'

In Taiwan, retailers continuously consulted and took benchmarks from international retailers for updated expertise, e.g., product development and improvement of

productivity. This process is continuous and evolutionary (Liu, 1995; p.216). Lee (1999) also mentioned:

*'The development process of distribution institutions (in Taiwan) is the process of organisational adaptation and learning....'(p.61)*

The development of Taiwan's convenience store industry can be regarded as an evolutionary process because these three conditions were evident in the process.

### **8.3.2.1. Heritable and durable resources and entities**

Chapter 3 mentioned that resources and firms were long-lasting and heritable. In Taiwan's convenience store industry, though the ownership of companies, e.g., Familymart, SJExpress and J-Young, changed, the businesses continued. For example, though the Hofong Group sold its shares of Familymart after the Group's financial crisis in 1997, the convenience store retailer still maintained stable operation and remained its number 2 market position.

Another example of durable and heritable entity is J-Young. J-Young originally was established in 1989 as EN and was renamed and managed by a different owner in 1991. J-Young went through a period of tough development until it was faced with a financial crisis in 1994. It was then sold again to and managed by Chinkuan Distribution/Shiweishi. In 2000, Chinkuan Distribution/Shiweishi had financial problems and sold the chain to the Sanyo Whisbih Group. In this case, though going through several changes of the ownership, J-Young is still active in this market and looks for the methods of stabilisation and expansion.

As to heritable and durable resources, J-Young's brand name provides an example for this assertion. J-Young went through the management of three owners but the brand name remained the same since the early 1990s. Another example of durable resources is retailers' maintenance and upgrade of information systems. Convenience store retailers started with electronic cash registers and then installed EOS systems. The systems were further expanded to POS systems in the second half of the 1990s. Retailers then continuously upgraded the capacity and function of their

POS systems. The recent development is Nikomart's interactive POS system, which can interact with customers<sup>1</sup> (Figure 8-4). In the future, POS systems may be further combined with the Intranet inside a retailer's organisation and facilitate the retailer's smooth operation along the value chain. The information systems are durable in the sense that once a convenience store retailer installs the systems, it maintains or even advances the functions of the systems through continuous upgrading.

**Figure 8-4 Nikomart's interactive POS terminal**



### **8.3.2.2. Competition is an ongoing and never-ending process, through which firms struggle for existence**

Since the emergence of the convenience store industry in Taiwan, retailers continuously looked for resources for surviving competition and generating superior financial performance. The competitive advantage accumulated at the previous stage will influence competition and resources at the following stage. For example, the evolution started from the test of know-how and network expansion methods during the first stage and the early years of the second stage. The operational knowledge accumulated in the first stage and the early second stage influenced retailers' following network expansion. The evolution of the industry then proceeded to network expansion, utilisation of information systems such as EOS, and the establishment of distribution centres during the second stage. The network expansion and distribution centres established in the second stage influenced the creation of economies of scale. Economies of scale were important for convenience store retailers' product development in the third stage. After entering the third stage, convenience store retailers competed in the provision of fresh foods and service products, based the resources accumulated in the second stage. More details of resources accumulation will be discussed in Section 8.3.3.

A firm's struggle for existence has two levels of meaning. One is the struggle for staying in each stage of competition and the other is the struggle for entering the next stage of competition. The example of the former is that voluntary chains struggled to survive during the third stage by staying in their niche market, introducing combination stores and providing fresh food products to catch up leading chains. The example of the latter is the renovation of the Weichuan Group's and President Bakery's chain stores at the end of the first stage. After the failure at the first stage, Weichuan Chain Store and President Bakery Chain struggled to stay in the convenience store industry. The methods included new store brands (Am/Pm and 3Q Shop), new franchise systems (a corporate chain system, a franchise chain system

and FVC), new products inside stores (meal solutions; Lee, 1999), and new technology (POS and EOS).

### **8.3.2.3. The result of competition is the 'locally fitter', not the 'universally fittest'**

The development of Taiwanese chain convenience store retailers provides a strong evidence of this assertion. Convenience store retailers would find a market segment or region, which will sustain their survival. In the interviews, the manager of Company E mentioned that the difference between his company and other convenience store retailers in selecting franchisees and store locations:

*'Our store opening policy depends on franchisees' willingness. Some franchisees will not open a store unless he can obtain certain profitability; some franchisees are more flexible. Many stores (of Company E) can not reach the profits of (the convenience store) industry's standards but we still let these franchisees run the stores because they like to be their own boss. Many franchisees join Company E because we are very flexible in this aspect.'*

*'You seldom find Company E stores along the main streets (here he meant important locations) or near railway stations in the cities. Our philosophy of survival is not to compete for the 'golden store locations'. Our profitable stores are normally located in closed communities. The market may be not big enough for having several competitors (at the same time) but it is profitable enough (for a single store). Our stores pay half the rent and total labour costs, compared with a store located in golden locations. So our stores do not cluster in certain areas.'*

Compared to convenience store retailers with stores island-wide, Company E is relatively small. However, it survived throughout the development of the convenience store industry due to its unique location strategy.

Convenience store retailers may also stay in their niche market to sustain comparative advantage. Company F Manager mentioned that Company F focused its market on specific geographical areas:

*'We are city centre oriented convenience store and have less stores in suburban areas. The main markets are in metropolitan areas...'*

### **8.3.3. Comparative advantage of resources**

Chapter 3 summarised that a firm's comparative advantage of resources may be dissipated or neutralised due to internal and external reasons.

#### **8.3.3.1. Internal factors**

Section 3.3.3.1 mentioned that a firm's resources might disappear due to three reasons: the failure to re-invest, the presence of causal ambiguity and failure to adapt. The development of the Weichuan Group's convenience store businesses during the first and second stage provides a good example for this assertion.

Weichuan Chain Store expanded its network rapidly during the first stage and even became a leading brand in Taiwan's convenience store industry. The voluntary chain system, facilitating the rapid expansion, was a resource for Weichuan Chain Store for some time during the first stage. However, the voluntary chain system soon became a contra-resource. The number of stores increased rapidly but the accumulation of personnel for managing the whole chain could not catch up the speed of expansion. This development led to the under-resourced management of Weichuan Chain Store and consequently it suffered from the loose control over franchisees, poor store quality and cessation of growth. Furthermore, the Weichuan Group changed its focus to the supermarket – the Sungching, and the distribution businesses – Kanko Marketing. It transferred the managerial resources from Weichuan Chain Store to these new businesses.

The weakened management and discontinuous investment of Weichuan Chain Store are two major reasons for the chain's collapse (Lee, 1999). After the failure of Weichuan Chain Store, the Weichuan Group introduced Am/Pm and utilised a franchise system parallel to that of 7-Eleven Taiwan at the beginning of the second stage (later it introduced a voluntary chain) but the new chain still had frequent change of managers. Lee (1999) compares the turnover of the senior and middle-level managers in 7-Eleven Taiwan, Am/Pm and Circle K between October, 1988 and April 1992 (Table 8-10). Am/Pm had the highest separation rate. Under these circumstances, it is difficult to accumulate operational know-how at managerial

level. Lee (1999) points out that the high separation rate is detrimental to the accumulation of know-how and organisational culture. Lee's point explains Hunt's view that causal ambiguity causes the dissipation of a firm's comparative advantage resources.

Table 8-10 The separation rate of 7-Eleven Taiwan, Am/Pm and Circle K

	7-Eleven Taiwan	Am/Pm	Circle K
Senior managers	0 separation rate	4 General Managers within 3.5 years; each worked for only 10.5 months in average	0 change
Middle level managers	5 people quit within 13 years	Only one middle manager stayed; each middle manager stayed in his position for less than 2 years.	Only one left during the period of survey

Source: Lee (1999) *7-Eleven sweeps Taiwan*, Taipei: Yuan-Liou Publishing Co., p. 191.

Another example of failure to re-invest is the sudden failure of Taiwan Big Egg and J-Young at the end the second stage. Both companies had steady operations but suddenly were faced with financial crisis due to too rapid expansion. In other words, their failure was due to not being able to reinvest in time to maintain the system and their market positions. Without strong conglomerate support, these two chains soon collapsed and were sold.

**8.3.3.2. External factors**

External factors in the R-A Competition diagram include the following factors: societal resources, societal institutions, competitors and suppliers, consumers and public policy. Since the influence of competitors and suppliers has been discussed in the contents elsewhere, the discussion here focuses on the other three factors.

**1. Societal resources**

R-A theory defines societal resources as infrastructure, capital, natural resources, formal education, labour force skills and so on. An example of the infrastructure's influence on the development of the convenience store industry is the impact of barcode utilisation on the installation of POS systems. Apart from the huge investment involved in the installation of POS systems, retailers had problems in



utilising EOS/POS due to the low utilisation of barcodes. In other words, the infrastructure was not ready for the introduction and the application of POS systems (Chung, 2000).

## **2. Public policy and societal institutions**

The influence of government policy has been demonstrated Section 8.2. The discussion shows that government policies function as agents to facilitate and control the development of the convenience store industry at the same time.

Government policies are both resources and contra-resources for convenience store retailers. The interviewed convenience store retailers mentioned that the government has both positive and negative effects on their operation and most policies created problems for their operations. In the interviews, convenience store retailers mentioned that the following policies have positive influences on their operations:

- The Business Automation Project and the development of Business-to-Business transaction platform (between retailers and their suppliers) sponsored by the Ministry of Economic Affairs (MOEA) to improve convenience store retailers' analysis of sales and inventory.
- The Good Store Practice (GSP) established by MOEA to encourage convenience store retailers to maintain overall service and store quality
- Government deregulated the collection of bill payment for public services, such as telephone, electricity and parking fees.

