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Joining hands with franchised stores,  
we will explore how best to evolve FamilyMart and  
take on ambitious initiatives.

Before Setting Out FamilyMart’s Target Profile

I believe that the possibilities for convenience store businesses are limitless. They have brick-and-mortar stores near customers, build optimal supply chains, and provide customer services through local personnel. As further innovation integrates them into many different aspects of consumption, convenience stores will become even more indispensable than they are now. Indeed, they may evolve far beyond our current understanding of convenience stores. Mindful of this potential, I am constantly pondering how we should evolve FamilyMart going forward.

After becoming representative director and president of FamilyMart Co., Ltd., in September 2016, my principal mission was to complete the largest brand integration in the history of the convenience store industry. By the end of November 2018, we had converted all of our stores to the FamilyMart brand. With the integration completed, I would first of all like to outline other management tasks that we have identified as well as the measures to tackle them.

Reduction of Store Workload: Our First Priority

At the end of November 2018, we completed the brand conversion of Circle K and Sunkus stores, establishing a network of approximately 16,500 FamilyMart stores in Japan—the second largest convenience store chain in the country. We were able to complete the brand conversion of 5,003 stores in only 27 months thanks to the understanding and efforts of the owners and managers of franchised stores who committed themselves to joining FamilyMart, the cooperation of business partners, and the determination and hard work of our employees.

On the other hand, store workload has risen because we increased and further improved the capabilities of convenience stores while giving priority to and concentrating management resources on brand conversion. As a declining workforce in the frontline operations of the retail industry was becoming a social issue, we repeatedly added functions to convenience stores. Consequently, store workload was beginning to increase beyond a level that could be covered simply through convenience stores’ operational efforts.

Work Reform through Dialogue with Franchised Stores

While visiting franchised stores nationwide, I concluded that, given the aforementioned issues, we should seek feedback from frontline operations by talking directly with store owners, managers, and store staff and give priority to alleviating store workload as we move forward. Of course, the best places to unearth all store operational issues as well as potential ideas for operational reform are the stores themselves, which are our main points of contact with customers. Therefore, we must reform convenience store work based on the viewpoints of the owners and managers of franchised stores. A

relationship of trust between franchised stores and the head office is fundamental to a franchise business. Such a business becomes dysfunctional if the products and services that the head office provides and the business strategies that it sets out do not promise franchised stores stable growth. With this in mind, I felt we needed to reanalyze operations to ensure that we were not placing unreasonable or needless demands on franchised stores that only reflected head office priorities. I also felt we had to check if we were establishing conditions that would allow the businesses of franchised stores to grow.



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Accordingly, we broke down and scrutinized day-to-day store operations and rigorously sought ways of increasing efficiency. As a result of simplifying manuals and conducting new capital investment, we reduced workload by a total of 5.5 hours per store per day between the ends of fiscal 2017 and fiscal 2018. While conducting continuous checking through regular questionnaires targeting the owners and managers of franchised stores, we will develop this initiative further.

 For details on alleviating store workload, please see page 21.

In April 2019, we announced an action plan to support FamilyMart franchised stores. Based on this plan, existing stores will receive approximately 80% of investment in the current fiscal year. In response

to the increasingly serious labor shortage, we will enhance the efficiency of store operations by implementing capital investment of approximately ¥25 billion. At the same time, we will further strengthen support for store staff dispatchment. Also, plans call for the introduction of a reservation-only system for seasonal products to reduce food wastage and improve the profit of franchised stores. Other initiatives will include trials of shorter store opening hours to verify optimal combinations of personnel deployment and store opening hours from the viewpoint of store operations. In addition, we will step up concrete measures aimed at addressing environmental issues. For example, we will reduce the volume of plastic shopping bags and other disposable plastic items that we use.

### Relationship of Trust with Franchised Stores: A Growth Engine

For convenience stores, the phase of growing businesses by expanding store chains to “stake out territory” is over. The extent to which we can add to brick-and-mortar stores new functions that society needs while reducing store workload is likely to determine growth. Convenience store chains are forming many business tie-ups with companies in industries that have not been closely associated with the convenience store industry in the past.

Depending on the functions that they add, respective convenience store chains may evolve into completely different entities from one another. Again, I am convinced that a relationship of trust with the owners and managers of franchised stores will be essential for the success of such evolution. No matter how attractive a prospective business might be to the head office, if there is no merit for franchised stores, commercializing and rolling out

such a business across the nationwide store network would be difficult.

This is one of the reasons why I focus so much on talking with and building relationships of trust with the owners and managers of franchised stores. I believe that the mission of the head office is to further increase the opportunities for dialogue with franchised stores so that both parties can develop businesses based on shared values and goals. In addition, our mission is to create a chain of convenience stores that owners and managers can operate with pride by providing appealing products and services and offering new store functions that motivate store visits.

FamilyMart is already advancing a range of initiatives that leverage its brick-and-mortar stores and infrastructure, such as the establishment of laundromats and gyms adjacent to convenience stores. Another of these initiatives is our launch of the *FamiPay* smartphone app in July 2019, which includes a barcode payment service. As well as catering to the expected rapid penetration of cashless payments, the app is enabling us to increase store visit motivation through coupons and campaigns. Moreover, we will actively develop marketing that utilizes purchasing information.

