

Customer Satisfaction

No Chance Lost

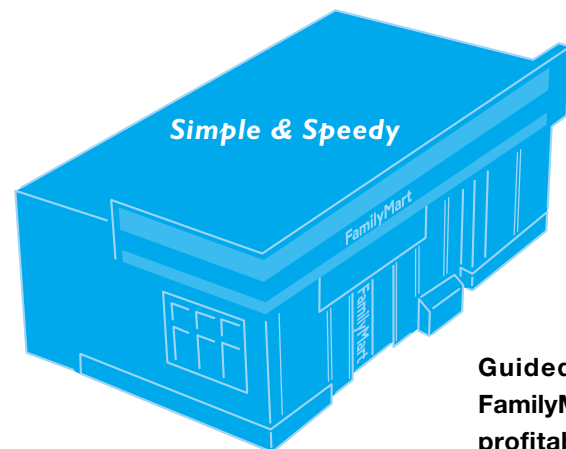
Development

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Guided by a policy of having a simple system with fast decision-making, FamilyMart aims to maintain industry leadership in terms of quality and a highly profitable chain structure. Pursuing its three major themes: strict attention to service, quality and cleanliness; raising the precision of product ordering; and strengthening merchandising to maximize customer satisfaction; FamilyMart is strengthening competitiveness and also vigorously tackling environmental problems in a variety of ways, including by enhancing the quality of its stores, expanding e-commerce business, and improving the efficiency of its logistics. Here we introduce you to the challenges facing FamilyMart as it seeks to lay the foundations of further success in the 21st century.



Overview of Operations

Exhaustive Attention to SQ&C

Customer Satisfaction



Achieving customer satisfaction that surpasses rival stores through customer care, merchandise, and services that offer more than just “convenience”

Store Staff Total System: a systematic education program

Amid competition in the retail industry that is growing fiercer and is crossing the boundaries between industry segments, FamilyMart is pursuing customer satisfaction that surpasses that of rival stores in every respect, including customer care, merchandise, and services.

FamilyMart’s devotion to exhaustive SQ&C (service, quality and cleanliness) in all its stores is part of its practical efforts to achieve this, and to this end the Company introduced its Store Staff Total System (SSTS) in spring 2000. This is a systematic program that focuses on attracting, educating, motivating, and remunerating store staff. Skill levels are raised with minimum effort through the use of a Management Manual prepared for store managers, which serves as a compendium of staff recruitment and evaluation know-how, and also of training manuals targeted at store staff at beginner, intermediate, and advanced levels. In addition, the burden on store managers is lightened by educating trainers from among store staff to take responsibility for the education of other staff. Another aspect is that the program motivates and teaches self-reliance to store staff — a key component of our fighting strength. SSTS is a program that goes well beyond the contents of a manual.

Getting back to basics – putting the customer first

As part of its efforts to enhance profitability, FamilyMart will expedite improvements to services and store operations by adopting the customer’s perspective.

To increase the level of SQ&C, the large volume of information collated to date, including customers’ opinions expressed to the Customer Service Department at FamilyMart headquarters and the comments of franchisees and FamilyMart operations in individual regions, will be used to create a mechanism for building and improving know-how. This will greatly widen the use of information, previously confined to dealing with individual problems. It will link comments at store level directly with the improvement of the mechanism, and lead to rapid problem resolution.

Through these efforts, we will continually upgrade the level of SQ&C and build attractive stores that always have the range of merchandise and services that customers want.



No Chance Lost



Reinforcing a highly accurate product-ordering system that identifies needs, and does not lead to missed sales opportunities

More accurate monitoring of individual products

FamilyMart is placing emphasis on the establishment of a highly accurate product-ordering system that will help to bolster sales and profits. If merchandise that people want to buy is not laid out on the shelves, sales opportunities are lost, and customer confidence is damaged.

By increasing the precision of its product-ordering capabilities in this way, FamilyMart aims to minimize the risk of losing business opportunities. In June 2001, the company radically overhauled the previous ordering system and introduced its New Store System in all stores, through which constantly changing customer needs are identified swiftly and accurately on a product-by-product basis, and the merchandise that customers want is assured of being stocked. The system is a device for ascertaining sales trends for individual products and taking the appropriate decisions for quantities to be ordered; handheld Store Activation Terminals (SATs) serve as tools to support these ordering activities. The SATs screens indicate how individual products are moving and the real-time situation in each store, and the operator can confirm what is on the display shelves and what is in stock before placing an order.

Use of this state-of-the-art information technology enables FamilyMart to create stores that please customers by always presenting them with the merchandise they want.