The first two policies influenced retailers of all formats and the third policy change was particularly beneficial for convenience stores because this new service provide convenience stores with a new source of income and an incentive to attract customers. According to secondary data, the following policies are also beneficial for convenience store companies and other retail formats:

- Government started the lottery draw of uniform invoices and allowed retailers to produce blank uniform invoices.
- Government added the regulation concerning 2 days off per week in the Labour Standard Law in 1996<sup>4</sup>.

Convenience store retailers also mentioned the following policies that brought problems to their operations:

- The Fair Trade Law promulgated and enforced by the Fair Trade Committee
- The Waste Disposal Act promulgated and enforced by the Environment Protection Administration
- The Rules for Administration of Advertising Signage promulgated and enforced by the Construction & Planning Administration, the Ministry of Interior
- The tax-free allowance of tobacco and alcohol products limited by government before Taiwan's entry to WTO. Retailers have a certain tax-free allowance from Tobacco and Alcohol sales. However, retailers complained that the quota was too small and their sales were often more than the quota, so although Tobacco and Alcohol products had a very high turnover inside stores, they provide very thin profits.
- Government's restriction regarding retailers' store locations. Retailers are not allowed to open stores in some regulated locations, such as industrial parks and areas restricted to agricultural purposes.

Sometimes changes of public policy may create a comparative advantage for some convenience store retailers but become a burden for others. One interviewed manager mentioned the copyright law regarding playing music inside stores caused troubles:

*'In Taiwan, the copyright for music products is a headache for retailers. We have to pay for playing music inside stores. ... The costs was not in our plan, so it (the royalties for music) created extra burden for us; our costs can increase by several millions NT dollars or more. This will influence the ambience inside stores. If we do not accept this (having to pay royalties for playing music inside stores), the result will be the (bad) influence on consumers' mood for shopping and how long customers will stay in our stores. If we pay the money, we will face extra costs. ..., so at this moment, we do not play music in our stores.'*

However, for leading convenience store retailers, this factor can become a comparative advantage. For example, a leading convenience store retailer can invest

in a pop singer or group to promote its public relations and to create its own in-store music.

### **3. Customers**

Changes of consumers also bring about changes of convenience store retailers. Some impacts of consumer' change on the convenience store industry have been mentioned in Chapter 6 and the external factors of each stage in this chapter. More influences mentioned in the interviews are summarised below:

Regarding diet, retailers pointed out the following changes in the interviews:

- Looking for convenience / accepting fast foods and increasing eating-out expenditure. People spending more in away-from-home meals, including fast foods (Table 8-12; Table 8-13).
- Looking for 'fresh' products, e.g., fresh bread and 'fresh' books.
- Health and hygiene conscious: organic foods are getting popular (Liu, Horng and Horng, 2001; Table 8-11) and frozen foods are accepted; customers visit convenience stores for breakfast and lunch because they consider these foods are more hygienic.

Table 8-11 Area for organic agricultural purpose in Taiwan

Year	1998	1999	2000
Area (hectare)	579	823	1,012

Source: Liu, Horng and Horng (2001) *Verification system of organic agricultural product in Taiwan*. June, 2001, Tainan District Agricultural Improvement Station. Pp.17-19; [www.tndais.gov.tw/Magazine/mag36-5.htm](http://www.tndais.gov.tw/Magazine/mag36-5.htm)

Table 8-12 Percentage of purchasing meals outside home during a day in 1999

Meal	Percentage of eating out among surveyed consumers
Breakfast	77.8%
Lunch	86.4%
Dinner	50.6%

Source: Taiwan Chain Store Association 1999 Survey

Table 8-13 The sales of the eating-out industry between 1994 and 1997

Year	Restaurants		Fast food restaurants		Bistro	
	Sales (NT\$m)	Growth rate (%)	Sales (NT\$m)	Growth rate (%)	Sales (NT\$m)	Growth rate (%)
1994	44,760	-	11,439	-	22,858	-
1995	48,589	8.5	14,333	25.3	24,930	9.1
1996	52,702	8.5	16,885	17.8	27,675	11.0
1997	58,836	11.6	26,706	58.2	30,971	11.9
Year	Drink shops		Mealboxes		Total	
	Sales (NT\$m)	Growth rate (%)	Sales (NT\$m)	Growth rate (%)	Sales (NT\$m)	Growth rate (%)
1994	8,508	-	2,403	-	107,511	-
1995	8,651	1.7	3,242	34.9	117,526	9.3
1996	9,241	6.8	3,973	22.6	128,336	9.2
1997	10,662	15.4	5,015	26.2	147,952	15.3

Source: The Ministry of Finance (1998); quoted from the Food Industry R&D Institute (1999) *Status Quo of Refrigerated Food Processing*. P.90 (in Chinese)

The influence of these changes on convenience store retailers was the introduction of fresh foods, i.e., ‘foods on the go’.

As to shopping habits, Taiwanese customers accepted the convenience store as part of their life. Company D manager and Company A manager mentioned the change of consumers:

*‘...consumers are adapting their behaviour. In the past, consumers perceived a convenience store as an expensive place, but now a convenience store has become a necessity. This is the major change in the past ten years; convenience stores successfully substituted for traditional grocery stores.’ (Company D manager)*

*‘Another issue is the service products. We cannot find providers for many products nowadays. For example, we used to buy phone cards from news agents; now news agents disappear, so we can get phone cards only from convenience stores.’ (Company A manager)*

### **8.3.3.3. Sustaining comparative advantage of resources**

Section 3.3.3.1. mentioned that comparative advantages of resources is remained tacit through reducing mobility, remaining the complexity of resources, building mass efficiency, and being a first mover. An obvious example in the convenience store industry in Taiwan is 7-Eleven Taiwan. It is the largest retailer in Taiwan and maintains the market leader position of the convenience store sector since the late 1980s. The reasons for 7-Eleven Taiwan success reflects the four elements mentioned above:

- A market pioneer (being a first mover)
- The low turnover of employees (reducing mobility)
- The largest chain with over 2,000 stores at the time of Year 2000 (building mass efficiency)
- The tacit knowledge regarding its retailer-brand product development (remaining the complexity of resources)

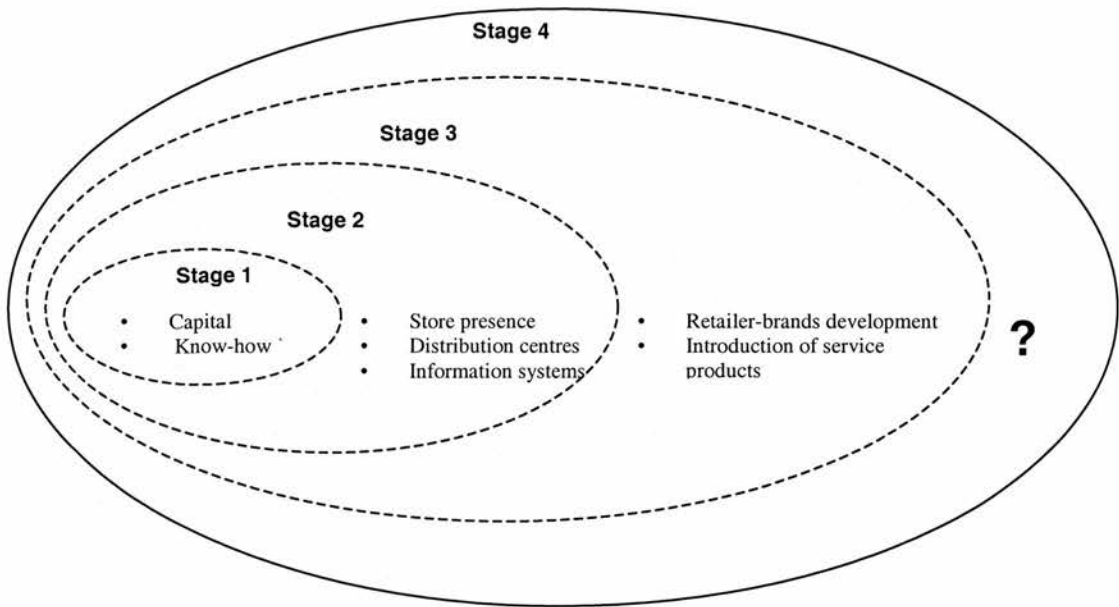
#### **8.3.3.4. The accumulation of resources**

The accumulation of resources can be examined from three aspects:

- The accumulation of resources in each stage
- The accumulation of a single resource over time
- The different focuses of convenience over time

A retailer may have different emphases of resources over time. Section 8.3.2.2 mentioned that there was a certain sequence in the emergence and accumulation of retailers' resources. The history of the convenience store in Taiwan shows that the development of this industry has two characteristics:

- The development is a process of resource accumulation. Section 8.2 discussed the resources convenience store retailers built at each stage. At the first stage, retailers relied on parent companies, struggled for survival and accumulated the basic resources, such as financial, organisational and human resources. During the second stage, retailers, besides maintaining the resources built in the first stage, started to build other resources, such as store presence, brand reputation, information systems, and distribution centres. At the third stage and fourth stage, more resources such as the capability of developing fresh food products, were built and more 'value-added' products, such as home delivery and various services, were added.
- The accumulation of resources in Taiwan's convenience store industry has a certain pattern, i.e., some resources used at the present stage are built upon the resources accumulated or created at the previous stage. One pattern of this accumulation process is illustrated in Figure 8-5:



**Figure 8-5 The sequence of resource accumulation in the Taiwanese convenience store industry over time**

Though these resources are put in sequence, the resources built earlier are still very important in the latter stages. For example, capital is very important for a retailer’s survival in the initial stage, and it is still important in building information systems during the second stage, as well as in developing retailer-brand products during the third stage.

