Evolution of B2C E-Commerce in Japan

CASE 5.2

THE JAPANESE KONBINI DISTRIBUTION SYSTEM

In the United States, most convenience stores serve a car-mobile society so they have gasoline pumps in addition to the shelved items. In Japan konbini are located everywhere, and it seems as if you cannot go two blocks without running into one of the country's major convenience store chains. These ubiquitous 24-hour retailers have become trendy substitutes for larger supermarkets, and they are an important part of everyday life in Japan.

Konninis number more than 50,000 and they have an advanced distribution network that is the target of a new alternative for distributing merchandise and receiving payment for items ordered through the Internet. The largest of the convenience store chains is retailing giant Ito-Yokado's, with 8,153 7-Eleven stores.

The continuing economic recession has reduced consumer spending, resulting in a market saturation of convenience stores. Competition between the konbini chains is fierce because market areas are limited and each chain is selling similar products. The chains have turned to technology to expand sales and are installing online terminals that offer customers the chance to shop for goods and services one would not expect a convenience store to sell. This new offering improves customer service and wins business not only from rival chains but also from other retailers.

Because sales are made online, the terminals overcome one of the barriers to increasing convenience store sales—the lack of merchandising space and the cost of holding inventory. The average konbini store has a floor area of less than 1,000 square feet, but it markets about 2,800 items. An online terminal allows the store to add about 1,000 items with no extra stock on hand because items are delivered at a later date and need only temporary storage space. This system, unlike that in the United States, requires no home delivery expense because the customer picks up the purchase. Consolidating order delivery and using the existing transportation network result in significant savings.

What began as a solution to the problem of lack of store space and a way to diversify the merchandise and services offered by the store resulted in a new e-commerce revolution once the konbini added Web sites. The sheer number of stores and existing distribution network became a natural delivery system for goods ordered over the Web. This innovation removed the barriers that restricted full-scale development of e-commerce in Japan, i.e., low credit card usage, lack of alternative access to the Internet, and a lack of flexibility in delivery hours.

THE INTERNET SHOPPING EXPERIENCE

Shoppers can visit the konbini’s Web site or the Web site of a participating online store by accessing the Internet from their homes or by using the multimedia online terminal at the store. These in-store Internet kiosks also provide a way of ordering merchandise that is not currently in stock at the store. After choosing the merchandise, buyers who are reluctant to provide their credit card information online can select “Pay at a 7-Eleven store” as their payment method.

After selecting the konbini payment method the customer prints a purchase slip containing a bar code. The customer then takes the purchase slip to the nearest konbini store, where it will be scanned and cash payment accepted. An online shopper who does not have a printer can still use the service by giving his or her assigned unique purchase slip number to a store clerk. Actual products are delivered to the store a few days later for customer pickup. Large items or perishable goods, such as flowers, are delivered to the customer’s home.

Digital products such as software and music can be downloaded immediately from a multimedia terminal in the store. The terminal system also includes a digital printer for instant delivery of purchased pictures or photos taken with a built-in digital camera. A MiniDisc drive and MemoryStick slot allow customers to buy favorite songs and receive them immediately. The machine also includes a scanner and a smart card reader/writer. Figure 5.2 diagrams the system's flow of transactions and Table 5.7 outlines the advantages of such a system for the customers, konbini, and other e-tailers.

M-COMMERCE DEVELOPMENT

In Japan, salaried workers and students have to spend long hours in a train to commute to their places of work and schools. The Japanese people take advantage of their free time to read the newspaper, check their daily schedules, or simply listen to music on their portable MP3 players.

Introduction of new wireless devices has created a new panorama inside trains. People are replacing the traditional newspaper, which is hard to read in a crowded space, with miniature wireless phones that can display news and access to the Internet. Today, it's common to see commuters' heads pointed down actively reading their phone.

Mobile phones have pushed past their fixed-line predecessors as the preferred mode of communication in Japan because fees have come down and the Internet offers new online services for cell phones. The number of mobile phone subscribers in Japan is fast outnumbering those using fixed-line phones.

The wireless phenomenon has opened a huge mobile e-commerce market in Japan based on four key elements:

- High penetration rate of Internet-enabled wireless cellular phones. The booming popularity of Internet-capable mobile phones has fueled a rapid growth of Net use in Japan.
- Implementation of a packet data network to facilitate economic delivery of interactive services. iMode mobile phone service operates over a packet-switched network, which means that customers pay only for the data transmitted, regardless of the connection time.
- Equal opportunities for content providers that spur innovation and drive third-party advertising that builds buzz.
about the platform. iMode adopted an open platform and ensured that consumers' preferred services got primary placement.

An adequate environment and time available for browsing the Internet using handheld devices. Train commuting provides a perfect environment for using mobile e-commerce.

Among these key elements, only the last one is unique to the Japanese experience.

THE MARRIAGE OF "KONBINI AND MOBILE"
The konbini m-commerce concept goes beyond the simple mobility of Internet access devices like PDAs and cellular phones. The concept incorporates the "anytime, everywhere" notion of a distribution and settlement system by linking the convenience store network with cell phones and the Internet. This service enables consumers to place an order for merchandise from a cell phone inside a train and pick it up at a convenience store on their way home.

A customer would use his or her cellular phone to order a product using a "direct code" number. Free catalogs present goods for sale and a direct code for each item. The transaction to purchase a Zippo lighter is illustrated in Figure 5.3. The advertisement in the shopping magazine shows the direct code for a black Zippo lighter as 2903006. This direct code is entered on a 7-Eleven shopping cart screen displayed on the cellular phone and the item is picked up later at the store.

FIGURE 5.3 Direct Code Product Selection Using Cellular Phone

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Questions
1. What features of the 7-Eleven Japan distribution system illustrate the "Value Net Integrator" e-business model?
2. Does the 7-Eleven Japan distribution system exhibit scalability economies?
3. How does the 7-Eleven example of B2C e-commerce in Japan illustrate the impact of culture on service system design?
4. Will the 7-Eleven "Konbini and Mobile" system be adopted in the United States?