Strengthening store management by dividing responsibilities for product ordering

Another purpose of the New Store System for increasing the accuracy of product ordering is to divide ordering responsibilities: enabling it to be carried out not only by store managers and other management personnel, but also by other store staff. This sharing not only alleviates the administrative burden on store managers but also cultivates a sense of responsibility in non-managerial staff and boosts their motivation, and because of this it is effective for minimizing the risk of losing business opportunities and creating stores that generate customer loyalty.

FamilyMart also uses Store Staff Total System (SSTS) for encouraging the division of responsibility for product ordering. By apportioning information on as many as 2,800 items of merchandise among store staff it is possible to ascertain product movements accurately and to boost the precision of ordering substantially. Moreover, by raising staff members' awareness of their sales areas and merchandise, the level of SQ&C is raised, and store-management capability is enhanced considerably.

A Product Ordering Committee has been formed at FamilyMart headquarters, from where supervisors give support to franchise store managers with respect to accurate ordering methods, including use of SATs, helping to build stores in which losses from stockouts are a thing of the past.



Development





Building a strong and competitive network and expanding multistore management

Creating an intrinsically profitable network

During fiscal 2003 FamilyMart worked hard to develop high-quality stores, opening 515 new outlets. The Company brought the FamilyMart Geographic Information System (FM-GIS) into full-scale use. The use of this system enabled FamilyMart in fiscal 2002 to achieve the highest-ever daily sales generated by new stores.

During fiscal 2002, FamilyMart opened 46 new stores in Hiroshima and in Kagawa Prefecture, marking the first openings on the island of Shikoku, one of the four main islands of the Japanese archipelago. In addition, 65 stores were opened by the partial transfer of operations from Higashi Kinki Region Spar HQ Co., Ltd., which covers Shiga, Fukui, and Kyoto Prefectures.

Qualitative improvements were made by closing a total of 503 stores, most of which were directly managed. However, more than a fifth of these closed stores were shifted to new premises nearby in more promising locations, and their results have subsequently shown steady improvement.

The net result of these adjustments was that the number of FamilyMart stores at the end of the fiscal year totaled 5,287, and together with the 569 stores of domestic franchised companies and the 2,328 stores of overseas franchised companies, the grand total reached 8,184 stores.

Advancing into new markets and encouraging multistore management

Plans for fiscal 2003 call for the opening of 500 high-quality stores and the closure of 350 unprofitable stores, with the aim of expediting FamilyMart's qualitative shift. This approach will include the stepping-up of the previous year's advance into new markets such as large-scale shopping centers, university campuses, and office buildings. In the term under review, new store-openings produced good results, including openings in the Atago Green Hills complex and the Shinjuku Washington Hotel. In fiscal 2003, FamilyMart will continue its vigorous program of opening stores in new, convenient locations, including at Tohoku Fukushi University.

During the term under review, FamilyMart inaugurated a grant scheme to encourage multi-store management, designed to take advantage of the advanced operating capabilities built up by franchised stores and to foster the further expansion of the scale of their management. This was followed in the current fiscal year by the introduction of our "Type 1 Franchise Contract," a highly regarded new form of franchise-company contract designed to make it easier for future entrepreneurs who want to spin off a company to establish themselves independently, as well as capable franchisees wishing to expand into multistore management.



FamilyMart's strong growth overseas

Since establishing its first overseas store in Taiwan in 1988, FamilyMart has opened more than 2,300 stores in other East Asian countries such as South Korea and Thailand through area franchises, and the scale of this overseas network is continuing to expand annually. In February 2002, the shares of FamilyMart's Taiwanese subsidiary Taiwan FamilyMart Co., Ltd. were listed on the over-the-counter market in Taiwan. This is the first time that a Japanese convenience store operator has had shares listed on an overseas stock market. This was followed in April by another milestone, when the number of FamilyMart stores in South Korea topped the 1,000 mark.



Product Value



Boosting profitability by extending the range of Nakashoku items and original merchandise

A stronger lineup of delicatessen foods

Nakashoku (delicatessen) such as boxed lunches, breads and pastries are FamilyMart's principal products, accounting for a third of total sales. Fiscal 2002 saw increasingly fierce price competition that crossed the boundaries of industry segments, including price-cutting by a chain of eateries specializing in *gyudon* beef and rice dishes, but FamilyMart countered this by offering an ¥88 *onigiri* and a boxed lunch for just ¥380. FamilyMart also improved its range of hamburgers, already with a well-established identity distinguishing them from other chains' products, and also launched a new category: rice burgers.