Figure 8-5 shows that before a retailer builds its store presence, distribution and information systems, it must have enough capital for sustaining the operations in the early stage because at this stage, the convenience store business is still new and needs money to build basic operation requirements. The know-how is also important because, to expand the network, a retailer must first accumulate sound expertise to standardise its store management and control store quality.

Abundant capital and sound know-how secure the network expansion and the establishment of infrastructure in the following stage. After building store presence, distribution centres and information systems, a retailer then has scale economies and market information to develop retailer-brand products and services. The store

presence not only provides a retailer with scale economies, but also provides quick access to consumers, which will help the introduction of service products.

Regarding the next step in this resource accumulation procedure. Section 8.2.4.3 listed the possible directions of development. One possible direction is the 'spin-off' of these retailer-brand products and services. Examples are Tesco's exporting its retailer-brand products to Finland and 7-Eleven Taiwan's spin-off of its catalogue shopping business. Another possible direction is partnerships with various partners. Therefore, the expertise of market research and retail know-how and relationships with different partners may be emphasised in the next stage.

A single resource, e.g., information systems, may also have a sequence of development. Taiwanese convenience store retailers' development of information systems started from the adoption of electronic cash register machines before 1988 to improve the bookkeeping procedure. Then the EOS was introduced to improve ordering process and inventory management. The system later was upgraded to include POS systems. POS systems went through several stages of improvement as well. For example, Familymart installed its EOS system in 1988 to reduce inventory and order costs and to improve the efficiency of ordering procedure. In 1998, it further installed a POS system; the system provided just-in-time sales data. In 1999, more functions were added into the POS system to further improve the efficiency of the ordering procedure and to integrate transactions regarding the collection of bill payments and recycled items. The recent development of the POS system in Taiwan's convenience store industry was Nikomart's interactive POS terminal, which may provide a potential marketing tool. Therefore, after a resource is created, it will be continuously 'sharpened' or improved due to the competition.

The pattern of development also appears in the different focuses of 'convenience'. As defined in Chapter 6, the convenience store provided three types of convenience. The focus of development is extended based on the following sequence:

1. Convenience of shopping hours: store opening hours were extended to 24 hours

2. Convenience of locations: increasing market presence through network expansion
3. Convenience of products: more products and services are included to “save customers’ troubles”

#### **8.4. Other outcomes of competition**

Chapter 3 mentioned that there were five outcomes in R-A competition: reactive innovation, adaptive organisational learning, firm diversity, improved productivity and economic growth and Section 8.3.1 discussed reactive innovation and adaptive organisational learning. This section thus focuses on other three outcomes: firm diversity, improved productivity and economic growth.

##### **8.4.1. Firm diversity**

R-A theory indicates that competition leads to firm diversity due to several reasons. The premises and competition process of the convenience store industry in Taiwan, fitting the descriptions of R-A competition, therefore lead to the diversity based on the following evidence:

- The difference among different retail formats is due to the nature of products sold in different formats. For example, the purpose of the convenience store is to provide ‘convenience goods’, which are normally products with high turnover. In contrast, the department store provides shopping pleasure and thus stocks more luxurious items and entertainment products.
- The backgrounds of different formats vary due to the nature and purpose of the parent companies. For example, most Taiwanese convenience stores were invested in by food/drink manufacturers because the convenience store provides a good channel for these manufacturers’ products, which are convenience goods and have high inventory turnover. The department store is mainly the investment of construction or textile companies because it requires higher capital input and is a good channel of textile products.
- Due to company history, differences in available resources, and fierce competition in certain geographical areas, some retailers expanded in less developed areas, instead of opening stores island-wide or only in popular



locations such as near railway stations or business areas. For example, the manager of Company E mentioned that Company E opened stores in small or closed communities, instead of facing head-to-head competition with leading brands. These communities normally have enough population to support a store but are not ideal locations for large retailers.

- Convenience store retailers who have different backgrounds and different resources are equally successful in Taiwan's retail market. For example, 7-Eleven Taiwan, Familymart and Hi-Life have different ways of acquiring operational expertise but are equally successful in the market. 7-Eleven Taiwan acquired its operational know-how from the Southland Co in the USA (now 7-Eleven Inc.); it further localised and accumulated the know-how through trial and error. Familymart adopts and adjusts know-how from its Japanese parent company. Hi-Life was established by the Kuangchuan Group without any international retailer's support. These three convenience store retailers are ranked among the Top 10 companies of the service industry in terms of sales, according to the 1999 CCIS Credit On-line survey.
- Section 7.3.1 mentioned that different formats co-exist in the market and target different customers. For example, interviewed convenience store retailers mentioned that their major customers are students and people working for regular working hours, while major shoppers in supermarkets are housewives. Company E manager indicated the difference among the hypermarket, the supermarket and the convenience store:

*'It (the hypermarket) is not my competitor, but it influences the sales of our stores. Its mega-promotions change consumers' behaviour. Its one-stop-shopping becomes a major activity during weekends for consumers. The convenience store has its own positioning in terms of package and pricing. The hypermarket is changing its marketing strategy. For example, it reduces its packaging size. They do not ask you to buy in bulk; they are offering family size. They also differentiate products for business purpose and general consumption purpose; they further segment markets.'*

Different retail formats target different market segments; they have different investment and emphases in terms of physical distribution, information flows, cash flows and marketing. For example, in physical distribution, the convenience store emphasises efficiency in time, while the supermarket and the hypermarket, in cost

reduction. The information sources mentioned by the different retailers in the interviews also illustrate the difference among retailers. Compared with other retail formats interviewed, convenience store retailers are more proactive and vigorous in using external and internal market information. They are particularly concerned with using market information for more strategic purpose, i.e., the retailer-brand development. In contrast, other formats use market information for more operational purposes, e.g., the assessment of marketing campaigns and competitors' price check. One supermarket (Company SA manager), when interviewed, mentioned that market research is not its main concern.

Even retailers with the same format will adopt different strategies. Convenience store retailers, due to different scales and resources, target different markets and have different strategies. For example, Company A is proactive in diversification into other geographical areas and other retail businesses, while Company F mentioned that it would only expand in a certain geographical areas.

Even though retailers adopt the same strategy, e.g., fresh food development, they differentiate products from one another. Company D manager pointed out the difference among the top three convenience store retailers in retailer-brand fresh foods and explained Company D's strategy.

*'The most obvious difference among the top three: 7-Eleven: mealboxes; Familymart: sandwiches; Hi-Life: cold Noodles. ...We increase the sales per customer because we introduce toys in our stores. We are more concerned with differentiating from '7-Eleven style convenience store'.*

*'Every company follows 7-Eleven but finally we found this was not a good idea. It (7-Eleven Taiwan) has an advantage in terms of the number of stores and know-how (of developing fresh foods). If we always follow it, we can never become better, so since about three years ago, we tried to create our own niche.'*

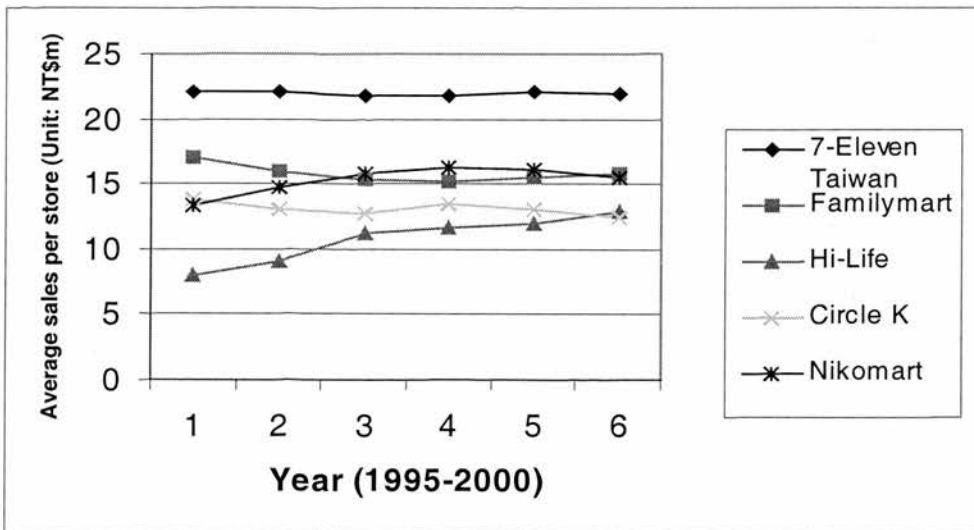
#### **8.4.2. Improved productivity**

R-A theory asserts that the increases in productivity come from efficiency and effectiveness. Hsu (1997; 1999) mentions that international convenience store retailers introduced much advanced operational expertise such as chain store operations, automation, store planning and the techniques of searching appropriate

catchment areas, to Taiwan's retail market and thus improved efficiency of distribution systems and store operations in Taiwan.

