7-Eleven (The Convenience Store Industry): A Broad Economic and Financial Analysis

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I. Introduction

7-Eleven has a lot going on these days. The firm has boasted unheard of expansion in both Texas and in the Eastern United States, a transition to fresh foods, and a new business transformation that unites the technology across the globe. This in itself would make for an interesting research project. Even more interesting, however, are the complexities surrounding the global convenience industry – complexities that I did not know existed.

The purpose of this paper is to not only provide an economic and financial analysis of 7-Eleven, but to provide direction on what steps the company can take to prosper in the current economic environment. The complexities mentioned above make this a daunting task. One would be led to believe that the small footprint of a 7-Eleven would invite a simple business plan. However, as I will show the convenience store industry – indeed the global convenience store industry – is a highly complex machine with many working parts and factors that can push the business in a myriad of ways. We will look at the non-price factors that influence 7-Eleven’s business strategy. We will then look the competitiveness of the industry and how 7-Eleven is working to maximize its shareholder returns through its short term and long term decisions. We will look at the effects of the current global economic crisis on 7-Eleven and the response from the firm, both from a US perspective and a global one. Finally, we will draw conclusions on whether or not this firm is a good one to invest in.

II. The Analysis

7-Eleven is the 4th ranked franchise in Entrepreneur magazine’s Franchise 500 (Top 10 Franchises 2013) and has over 40,000 stores globally. 7-Eleven is engaged in a huge boom in acquisitions, with their expectation being at the 50,000 store mark by the end of the first quarter of 2013 (7-Eleven
Achieves Record Growth (2013)). 7-Eleven has grown from one man’s ice store located in Dallas Texas in 1927 to being one of the leaders (if not the leader) in the convenience industry. Terms like “Slurpee” and “Big Gulp” have entered folk psychology and popular lexicon. Stores are no longer opened 7am to 11pm – but 24 hours a day, 7 days a week. As of 2012, 7-Eleven has 7,503 stores in North America, covering all of the continental United States as well as Canada. This being said, there are several factors at this level that come into play - many of which would have little to no effect on smaller players within the convenience industry. However, there are some factors that are affecting the entire industry as a whole.

Cigarette sales in the convenience store world encompass over 60% of any one location’s sales. Most people purchase cigarettes at a gas station or convenience store due to habit or simplicity. However, American’s tastes and preferences have changed over time, and sales of cigarettes are on a slow but steady decline. This has proved to be one of the biggest challenges 7-Eleven has faced and is worth mentioning first. The government has been working to curtail sales of cigarettes to all demographics, targeting teens and young adults first – which happens to be one of the biggest demographic segments. Culturally, the world has seen a shift away from the glamour associated with cigarettes throughout the first half of the century. Due to this slow loss, 7-Eleven has refocused its energy on its fresh food sales where there is high gross per item. However, this continues to hamper the company’s growth from a profit standpoint.

Other non-price factors at work in the demand side of the business include the decline of income since 2008 (discussed more in detail below) and the number of consumers, which in the case of the convenience store industry are intrinsically tied. As people lose income to inflation, joblessness, etc. they are migrating away from the high priced, high gross convenience store and moving to discount locations such as Aldi’s for its grocery needs and Family Dollar for their HBA (Health and Beauty)
products. A convenience store is just that – a model based on convenience, where changing the price of items is difficult as all the money is made from the consumer’s perceived need at the present moment. As people become more frugal and more planning, the number of customers is dropping.

These non-price factors are also being combined with a strong competitiveness in the industry and business adopt a new marketing mix mentioned above – fresh foods. Firms such as Get-Go and Sheetz have capitalized on this model very quickly and very well, beating 7-Eleven in the industry. 7-Eleven has responded in the short term by introducing fresh sandwiches into locations to reclaim their foothold as being the “one stop convenience store” (7-Eleven Beefs Up 2013). Stores are now receiving shipments daily. In the long term, stores are being planned for remodels all the way into 2017, showcasing more fresh food areas, more roller grill selections, and stressing ease of customer interaction. Older stores are being retrofitted with stronger, faster ovens and microwaves. These are costly moves but highly necessary – the convenience store industry is highly competitive and profit margins are low. Every last customer counts.