In fiscal 2003, as the only convenience store operator to be a supporting company of the Japanese national soccer team, FamilyMart will be placing emphasis on expanding sales of the officially endorsed "supporters' boxed lunches" and related goods. FamilyMart is also devoting greater attention to taking best advantage of the characteristics of individual regions, for example by putting fried-oyster boxed lunches on limited sale in the Hiroshima area, one of Japan's foremost oyster-producing areas. A key strategy for the entire term is the pursuit of flavor and also the healthiness, safety, and freshness of our food products, and to that end we plan a complete revamp ranging from the procurement of ingredients to product development. In tandem with this we will also be enhancing our offerings of *oden* (stewed hotchpotch), which has long been on sale in FamilyMart stores. This will also entail a complete overhaul of all aspects, from the product itself to the utensils used, the cooking, and the selling, so as to ensure the product is even more delicious than hitherto.

Augmenting merchandise unique to FamilyMart

Products available only at FamilyMart outlets, such as individualized products and merchandise produced under exclusive tie-ups with manufacturers, both generate customer loyalty and boost sales. During fiscal 2002, sales of daily necessities were bolstered by the introduction of original M/F/C cosmetics products, while in the sphere of goods produced under tie-ups we scored a hit with Meiji Milk Chocolate Pan, a product with added value created by its cheerful and novel qualities. Also of note was the sale — under a tie-up with Debuya, a popular late-night television program on the Television Tokyo network — of a line of boxed lunches and rice balls for which emphasis was placed on large size and great taste. This gained renown for being a unique FamilyMart venture in which original goods were sold only during a limited time slot.

In the spring of 2002 FamilyMart launched a 37-variety range of original confectionery called *Oyatsu Tankentai*, each variety being priced at a uniform ¥100, and also five products under a tie-up with Ezaki Glico, including Glico Pan and Bisco Pan. These are rapidly becoming popular products. During fiscal 2003, we will seek to invigorate FamilyMart stores by increasing the proportion of sales accounted for by original products such as these. We aim to expand daily sales volume by placing emphasis on the development of products with originality and added value that attract customers.



E-commerce





Increasing visit frequency and unit prices by enhancing and expanding unique e-commerce services

Developing E-Retail business to boost store earnings

FamilyMart's aim is to become a "Super Convenience Store" that provides full support for people's lifestyles 24 hours a day. It will do so by expanding E-Retail business so that people may use its facilities by visiting its stores when they are out and about, and by using the Internet when they are at home. In fiscal 2003 we plan to enhance the profitability of our E-Retail business by focusing development on entertainment content such as games, ticket sales, and celebrity merchandise, and on lifestyle support services such as gift-buying, removals, and financial services.

Based on FamilyMart's unique FamilyMart EC Franchise System, which posts the sales figures of individual franchised stores, FamilyMart's famima.com Internet shopping site offers benefits such as award points, and had as many as 850,000 registered members as of the end of April 2002. Two other sites usable from mobile phones, famima-i (i-mode accessible) and famima-j (J-Sky accessible), are also producing good results.

In addition, products, tickets, and other items listed in Fami Korepia, a free magazine published monthly, can be ordered through a variety of media such as PCs, portable terminals, telephones, or faxes. The use of this service through mobile phones has been showing particularly strong growth.

We began installing Famiport Multimedia Kiosks in our stores in the autumn of 2000, and since then their service content, which includes

ticket sales and a music download service, has been improved every year. All stores will be equipped with the terminals by autumn this year. Stores are also being equipped with bank ATMs, which at the end of April 2002 were installed in 2,678 outlets, where they help to attract more customers.

Start of IC card service an industry first

Behind the increase in the number of famima club members is the fact that in May 2002 FamilyMart started handling the JUPI Card. The JUPI Card is an IC card issued by Famima Credit Corporation, established by FamilyMart jointly with five other companies: Itochu Corp., JCB Co., Ltd., Toyota Finance Corp., PIA Corp. and NTT Data Corp. The IC gives the card both point-awarding and credit-card functions, and it can be used not only for Net shopping, but also for gaining reward points for purchases at FamilyMart stores and JCB member merchants.

A minimum monthly payment method under revolving credit facilities is available, and purchases can be settled without the need for a signature. The ease of use of the card, with features such as these, adds to its appeal, and is sure to increase the frequency with which cardholders visit FamilyMart stores and also the average value of their purchases. Canvassing for cardholders is currently under way, centering on the 850,000 famima club members, the target being to increase the number of cardholders to 300,000 during the course of fiscal 2003, and to 1 million by fiscal 2005.





Logistics



Operating the most powerful logistics system to create a highly efficient and accurate supply chain

Building DCM for the improvement of the procurement structure

The objective of Demand Chain Management (DCM) is to respond to demand information gathered at store level on matters such as customer needs and spending habits, and ensure that it is reflected in merchandise offered in stores in a prompt, highly accurate, and low-cost manner. For that purpose, the flow from the procurement of raw materials to the manufacture of goods and their sale by stores to customers is subject to management jointly at all stages, including by FamilyMart headquarters and business partners. In the sphere of goods distribution, the Company has focused its efforts on enhancing the level of service and efficiency of distribution from centers to stores, but in the future, attention will focus further back, to raw-material procurement. By stepping up efforts that give total coverage of all stages right up to store sales, FamilyMart will create a more efficient, faster, and lower-cost goods-distribution and procurement structure.