This research defined productivity as 'the annual sales per store'. Though sales per employee and sales per square foot (or per square meter) are common measurements of the retail productivity in the UK and in the USA, most Taiwanese convenience store retailers mentioned in the interviews that they did not adopt these two measurements. They regarded the number of stores as an important index instead. To show the productivity of Taiwanese convenience stores, this research thus uses a proximate measurement – annual sales per store<sup>v</sup>.

**Figure 8-6 Productivity of mandated/authorised franchise chain convenience store companies between 1995 and 2000**



Besides the competition-led firm diversity discussed in Section 8.4.1, the diversity also demonstrated in the difference of the productivity among convenience store retailers. Figure 8-6 shows the average productivity of mandated/authorised franchise chains between 1995 and 1999<sup>w</sup>. The results remained at the similar level in the second half of the 1990s. Figure 8-6 shows that 7-Eleven Taiwan enjoyed highest productivity among these 5 chains<sup>x</sup>. The results may be due to 7-Eleven Taiwan's market pioneer advantage and its superior innovation and organisational

learning in the operation. Hi-Life, the only purely domestic convenience store retailer, has the lowest sales per store but it is catching up with Circle K. Hi-Life's low productivity may imply that retailers learning from international retailers can operate more efficiently because the benchmark from international retailers helps these retailers avoid mistakes which may increase operation costs. Another reason for Hi-Life's relatively low productivity may be because the retailer had some voluntary chain stores in the first half of the 1990s. The sales from these voluntary chain stores were not included in Hi-Life's total sales. Since Hi-Life phased out this type of stores gradually, the performance improved consequently.

Figure 8-6 also shows that Hunt's claim of productivity may not be sustained for individual retail companies, especially when a retailer grows larger, the benefits from expansion may diminish.

However, the productivity of the whole chain convenience store industry shows that the sales per stores increased since 1995 (Table 8-14).

Table 8-14 The productivity of total chain convenience stores between 1995 and 1999<sup>y</sup>

Year	1994	1995	1996	1997	1998	1999	2000
Sales (NT\$m)	41,653	49,203	59,695	71,164	84,805	101,129	110,489
Average Sales(NT\$m)	-	45,428	54,449	65,429.5	77,984.5	92,967	105,809
The number of stores	3,063	3,713	4,186	4,975	5,260	5,532	6,187
Adjusted number of stores	-	3,388.0	3,949.5	4,580.5	5,117.5	5,390.0	5,859.5
Productivity per store (NT\$m)	-	13.4085	13.7863	14.28436	15.23879	17.22887	18.05768

*Note: The data after 1999 is not available from Convenience Store Magazine; the 1999 and 2000 store number is from Retail Mart Magazine; inflation rate is ignored here.*

As discussed in Chapter 3, the increases in productivity meant creating the same value with reduced resource costs or creating more value with the same resource costs. The increasing productivity of the whole convenience store industry may be explained by the following reasons:

- Convenience store retailers' utilisation of technology and operating methods, e.g., EOS systems, POS systems and centralised distribution centres, to improve their operations and reduce costs

- Convenience store retailers' continuous introduction of new products such as fresh foods and various services, to facilitate sales growth and improve profit margins

For example, Nikomart mentioned that after the installation of EOS systems, the time between the order and the delivery of products was reduced from 3 days to within 2 days<sup>2</sup>. The profit margins of retailer-brand products can reach 30-40%, higher than the average 27% margins of other products in the convenience store (Wu, 1993).

The discussion in Chapter 3 mentioned that a firm's motivation to improve productivity might result from intra-firm motivation and inter-firm competition.

A firm's looking for superior financial performance and self-improvement lead to self-motivated innovation. Company A manager in the interview provided evidence for this assertion.

*'We never regard any other retailers as competitors because the convenience store is small and close to customers<sup>aa</sup>. Our main concern is what customers need and whether our resources and systems can offer. Because we are closer to customers than any other retailers, so we do not consider to compare with other retailers.'*

Company I manager mentioned that Company I installed a POS system to improve efficiency, though it had a chance to expand into other regions.

*'... If you do not introduce office automation (e.g., the intra-net and the POS system), you cannot save personnel costs. You will have more mistakes on your reports; dead accounts or account receivable and account payable all will generate mistakes.'*

*'...If we did not introduce office automation, we might be able to achieve this goal (of expanding to other regions earlier). However, now we decide to introduce office automation but we only have one team; it is a heavy workload...  
...we hope to start over from office automation. We do not want to start, as a convenience store would do traditionally. We go straightforward to office automation.'*

The improvement of productivity might also result from benchmarking after competition. Firms learn how well they were doing from competing with each other and improve to catch up competitors. In Taiwan's convenience store industry, it is

important to observe competitors' movement. In the interviews, Taiwanese convenience store retailers often quoted other convenience store retailers, especially 7-Eleven Taiwan, for comparison. For example, Company E manager compared his company with 7-Eleven Taiwan:

*'7-Eleven is doing 'channel-marketing', while we are still staying in traditional retailer functions. They (7-Eleven) have sound distribution systems and enough stores to create scale economies. Their popularity comes from their continuous innovation.'*

This prompts Company E's reconstruction of company structure, such as sharing facilities with its parent company, establishing new distribution centres, and introducing a new franchise system and a new store brand from 2000.

### **8.4.3. Economic growth**

As defined by the Taiwanese government, the composition of GDP contains the expenditures in the following aspects: private consumption, government consumption, gross fixed capital formation, increases in inventory, exports and imports.

The contribution of the convenience store industry to the economic growth in Taiwan is proved here through the fact that consumer spending in the convenience store is increasing. It is also proved through the fact that the sales growth of the convenience store industry increases more rapidly than the overall retail sales and economic growth.

As explained in Chapter 6, the convenience store industry is a positive factor to the economic development in Taiwan. Table 6-1 shows the sales of the convenience store industry, private consumption and real GDP in Taiwan. Consumers' spending in convenience stores as a percentage of total private consumption increased since 1994, from 1.03% in 1994 to 1.93% in 2000. Table 6-1 also shows that the sales of the convenience store sales/total GDP grew from 0.61% in 1994 to 1.16% in 2000; in other words, the sales of convenience store grew more rapidly than the growth of total GDP, i.e., economic growth.

R-A theory asserts that R-A competition leads to economic growth for four reasons: technology as a resource, innovation, expected superior performance, societal institutions (trademarks and patents).

One example of technology being a resource is the convenience store's EOS and POS systems. The introduction of EOS and POS systems was due to retailers' competition. Am/Pm utilised these systems in the attempt to surpass its competitors; this action was followed by 7-Eleven Taiwan, which tried to improve its ordering and distribution process. Am/Pm's EOS/POS, as mentioned in Section 8.2.2, prompted retailers' development of EOS/POS and drew government's attention. Under these circumstances, technology was originated from the competition. Thus Hunt's assertion sustains.

The entry of many conglomerates and investors into the convenience store industry and the continuous improvement of productivity were due to these investors' expectation of rewards from investing in this industry. Section 7.3.6 and Section 8.2.1.3 mentioned that 7-Eleven Taiwan's success was partly owing to the insight of the CEO of President Enterprise and General Manager of 7-Eleven Taiwan (Lee, 1999; Preface and p. 31) because they sensed the prosperous future of the convenience store industry. As Lee mentioned:

*'Hsu, Chung-Jen reminded all the staff in a meeting: "Though the convenience store department (i.e., 7-Eleven Taiwan) is losing money, we should realise that this industry has future and good prospects. As long as the company has future, every staff will have future..."' (p.31)*

The interviewed convenience store retailers mentioned one motivation of entering this industry was the parent companies' ambition to control distribution channels, besides the financial reward from this industry. Under these circumstances, the rewards and survival of associated entities are also reasons for entering the convenience store industry.

Other issues related to the influence of innovation on economic growth have been discussed elsewhere in this chapter and the discussion here focuses on the

implication of innovations on the improvement of consumers' shopping environment and subsequent shopping habits.

The operation of corner shops is modernised not only through the concept of the convenience store, but also through the facility and technology utilised by these stores. For example, as mentioned repeatedly throughout this research, information systems and centralised distribution improved the productivity of the convenience store industry by providing accurate data regarding sales and inventory and by reducing merchandise handling costs. The technology utilised in the ambient controlled cabinets and product development also helps to improve convenience store retailers' market offerings.

Competition of the convenience store industry is influenced by the environment and at the same time influencing its environment. Thus another contribution of convenience store competition to economic growth is the convenience store's 'education' of consumers. Section 8.3.3.2 mentioned the influence of the convenience store upon consumers' shopping habits. Taiwanese consumers learned the new concept, adopted the new shopping method and integrated the convenience store into their life. For example, when 7-Eleven Taiwan introduced 'self-service area' inside the stores, it used obvious signs, product and flavour labels, and instructions to 'teach' consumers how to get products; sometimes in-store staff also assisted consumers to get these products (Chen, 1992). In terms of cultural factors, consumers learned from the new retail format to choose higher quality stores, e.g., stores with better hygiene, brighter lighting and better laid-out and labelled products, and thus their quality of shopping, and subsequent standard of living, is improved. Customer welfare is also improved through retailers' and government's mechanisms to improve store quality and to protect consumers' rights. For example, many retailers have a customer hotline for customers to make appeals.

## **8.5. Summary**

This chapter discussed the process and the outcomes of the competition of the convenience store industry in Taiwan.