7-11 has lost customers due to the lack of progressive income as mentioned above. This is only one effect out of several that have hit 7-Eleven and the convenience store industry as a whole during this “Great Recession”. However, due to 7-Eleven’s strong balance sheet, the company has actually been expanding as a long term strategy. Instead of retrenchment, 7-Eleven has utilized the fact that it is a franchised operation to making the appeal to franchisees even greater to get into the business. The firm has started negotiating profit margin splits to make the company more enticing. It also has utilized the drop in real estate value coupled with the soon to be bankrupt businesses to make huge investments in buying and converting stores. Essentially, 7-Eleven’s strategy is complete saturation.

Due to 7-Eleven being a global company, we also have to analyze the effect of the global economy on the international front. Although there has been a huge hit to wealth in more
industrialized countries, countries with lower GDP has been more resilient in certain locations. The Philippines and other Asian countries have been a boom to 7-Eleven’s coffers as the convenience industry takes off in lower income countries. President of Philippine operations Jose Paterno has stated that they are look at going from 1,000 stores at the end of 2013 to 1,300 by 2014 (Loyola 2013). This continued expansion in lower income areas has helped prevent potential bleeding in first world countries.

Finally, the price of oil has a huge effect on the convenience store industry. Clearly the obvious repercussion is less people on the roads equating to less customers in stores. Many 7-Eleven’s are gas station locations and are dependent on gas customers for their business. These price elevations are predicted to get worse this summer as prices will continue to rise (Prices to Keep Rising 2013) due to increased demand, high crude oil prices and supply disruptions. This macroeconomic effect is just as obvious as it is devastating.

Behind the scenes we see an even bigger problem. Recall 7-Eleven’s push to develop a strategy surrounding fresh foods as a way to both fight competitors and return lost prices due to declining cigarette sales. This long term strategy is one of the most repeated mantras of the company and is a daily focus through key performance indicators and measurable metrics. Petroleum is a main ingredient in fertilizer. As gas prices continue to rise, the cost of producing food rises along with it. In fact, there have been increases in pricing not only at 7-Eleven, but across the global grocery industry as well (Wenzlau 2013). This is having a profound effect on consumer behavior, as stated above. People will continue to seek out the lowest prices in times of national recession.

We have covered non-price factors, competition, and effects of the national and global macroeconomic crises. With all of these factors combined, what would I suggest to 7-Eleven in order to stay competitive? I would agree with the steps they have taken and offer a couple more. Continue
acquisitions and saturation, but temper expansion in already saturated markets to avoid cannibalization of profits. Continue to point the strategy at fresh foods to buoy the effect of dropping cigarette sales, but focus on getting quality food in the door vs. simply having an alternative. With the increased competition of local firms like Get-Go and Sheetz, it is essential that 7-Eleven starts out with a quality product that people will return for. No one likes convenience store food – if anyone, 7-Eleven can use that to their advantage.

Would I invest in 7-Eleven? Absolutely. 7-Eleven has a strong balance sheet and continue to expand globally. The firm has massive resources at its command and is clearly using them to claw back lost territory in store to store sales. 50,000 stores is an extremely well sized behemoth that needs to quality management at the reigns – and current strategy lends me to believe they do. Finally, 7-Eleven has its immense cultural significance and branding that are etched into the American psyche. A 7-Eleven was just featured in the new Superman Movie, and characters in various movies reference the company often.

III. Conclusion

I have learned from this paper a note of caution, however. Sears was once one of the biggest retailers in the world and lost its technological advantage as well as its market share. It is now one of the worst stock choices out there. 7-Eleven must not expand too quickly without upgrading its locations and its technology, or it may share the same fate. Although I suggest investing, any company can turn on a dime. Hopefully we will not have to be in a world without Craftsman or the Slurpee.
References