The specialized Demand Chain Management Development Office at FamilyMart headquarters is seeking to optimize store supplies by building a structure for product deliveries at all temperatures. By the autumn of 2002 FamilyMart will be able to carry out joint deliveries of everyday merchandise in fixed-temperature runs, and also joint foodstuff deliveries at normal temperatures for alcoholic and other beverages, processed foods, and confectionery and pastries, reducing the current six deliveries a day to only four deliveries.

Reducing franchised store purchasing costs

In order to raise the level of service to stores and cut goods distribution costs, FamilyMart is undertaking the reorganization and consolidation of its delivery centers. During fiscal 2002 the Company substantially improved distribution costs, including by means of concentrating distribution bases through collaboration with the Itochu Group.

In addition to reducing the number of delivery centers, FamilyMart is also constructing highly efficient integrated distribution centers that combine delivery center functions with plants making goods such as boxed lunches, prepared noodle dishes, and desserts. As an example, in October 2001 the FamilyMart Yamagata Integrated Distribution Center was brought into full operation as the manufacturing and delivery base for the Yamagata area.

This center is a full-scale composite plant preparing rice dishes and *nakashoku* items. Because of this, instead of making deliveries to stores in Yamagata Prefecture from the neighboring Miyagi and Fukushima prefectures, those stores can now be assured of stable supplies of much fresher *nakashoku* items. Moreover, the center is also a concentration of goods-distribution capabilities in that it is a base for the delivery of products in all temperature ranges, such as chilled goods, processed foods, and everyday merchandise, in which capacity it has become a model.

Enhancing the efficiency of goods distribution in this way will not only trim expenses and lighten the work burden on stores, but will also save energy and reduce emissions of CO₂ and other pollutants by delivery vehicles. FamilyMart's improvement of the accuracy of product ordering and its optimization of logistics will also serve to maximize the earnings capacity of stores in the current fiscal year.



**Corporate
Citizenship**





FamilyMart is committed to being a good corporate citizen, with a mission to contribute to environmental conservation and the community

A convenience store chain operator committed to environmental conservation

FamilyMart appointed an officer with responsibility for environmental matters in 1991, and since then has worked actively in this field. In 1999 the company received ISO 14001 certification for its environmental management system covering all its headquarters business offices and stores. FamilyMart aims to ensure environmentally friendly merchandise, goods distribution, store facilities, and store management, thereby fulfilling its responsibility as a corporate citizen.

In the sphere of merchandise, FamilyMart has assembled its We Love Green lineup of environmentally friendly private-brand products developed according to unique criteria for reducing the burden on the environment at all stages — from the raw-material stage to product use and the disposal of waste. As regards goods distribution, the adoption of a more efficient delivery system has allowed a reduction in the number of visits to each store by delivery vehicles, with consequent reductions in energy use and emissions of greenhouse gases. We are also making progress in switching to the use of vehicles with very low rates of emission of nitrates and other pollutants. Also, given that our stores are normally required to operate around the clock, in a pilot scheme we have designated ten stores as “Eco-Shops,” which are designed to save energy, minimize resource consumption, and preserve the environment. In August last year, a compact gas cogeneration system using natural gas was installed in the Aoba Sumiyoshidai store in Yokohama, which has started an on-site power-generation business using a combination of electric power and discharges of waste heat. In addition, FamilyMart has been vigorously

operating a total waste-material recycling system directed at separating and recovering every scrap of waste that emerges from its stores. For example FamilyMart was quick to begin composting perishable waste and transforming it into fertilizer, and has also completed recycling systems in all areas for the recovery of used cooking oil that would otherwise become industrial waste.

Every year, we publish the FamilyMart Environmental Activity Report, in which we release details of the efforts we are taking to address environmental problems, and of environmental accounting in line with ISO 14001.

In March 2002, FamilyMart received an award from the Director General of the Bureau of Citizens and Cultural Affairs of the Tokyo Metropolitan Government. This was an acknowledgement of the pro-environment activities not only of FamilyMart headquarters, but also of the Group as a whole, including the franchised stores.

For the sake of deprived children

Since 1993 FamilyMart has been engaged in fund-raising activities through its franchised stores for Save the Children Japan, a non-governmental organization working to improve the living standards and education of deprived children in countries throughout the world. By April 15, 2002, the total amount of funds raised reached ¥347 million, which has been used for a variety of relief projects in more than a hundred countries worldwide.

In another charitable gesture, to assist members of the public desiring to become organ donors, FamilyMart places organ donor cards in all its outlets.



We Love Green