Generative organisational learning and proactive innovations created a new retail format to the Taiwanese market and triggered every new stage of convenience store competition. This process is influenced by various environmental factors. It is kept active by convenience store retailers' reactive innovation and adaptive organisational learning until the financial performance causes the rise and fall of some participators. The process leads to three outcomes – the diversity among convenience store retailers, convenience store retailers' improved productivity and economic growth, besides the continuous reactive innovation and adaptive organisational learning.

The process of convenience store development in Taiwan shows that government regulations and policies played an important role in the growth of this industry. Change of government regulations facilitated the network expansion of this industry during the second stage and the proliferation of service products in the third stage.

The discussion in this chapter also showed that the development of the convenience store industry in Taiwan is a process of resource creation and elaboration, and the establishment of some resources is prior to the availability of the others. Some resources are a pre-requisite of the others. For example, the financial resource is a preliminary resource for other resources. In other words, the resources created and utilised at the present stage are based on the resources accumulated in the previous stage and will influence the creation and accumulation of resources in the following stage. The development of resources also saw that the focus shifted from convenience of time to convenience of locations and then to convenience of products. The discussion here predicted that the focuses will be the relationships with various partners, and human and organisational resources, which help maintain these partnerships.

Furthermore, the analysis of the convenience store industry in Taiwan showed that the duration of each stage is shortened. The first stage lasted for about 11 years, from 1977 to 1988. The second stage has 7 years, while the third stage lasted only for 5 years. This phenomenon can be explained as 'the learning curve of

competition' of the industry. Since the competition is triggered by generative learning and results in continuous adaptive learning, the evolution of the retail industry can be regarded as a learning process of an industry and a society. Each stage of learning is shorter than the previous stage, due to the utilisation of the knowledge and resources accumulated in the previous stage.

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## Notes

<sup>a</sup> The 14 sub-industries include: Supermarkets and (state-owned and private) traditional markets, fast food restaurants, product and package design, advertisement design, chain stores, wholesale, shopping mall and retail streets, credit agency and security industry, consultancy, machinery rental services, information provision services, information supply industry, culture services, parking services.

<sup>b</sup> 7-Eleven Taiwan opened 24 hours before the abolition of this policy. However, whether and how 7-Eleven Taiwan avoided the fine can not be traced.

<sup>c</sup> The conditions are:

- the company must be a limited liability corporation
- the company must be granted as a model corporation by the government tax office in the last three years
- Half a year before the application, the company used over 100,000 copies of uniform invoices.

<sup>d</sup> Hi-Life had small percentage of voluntary chain stores. However, its expansion was mainly through regular chain and, later, mandated and authorised franchise system.

<sup>e</sup> The combination of a franchise chain and a voluntary chain.

<sup>f</sup> As explained in Chapter 5, VAN is an information system to improve the efficiency retailers' ordering process.

<sup>g</sup> Bentham system is a distribution information system established by 31 wholesalers of food, groceries and pharmaceutical products around Tokyo in Japan in 1987. The purpose of the system is to deal with the orders from retailers around Tokyo. In 1988, the system was expanded to include the data exchange between wholesalers and retailers. Within three months, the network grew to include 80 wholesaler and 314 retailers. Then the system was named in the memory of the British philosopher, Jeremy Bentham. Source: [www.grandsoft.com/gim/006/df061.htm](http://www.grandsoft.com/gim/006/df061.htm) (in Chinese)

<sup>h</sup> [www.7-11.com](http://www.7-11.com), 2000.

<sup>i</sup> As explained in Chapter 6, a combination convenience store is a convenience store combined with one kind of specialty store. The space for non-convenience store operation must be under 50% of a store' total sales space and two formats share one cash register.

<sup>j</sup> Before the revision of the law, labours in Taiwan have to work on Saturday.

<sup>k</sup> The start date of Hi-Life's website is not available.

<sup>l</sup> Public issuing means a limited liability company with over NT\$0.2billion, under the governing of company law and stock exchange law, issues shares or bonds to the public. The conditions of the sales of the shares or bonds must be consistent among all the buyers. ([www.dgbasey.gov.tw](http://www.dgbasey.gov.tw))

<sup>m</sup> Mandated/authorised franchise chain stores include 7-Eleven Taiwan, Familymart, Hi-Life, Circle K and Nikomart. Voluntary chain stores include SJExpress, J-Young, 3Q, Wongtsaichi, Smart, Chisheishien and Anytime. TaiSugar Million is a regular chain and not included here.

<sup>n</sup> Circle K started its POS in some stores since 1993.

<sup>o</sup> Aug, 1998, Convenience Store Magazine.

<sup>p</sup> Under these circumstances, a convenience store retailer will co-operate with an overseas company.

<sup>q</sup> Though Smart still stays in the market, according to the information from the Taiwan Chain Store and Franchise Association and Retail Mart Magazine, the company does not have headquarters or provide any assistance to stores using 'Smart' logo any more.

<sup>r</sup> 'Large-scale' is mentioned here because some convenience store retailers have introduced this service in limited amount of stores. The installation this time covers most of stores of a retailer.

<sup>s</sup> Pelican is a subsidiary of Tongyuan, a local conglomerate, but joined by many retailers.

<sup>t</sup> The POS machine has a screen facing customers. Customers can see the products they bought and the total prices from the screen. The Min Sheng Daily, November, 22, 2001.

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<sup>u</sup> Article 30(1), the Labour Standard Law.

<sup>v</sup> Due to the availability of data, the calculation here assumes that all the stores have the same size.

<sup>w</sup> 1. Adjusted store numbers of present year = (store number of previous year + store number of the present year)/2

2. Adjusted sales of present year = (sales of previous year + sales of the present year)/2

3. Productivity per store = adjusted sales/ adjusted store numbers

<sup>x</sup> Due to unavailability of data of voluntary chain retailers and the problem in calculating voluntary chain retailers' productivity, i.e., the problem of deciding the productivity of their franchisees' stores, the calculation here shows productivity only for mandated/authorised franchise chain stores.

<sup>y</sup> The method of calculation is the same as Figure 8-6

<sup>z</sup> Nikomart company profile

<sup>aa</sup> Here the manager means that the convenience store is smaller than the hypermarket or the supermarket and gives customers more friendly image.

# Chapter 9

## Conclusion

This research is motivated by the fact that, though the convenience store is an innovative and vigorous retail format in Taiwan, no studies have ever explained its development under a theoretical framework. This research is also motivated by the fact that traditional strategic planning cannot model firms' strategic changes over time and the theories of retail organisational change cannot properly explain retail development in non-western market. Resource-Advantage theory, or R-A theory - was chosen as an alternative to solve the weakness in these existing theories. However, R-A theory is still a 'work-in-progress' and therefore the other two purposes of this research are to review R-A theory and to provide empirical evidence to validate R-A theory.

This research first reviewed the existing theories of retail strategic planning and retail organisational change and introduced R-A theory as an alternative theory to explain retail competition. Subsequently, R-A theory was reviewed in detail. This research then discussed the modernisation and development of the general merchandise retail industry and the convenience store industry in Taiwan, and examined the development of the convenience store under the framework of R-A theory.

### 9.1. An account of R-A theory

#### 9.1.1. The applicability of R-A theory

Based on the examples from the retail industry, this research proves that R-A theory is an empirically feasible and viable framework for analysis at industry-level and for analysis of industrial development. The discussion showed that, compared to the traditional frameworks such as Porter's and Ansoff's, R-A theory has the advantage of considering the influence of both firms and external factors on competition. In

other words, firms do not simply accept the influences of environmental factors passively; they also influence the environment and competition proactively. R-A theory's emphasis on intangible resources implies that R-A theory also offers an alternative framework for analysing competition and key success factors in the service industry because intangible resources often are the sources of competitive advantage in this industry.

For analysing competition and development in the retail industry, R-A theory is an appropriate alternative to traditional theories of retail strategy and retail organisational change because R-A theory has the following functions:

- To examine retailers' positions in the market
- To analyse the resources required in competition, especially intangible resources
- To understand the environment within which the firms compete with each other and which influences the creation and accumulation of resources

Existing theories based on Porter's and Ansoff's models are confined within a certain time frame and do not demonstrate the role of resources during competition but R-A theory, with the above three functions, includes the concept of 'dynamic competition' and the resources utilised and accumulated over time.

### **9.1.2. Elements of R-A theory**

The discussion showed that the elements of R-A theory provides the following benefits:

#### **1. Premises**

- The premises explain the reality in the retail industry.
- The assertion regarding consumer information can be used to explain the function of branding.
- The emphasis on intangible resources, the claim regarding possession of resources, and the role of management provide an explanation for retailers' strategic alliances, mergers and acquisitions.

## **2. Process of competition**

The role of innovation and organisational learning in R-A competition is further clarified. The innovation should be further divided into proactive innovation, which triggers the competition, and reactive innovation, which responds to competition. Organisational learning should be divided in two: generative organisational learning, which causes the imbalance in competitive advantage among retailers, and adaptive organisational learning, which responds to competition.

This research concludes that human resources, which relate to organisational learning, are important to maintain the competitiveness of a firm, and proactive innovation and generative organisational learning help explain the occurrence of competition. In addition, R-A theory's claim regarding the 'locally fitter' may explain why a specific retail format dominates in a specific geographical area.

## **3. The outcomes of R-A theory**

The outcomes of R-A competition are re-considered. Hunt mentions that the natural outcomes of R-A competition are innovation, organisational learning, firm diversity, improved productivity and economic growth. This research argues that reactive innovation, adaptive organisational learning, firm diversity, improved productivity and economic growth are the outcomes of R-A competition.