 For details on the *FamiPay* smartphone app, please see page 28.

### Measures to Maximize Employees’ Abilities

In addressing management issues and achieving evolution, the abilities of personnel are as important as relationships of trust with franchised stores. FamilyMart has assembled a diverse group of personnel as a result of previous corporate reorganizations. To fully capitalize on the abilities of these personnel, we are proceeding with two overall strategies.

The first strategy is to become regionally rooted. Given that customer needs and social issues will further diversify, we cannot win in fierce competition simply by marketing a uniform lineup of products and services. Supervisors play a central role in supporting the owners and managers of franchised stores. Therefore, we will actively promote supervisors who have roots in local communities and can think and act based on the needs of these communities. Further, in the current fiscal year we have delegated authority to several regions to enable them to develop unique regional products and services. While verifying the benefits, we will also continue the redeployment of supervisors that we began in fiscal 2018.

Our second strategy is to strengthen the abilities of head office personnel. If we are to transition from a business model that is focused on expanding the store network and launching new products and

services to one that leverages brick-and-mortar stores to achieve evolution, developing systems that allow personnel with expertise to flourish is a pressing task. In conjunction with efforts to reduce store workload, the head office will concentrate on eliminating wastefulness, increasing productivity, and creating an environment in which personnel with a range of abilities can play important roles.


Also, it is important for FamilyMart’s personnel to share the same values and philosophy. The word “Family” in our name represents an important commitment as well as a bond that connects all stakeholders, including customers, franchised stores, business partners, and employees. To reconfirm the meaning of “Family” and the “FamilyMart, Where You Are One of the Family” corporate message as well as the roles we should play, we have revised the structure and simplified the content of our principles. Reading the new version of the principles should give a sense of the type of entity FamilyMart wants to become in relation to society.



## Four Strategies


In fiscal 2019, we have set out *four strategies*. These are *enhancing support for franchised stores*, which includes the aforementioned efforts to increase the efficiency of store operations; *strengthening the profitability of stores*; *moving forward with digitization*; and *promoting business collaboration with Pan Pacific International Holdings Corporation (PPIH)*. We will implement the strategies swiftly. The aim of the strategies is not only to strengthen our relationship of trust with the owners and managers of franchised stores but also to reform ourselves into a more appealing store chain.

The decline in the working-age population and the accompanying rise in personnel expenses are issues throughout society. However, for the convenience store industry, which provides customer services at brick-and-mortar stores, these are particularly urgent management issues. Accordingly, we are *enhancing support for franchised stores* through measures to increase labor productivity at franchised stores, such as continued investment to reduce store workload, support for store staff recruitment, and encouraging the taking of leave.

 For details on *enhancing support for franchised stores*, please see page 21.


As for *strengthening the profitability of stores*, we will continue to focus on ready-to-eat items in efforts to increase the quality and appeal of products. Another feature of fiscal 2019 initiatives will be a significant expansion of the frozen food lineup. Given changes in lifestyles and growing awareness of the need to reduce food wastage, we expect demand for frozen food to continue increasing. Also, rather than seeking to increase the number of store openings, we will concentrate management

resources on improving the environments of existing stores through build-and-scrap (B&S) and remodeling measures.

 For details on *strengthening the profitability of stores*, please see page 24.

Launched in July 2019, the *FamiPay* smartphone app, which includes a barcode payment service, will form the basis of initiatives aimed at *moving forward with digitization*, as I mentioned earlier.

Through an open strategy that realizes compatibility with many different types of cashless payment and loyalty points, we will increase customers' motivation to visit stores. At the same time, we will use the points of contact with customers that the app provides to take on ambitious initiatives to create new financial services, advertising, and marketing businesses as well as to introduce digitally enabled, next-generation store operations.

 For details on *moving forward with digitization*, please see page 28.

Also, we will continue *promoting business collaboration with PPIH*. In June 2018, we began operating three FamilyMart convenience stores in Tokyo on a trial basis with discount retailer Don Quijote, which is a PPIH subsidiary. The stores have proven very successful, posting 30% year-on-year growth in daily sales as of the end of February 2019. Hoping to broaden this partnership with PPIH, we are considering joint development of products and services, collaborative businesses in the financial services field, and joint development of businesses overseas. By combining each other's business know-how, we want to explore the potential for new retail formats.

In sustaining the growth of FamilyMart, the most important components are a relationship of trust with the owners and managers of franchised stores and the development of the store chain in a manner that inspires belief in the future growth of the business. I have stated this view repeatedly since becoming president.



## Conclusion

In sustaining the growth of FamilyMart, the most important components are a relationship of trust with the owners and managers of franchised stores and the development of the store chain in a manner that inspires belief in the future growth of the business. I have stated this view repeatedly since becoming president. I believe that, as our frontline operations, our stores will determine whether the measures we have taken bear fruit and will also show us the measures we should take. Joining hands with franchised stores, we will explore how best to evolve FamilyMart and take on ambitious

initiatives. In closing, I would like to ask all of our stakeholders to provide us with continued guidance and encouragement and to have high expectations of FamilyMart going forward.

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