The outcomes explain retailers' reaction to competition and the influence of retail competition on the macro-economy. Since R-A theory includes the outcomes at the macro-economy level, the government may also use the theory to review its policies regarding a specific industry and contemplate possible policy changes to facilitate or 'supervise' an industry's further moves.

## **9.2. The implications of the analysis of the convenience store industry in Taiwan**

The analysis of the convenience store industry in Taiwan shows that its development is based on the continuous interaction between the industry and the following factors:

- **The conduct of conglomerates or food/drink manufacturers**

The emergence of the convenience store was due to government policy and large conglomerate strategy. Different from retailers in Western countries, the convenience store industry in Taiwan is an extension and proliferation of large food/drink manufacturers' competition. Therefore, the relationship between these retailers and their parent companies, i.e., food/drink manufactures, are reciprocal, rather than conflicting.

Local conglomerates imported this new format modernising the convenience shopping in Taiwan and provided financial resources to support the growth of the convenience store industry. The thriving convenience store retailers brought their conglomerate parent companies a source of financial reward and a solid channel for marketing products.

- **Change of government policies**

Government policies and regulations have influence on the convenience store industry in two ways: supervising the conduct of convenience store companies and influencing the pace of the convenience store retailers' expansion. The government plays a role as a judge to ensure fair competition. Regulations such as the Fair Trading Law monitor convenience store retailers to ensure fair competition.

At the same time, government policies influence the pace of convenience store retailers' expansion. They are both positive and negative factors in the development of convenience store industry in Taiwan. In addition to the food/drink manufacturers' influence, government policy also played a role in the emergence of

the convenience store industry. Government policies and regulations, by offering various incentives, helped establish the industry and facilitated the expansion of this industry.

On the other hand, competition in the convenience store industry influences the government's actions. Some government projects, e.g., establishing retail information systems, are the outcome of this influence. Sometimes the government also relies on convenience store retailers to put its policies, e.g., policies regarding recycles, into practice.

- **Change of consumers**

The convenience store also expanded due to consumers' increasing acceptance of this retail format after improvement in their incomes and changes in their lifestyle. Convenience stores are accepted as an alternative to traditional corner shops for convenience shopping and more consumers shop in convenience stores because more consumers look for time saving shopping. The change of consumers' tastes and preferences pushed retailers continuously to look for new products and services to offer. While consumers gradually increased their shopping trips to convenience stores, retailers 'educated' Taiwanese consumers to ask for a better shopping environment and to shop through new methods, such as Internet shopping or home delivery services.

- **International retailers**

International retailers' know-how is important for the survival of the convenience store. Though most international retailers do not have direct control over these local convenience store companies, they have provided Taiwanese convenience store retailers with expertise in operating modern grocery stores and with benchmarks for building resources.

Under the influence of these four major external factors, convenience store retailers competed in establishing comparative advantages of resources, achieving better market positions and pursuing superior financial performance. The analysis showed



that three resources are most important: financial resources, organisational resources and human resources. The accumulation of the resources overall and the development of an individual resource have certain patterns. Some resources, e.g., financial resources, must be created and accumulated, prior to other resources. An individual resource, once it is created, will be developed over time. In addition, convenience store retailers' focus of 'convenience' shifted over time, from 'convenience of shopping hours' to 'convenience of shopping location' and then to 'convenience of products'.

The analysis also shows that the duration of each competition stage was shortened, as the history of the convenience store advanced. This phenomenon can be regarded as retailers' 'learning curve of competition'. However, three questions remain unanswered:

- Why does this learning curve phenomenon happen?
- How will this learning curve phenomenon develop further?
- When will this learning curve phenomenon develop further from now?

Finally, the analysis shows that competition in the convenience store industry leads to diversity among the convenience store retailers, and the difference between the convenience store and other formats. Convenience store retailers' competition also contributes to their improved productivity and the economic growth in the second half of the 1990s.

In the future, the convenience store industry in Taiwan may develop in the following directions:

- Establishing strategic alliances with other retail formats, such as department stores and the hypermarket, and with special suppliers, such as farmers of special agricultural products. Customers can order products from other retail formats and pick up the order from a convenience store or customers can order agricultural products from a special region and pick up the order in a convenience store near home.

- Strengthening the capability of lobbying and establishing positive relationships with the government. Since government regulations play an important role in convenience store retailers' expansion and operation, retailers may persuade the government and the Legislation Yuan to create or revise regulations in favour of the convenience store industry. Retailers may strengthen their public relation capability in order to influence public policy.
- Following the path of convenience store retailers in the USA and Japan and introducing more fresh foods and more services such as simple retail banking service.
- Expanding into other markets. Since the know-how of the convenience store is reaching maturity, convenience stores can pioneer into retail markets in other countries such as China.
- Establishing consultancy and providing market research and retail assessment services. Retailers may spin off their market research and e-commerce units and provide services, e.g., consumer research and assessment of retail locations, based on the resources they have accumulated.

In terms of resources, retailers should establish strong organisational resources to maintain their relational resources, including relationship with customers, competitors, the government and various suppliers. Convenience store retailers have limited resources but they are expanding beyond the present business scope. Therefore, convenience store retailers also must establish capability (human resources and organisational resources) to ensure the selection of right partners and to maintain the relationship.

### **9.3. Limitations and future research directions**

#### **9.3.1. Limitation of R-A theory and retail studies in Taiwan**

The analysis of Taiwan's convenience store industry shows that, compared with traditional theories of retail organisational change, R-A theory provides an alternative framework to explain:

- The origin of the competition in the retail industry
- The interaction between the retail industry and the environmental factors
- The resources required
- The process of competition in this industry
- The contribution of the convenience store industry to the whole economy

However, when applied to the analysis of retail competition, one should consider the following factors:

- The methods of deciding retailers' market positions should be re-considered. As discussed in Chapter 3, R-A theory's contention regarding parameters of competitive position matrix is in conflict with its assertion of resources and firm diversity. The costs of some resources are difficult to measure through traditional accounting approaches due to their intangible nature. Firm diversity and diversified resources also cause problems for comparison. This research suggests the use of indicators that a specific retail market emphasises as a determinant of retailers' market positions. In this research, the number of stores is used as a single index because it is used by the convenience store retailers in Taiwan to review market positions.
- R-A theory has weak ability to suggest retailers' future moves. Porters' generic strategy and Ansoff's product-mission matrix clearly lay out possible strategic directions for managers. Hunt's R-A theory can only be used as a tool to analyse the postures of an industry over time and is not able to provide strategic options guiding firms' strategic directions. In other words, R-A theory cannot provide strategic options in resource creation and accumulation.
- R-A theory emphasises the importance of intangible resources, which are often the sources of competitive advantage in the retail industry. However, this theory cannot identify the important retail factors, e.g., location and store ambience. Problems may also occur in the classification of resources. For example, location is an important factor in retail strategy; however, it is not clear what category 'location' belongs to.

- Due to R-A theory's assertion of competition outcomes, the theory is only suitable for an industry, which has developed over a certain period of time. A new industry may be still unstable in terms of its development and thus R-A theory will not be able to model its pattern of development and its influence on the whole economy.
- R-A theory originated from the western economy. Thus when applying this theory to analysis of competition in other markets, one should consider the differences among the economy in different cultural settings.

In the analysis of the convenience store industry in Taiwan, the difficulty of data collection constrained the demonstration of evidence. For example, in the calculation of economic growth, an indirect index is used to show the contribution of the convenience store trade to GDP because gross added value of this industry in total GDP is not available in official statistics. This research urges the Taiwanese government and retailers to reveal more information regarding the operations of this industry. Doing this will benefit both the government and the industry. The government will have a clearer picture of the industry and be able to draft appropriate policies to assist the development of this industry. Retailers' disclosure of information will help them to understand their positions in the market and plan possible strategic development.

### **9.3.2. Future research directions**

In this research, many questions are still not answered. In terms of the applicability of R-A theory to retail competition, there are five directions for future research:

- To develop a model which can supplement R-A theory and provide practitioners with clear strategic options for future development
- To revise the market position matrix of R-A theory or to develop an alternative model more suitable for practical use
- To find out how retailers spot a valuable resource and further develop it into a competitive advantage

- To develop a model to show the relationship between a firm's pattern of resource accumulation and its financial performance
- To modify the framework to reflect the cultural factors which influence competition

As to the study regarding the convenience store industry in Taiwan, there are also several possible future research directions. The first possibility is to develop a dynamic model to determine the possible capacity of this industry. This research pointed out that forecasts in the past failed to provide the accurate capacity of this industry due to the changing environment. Thus a capacity prediction model, which contains the simulation of possible environmental scenarios, will help retailers to plan for future investment and help the government to draft policies concerning retail development in Taiwan.

The second possible research direction is the influence of culture on the retail development. The preference of consumer shopping location varies in different markets. In Taiwan, consumers' shopping preference influences the development of the supermarket and the convenience store in Taiwan. Thus a potential topic is the study of the influence of cultural background upon the development of a retail format.

In addition, though the analysis showed that competition in the convenience store industry contributes to economic growth in Taiwan, this research did not model the relationship between the factors in the convenience store competition and the outcomes. Therefore, a model is needed to identify the resources of comparative advantage in the convenience store competition that contribute to the economic growth.

Finally, though international retailers played an important role in the modernisation of Taiwan's retail industry, the discussion in this research did not cover this issue in-depth and mentioned the role of international retailers only occasionally. Thus another possible research direction is to test whether a difference exists between the

convenience store retailers with international retailers' assistance and those without. For example, whether the retailers with international know-how operate more efficiently than purely local retailers and whether 'the country-of-origin' effect exists in the retail industry.

This research is a start of the empirical testing of R-A theory's applicability to the retail industry. More empirical tests should be conducted in other formats, e.g., the hypermarket and the supermarket, or in other markets, e.g., Thailand and China, to further elaborate the theoretical framework and to strengthen the applicability of R-A theory to the retail industry.

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[www.Nikomart.com](http://www.Nikomart.com)(in Chinese)

[www.otc.org.tw](http://www.otc.org.tw)(in Chinese)

[www.taiwanheadlines.gov.tw](http://www.taiwanheadlines.gov.tw)

[www.tcfa.org.tw](http://www.tcfa.org.tw)

[www.tesco.com](http://www.tesco.com)



# Appendices

## Appendix I Major sources of secondary data (in Chinese)

[www.dgbasey.gov.tw](http://www.dgbasey.gov.tw)

[www.moea.gov.tw](http://www.moea.gov.tw)

[www.udn.com.tw](http://www.udn.com.tw)

[www.7-11.com.tw](http://www.7-11.com.tw)

[www.family.com.tw](http://www.family.com.tw)

Breakthrough Magazine (Marketing Magazine)

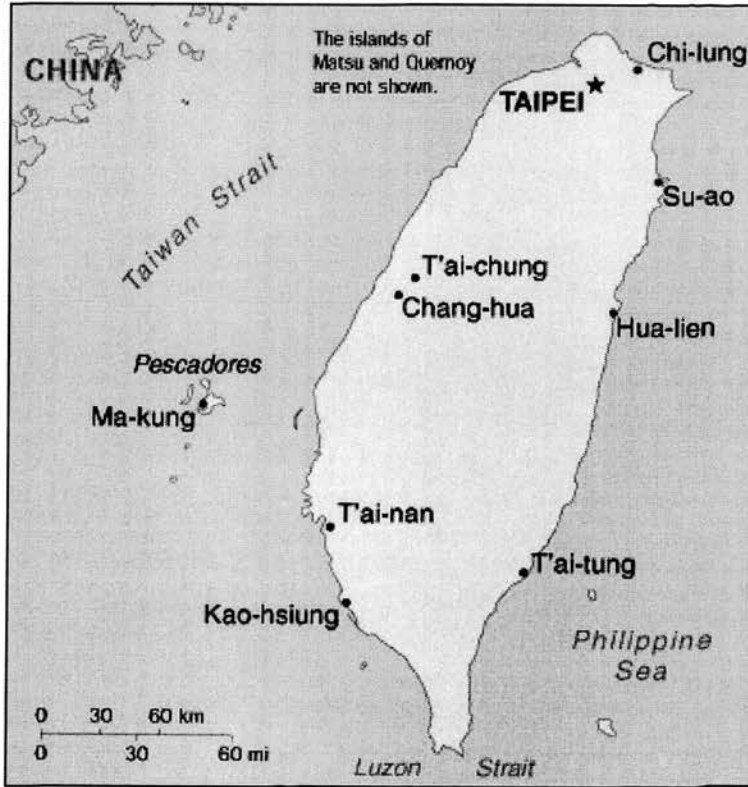
Commonwealth Magazine

Convenience Store Magazine

Retail Mart Magazine

Taiwan Chain Store & Franchise Association

## Appendix II A Map of Taiwan



Source:

[http://www.lib.utexas.edu/maps/cia01/taiwan\\_sm01.jpg](http://www.lib.utexas.edu/maps/cia01/taiwan_sm01.jpg)

## Appendix III Glossary

**The Bentham system** is a distribution information system established by 31 wholesalers of food, groceries and pharmaceutical products around Tokyo in Japan in 1987. The purpose of the system is to deal with the orders from retailers around Tokyo. In 1988, the system was expanded to include the data exchange between wholesalers and retailers. Within three months, the network grew to include 80 wholesaler and 314 retailers. Then the system was named in the memory of the British philosopher, Jeremy Bentham.

**Bill payment services.** Consumers in Taiwan can pay various bills, e.g., electricity bills, telephone bills, gas bills, parking fee, tuition fees, cable TV monthly payment, etc, in convenience stores. These services provide retailers with extra incomes from the commissions and are incentives for convenience store retailers to attract customers.

**CCIS** is the abbreviation of China Credit Information Service, LTD. It is a private company and provides the following services to various industries: credit reporting, property appraisal, market research, business publications, business databank, and consultancy.

**The CCL of the ITRI** is the abbreviation of ‘the Computer & Communications Research Labs of the Industrial Technical Research Institute’. This institute is funded by the government and conducts substantial research projects. The projects of the Computer and Communications Research Labs are related to telecommunication and the Internet and some of which are related to the retail industry, e.g., the Value-Added-Network Project.

**Chain Stores** are a group of stores owned by a business that fits the following conditions, according to the definition given by the Taiwan Chain Store & Franchise Association:

1. A business that owns over 7 regular chain stores and has over NT\$100million annual turnover.
2. A business that owns 3 regular chain stores and has over NT\$100million annual turnover. The size of each store is over 1,000 pings.
3. A business that owns over 5 regular chain stores, expands mainly through franchising, has over 30 franchising stores and has over NT\$100million annual turnover.
4. A business that owns over 5 regular chain stores and over 20 concessionaires in other retail businesses and has over NT\$100million annual turnover.

**Combination stores.** According to MCR in Japan, a combination convenience store is a convenience store combined with one kind of speciality store. The space for non-convenience store operation must be under 50% of a store' total sales space and two formats share one cash register.

**DGBASEY** is the abbreviation of the 'Directorate-General of Budget, Accounting and Statistics, the Executive Yuan. This is a central government office in charge of national budgeting, accounting and duties related to national statistics.

**The general merchandise retail industry** in Taiwan is analogous to the grocery retail industry plus the department store in Britain. It includes four major retail formats – the department store, the supermarket, the convenience store and the hypermarket – and other retail businesses, which sell groceries but cannot be classified as one of these four formats.

**EOS** (Electronic Ordering System) is an information system, which utilises electronic data exchange to order products automatically. It improves a retailer's efficiency of ordering process and reduces a retailer's procurement costs.

**Franchise systems.** There are four types of franchise chain systems in Taiwan's convenience store industry - the corporate (regular) chain, the authorised franchise

chain, the mandated franchise chain and the voluntary chain. The controls of headquarters over stores vary among these four types. The headquarters of the corporate chain has 100% controlled over the stores, while the headquarters of the voluntary chain has minimum control.

**MOEA** is the abbreviation of the 'Ministry of Economic Affairs'. This is a central government office, which takes charge of matters related to national economic administration and construction.

**The over-the-counter market and the stock market** are two major public capital markets in Taiwan. The stock exchange market was set up in 1962 and managed by Taiwan Stock Exchange Corporation (TSEC). The over-the-counter market, or GreTai Securities Market (GTSM) was set up in 1994 and managed by a non-profit entity, which is sponsored by TSEC, TSDA, Kaohsiung Securities Dealer Association and Taiwan Securities Central Depository (TSCD). The criteria for being listed in TSE and GTSM are different in the following aspects: paid-in capital, duration of incorporated, profitability, dispersion of shareholdings, central custody shares, underwriter recommendations, and shareholders' affairs office. The requirements for the stock market are stricter than those for the over-the-counter market.

**POS** (Point of Sales) is an information system to facilitate a retailer's store management. It enables convenience store retailers to produce detailed accounting data, collect consumption patterns and trace the sales of individual products from the data generated. A POS system will need retailers' larger investment of time and money.

**The separation rate** means the number of employees leaving an organisation divided by the average total employees, according to Flippo (1971). Separations include quits, discharges, retirement and death. The average total employees = (the number of employee in the beginning of the year + the number of employees at the end of the year)/2.

**TCSA** is the abbreviation of the 'Taiwan Chain Store Association'. The organisation was established in 1991 by several retailers. It is renamed as 'The Taiwan Chain Store and Franchise Association' in 2000. The purposes of this organisation are to modernise and rationalise the distribution and retail businesses by providing members with retail training programmes and information and to promoting consumers' welfare by improving the quality of retail operation and services. It has 192 members at the end of 1999.

**Uniform invoices** have five different types, including invoices for business transactions and receipts for consumers' purchase. The latter is analogous to receipts in the United Kingdom or in the United States.

**VAN** (Value-Added-Network) is a system developed by the CCL of the ITRI. The purpose of this system is to improve the efficiency of retailers' ordering process and facilitate inventory management. This VAN project was one theme of Commerce Automation initiated by the Ministry of Economic Affairs; the whole project includes two parts: the Nation-wide Convenience Store VAN Experiment System to improve ordering efficiency and the Computer Aided Picking System (CAPS) for simplifying distributors' merchandising picking procedure. The former system was utilised by four convenience store retailers, including Taiwan Big Egg and 17 wholesalers, e.g., Chiao Chu. The CAPS was transferred to the Retail Support International and the Mercuries Department Store. The design of the Nation-wide Convenience Store VAN Experiment System is based on Bentham EOS from Japan. The system includes a Value Added Network centre, retailers and suppliers, and contains the following functions: 1. Electronic Ordering System, transmission of supportive operation data and the maintenance of suppliers' data; 2. Transmission of support operation; 3. Maintenance of information regarding suppliers, merchandise, and supply chain

**One Ping** is equal to one Tatami or 3.30579 square meters.

**Know-how.** Cambridge International Dictionary of English (1996) defines know-how as 'practical knowledge and ability'. In Taiwan's convenience store industry, know-how means the whole convenience store operation system. It covers the knowledge for the selection of store locations, design of stores identity, store layout product assortment inside stores, inventory management, personnel management and financial reports.

**Fresh foods** are products, which are ready to eat or microwave foods in the convenience store. These foods are stored under the temperature of 4°C and 18°C. Examples are rice balls, sushi rolls, sandwiches, salad and desserts, e.g., crème caramel and gateau.



## **Appendix IV Interview Schedule**

### **Company background information**

1. Name of the company
2. Date of establishment
3. Company's mission statement
4. Format of establishment:
  - 1) Franchising
  - 2) Joint venture
  - 3) 100% direct investment
  - 4) Others
5. Parent company, its history and other subsidiaries
6. What is the motivation for your parent company of entering retail market/ Taiwanese market?
7. Store numbers since establishment by year (both direct control and franchising)
8. Employee numbers since establishment by year (both full-time and part-time)
9. Sales figures since establishment (by year)
10. Company finance source
  - 10-1. Is your company a publicly listed company or planning to become publicly listed company?
  - 10-2. Why does your company want to or not want to become a publicly listed company?
  - 10-3. What is the other capital source, e.g., parent company, subsidiaries or others?
11. Operation know-how:
  - 11-1. Did you develop company policy and operational know-how for headquarters management, e.g., product development and marketing campaign?
    - 1) from scratch
    - 2) emulate other local retailers
    - 3) copy from international retailers, for:
  - 11-2. Did you develop company policy and operation know-how for store operation level, e.g., store layout, product assortment, and store manager manual?
    - 1) from scratch

- 2) emulate other local retailers
- 3) copy from international retailers, for:

**11-3.** If your know-how is from international retailers, is there any adjustment from the original? What is the adjustment in the following aspects?

- 1) Headquarters management, e.g., product development and marketing campaign
- 2) Store operation level, store manager manual

**12.** What is the mechanism for your company to accumulate and maintain these know-hows, e.g., through mentorship or is there any written document such as manuals for store operation? Any problem or difficulty during the process and what are they?

## **Strategy**

**13.** Who is in charge of company's strategy planning? How often does your company review and modify the strategy? When? Why?

**14.** What is the goal of company strategy at this moment?

- 1) Increased market share
- 2) Expansion, market development
- 3) Product development
- 4) Diversification

**14-1.** What strategic implementation do you take to achieve this goal?

**15.** Target market

**15-1.** Who are the main customers in your store?

**15-2.** Which region or county is your major market?

**15-3.** Any change of main customers since your company was established?

**15-4.** What is the difference of main customers among different regions or counties, if any?

**16.** What kinds and sources of market research information does your company use?

**16-1.** External source: what information? What is the purpose of the information?

**16-2.** Internal source: what information? Which department is in charge? What is the purpose of the information?

**17. Retail location**

**17-1.** Geographic areas covered in Taiwan and sequence of expansion since establishment

**17-2.** What is normally your store location? Any change compared with locations when your company was just established?

**18. Products sold:**

**18-1.** How does your company categorise product sold, e.g., fresh foods/ foods/ non-foods/services?

**18-2.** How many SKUs for each category? How many percentages does each category account for total sales?

**18-3.** Have you ever adjusted percentage of SKU for each category since the establishment of your company? When and what is the major change? The reasons for the adjustment?

**19. Marketing**

**19-1.** What are the following marketing tools does your company use for promoting corporate image?

- 1) Advertising
- 2) Sales promotion
- 3) Direct Marketing (Posters, personal selling; in-store service)
- 4) Publicity/Public Relation
- 5) Sponsorship
- 6) Corporate Identity (CIS)
- 7) Internet Services (e.g., Chatroom and BBS)
- 8) Retailer-brand products
- 9) Others

**19-2.** Among the items you choose in the previous question, please choose three most important methods? Why are they important to your companies?

**19-3.** What are the following marketing tools does your company use for promoting retailer product?

- 1) Advertising
- 2) Sales promotion
- 3) Direct Marketing (poster, personal selling; in-store service)
- 4) Publicity/Public Relation
- 5) Sponsorship
- 6) Corporate Identity (CIS)
- 7) Internet Services (e.g., Chatroom and BBS)
- 8) Retailer-brand products
- 9) Others

**19-4.** Among the items you choose in the previous question, please choose three most important methods? Why are they important to your companies?

**19-5.** What was the latest marketing campaign? What was the most successful marketing campaign during the past year (from 01/01/2000 – now)? What were they for? The results? How did you measure its success?

**19-6.** Does your company offer any policy or scheme to ensure customers your quality, e.g., customer hotline or refund policy? How does it work? Customer's response so far?

**20.** Does your company have regular donation to charities or communities and have specific department or organization for this purpose?

**20-1.** When did your company start involving in those charity and community events?

**20-2.** How many percentages of sales or profit margins are for these purposes? Who makes these decisions?

**21.** What training does your company offer each year? Please finish the following table:

Level	Training	Purpose	Frequency each year
Senior manager			
Other headquarter staff			
Store manager or owners			

**21-1.** What training does your company emphasise for each level now? What was the emphasis when your company was just established?

**Change of strategy and resources required for the change**

**22.** Did your company ever restructure organisation or establish any subsidiary since establishment?

**22-1.** What is the change of the structure? Reasons for the changes? The influence to your company's performance?

**22-2.** Is there any major change of store layout since establishment, e.g., remodel or integrate other retail business such as a bookstore or a café? Reasons for the change? The influence on the performance?

**22-3.** What subsidiary does your company have, e.g., back integration such as food processing factory? How did you set up the subsidiary\* and why? The purpose of establishing this subsidiary? The financial performance of the subsidiary?

**\*Through partnership, joint venture, strategic alliance or direct investment**

**22-4.** What is the extra or new investment of your company when you restructure your organisation, both physical facility and human resource (e.g., training)? Any partner involved in the new investment? Why?

**23.** What is the extra or new investment of your company when you introduce new products and services, both physical facility and human resources? Any partner involved in the new investment? Why?

**24.** Does your company have retailer-brand products (e.g., any product bearing store name and logo)? How often does your company introduce new products?

**24-1.** What kind of products?

- 1) Food
- 2) Non-food
- 3) Services

**24-2.** What is the percentage of each category in terms of SKU at this moment? In terms of sales? Compared with 5 years ago, What is the difference?

**24-3.** How many new products did your company introduce last year? What are they? Which product is the most successful (in terms of sales) and the main customers? What is the most successful product throughout retailer-brand product history so far and the main customers?

**24-4.** Who is involved in retailer-brand product development?

- 1) External:
- 2) Internal, which department:

**24-5.** How does your company develop retailer-brand products?

- 1) Foods
- 2) Non-foods
- 3) Services

**25.** Does your company have any action to protect trademarks, both company and retailer-brand products and how? For example, did you register the trademarks?

**26.** Does your company have partnerships with competitors, suppliers or other industries? (Please indicate your partners, types of partnerships\*, purpose and duration)

- 1) Competitors:
- 2) Suppliers:
- 3) Other industries:

**26-1.** If using different methods with different counterparts, why?

\*Types of partnerships refer to pure market transaction (but in long term basis), partnership, joint venture, strategic alliance)

**27.** What is the base for measuring performance?

- 1) Sales
- 2) Gross margin
- 3) Profit margins
- 4) Return of Asset
- 5) Return of Investment
- 6) Store numbers
- 7) Others

**27-1.** Why do you use these indices?

**27-2.** Do you compare with your own past performance or competitors'?

**27-3.** If yes, what is the tolerance zone for the difference?

**28.** Who or which division sets annual growth rate and according to what data or standard is the growth rate set?

**29.** Does your company have any index to measure productivity (efficiency and effectiveness)? How do you measure? What action will you take after getting the result?

## **Influential factors**

**30.** Which company or format does your company regard as a main competitor? Why?

**31.** Could you point out what is the difference between your company and other CVS operators?

- 1) Product: e.g., product assortment; product procurement; suppliers
- 2) Pricing: utilization of price tag
- 3) Location: geographical coverage, store location and store layout
- 4) Promotion tools, e.g., allocation of advertising expenditure, sales promotion, and in-store service

- 5) Retailer-brand products, if any: e.g., product assortment; product procurement; suppliers
- 32.** At this moment, what are the three basic requirements for competing in CVS sectors, e.g., product development, store expansion, distribution centre, or others?
- 33.** What are the three basic requirements for survival in Taiwan's retail market? Which one is the most difficult to obtain or maintain for your company? Why?
- 34.** So far which regulation from the central or local government hinders the operation of your company? ? How does it affect your company? What does your company do to cope with these hindrances?
- 35.** Which regulation facilitates the development of your company? How do they affect your company? How does your company take advantage of these facilitators?
- 36.** What are the other environmental factors facilitating or hindering your business?
- 1) Economic: what was the most important economic factor influence your store operation in the past year, both positive and negative? How did they affect your company? What did your company solve the problem or take advantage of it?
  - 2) Social: what social change had the biggest impact on your store operation in the past 5 years? What do you think the future major change of lifestyle in Taiwan in next 5 years and its impact on your store operation?
  - 3) Technological: did your company adopt any technological innovation in the past 5 years? What was it? The purpose?