



FACULTY OF BUSINESS

FINAL EXAMINATION

Student ID (in Figures) :

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Student ID (in Words) :

Course Code & Name : **LSC3704 INTERNATIONAL PROCUREMENT MANAGEMENT**
 Semester & Year : May – August 2021
 Lecturer/Examiner : Dr. Akram Al-Khaled
 Duration : 3 Hours

INSTRUCTIONS TO CANDIDATES

- This question paper consists of 2 parts:
PART A (60 marks) : Answer all SEVEN (7) case study questions. Answers are to be written in the Answer Booklet provided.
PART B (40 marks) : Answer all TWO (2) essay questions. Answers are to be written in the Answer Booklet provided.
- Candidates are not allowed to bring any unauthorized materials except writing equipment into the Examination Hall. Electronic dictionaries are strictly prohibited.
- This question paper must be submitted along with all used and/or unused rough papers and/or graph paper (if any). Candidates are NOT allowed to take any examination materials out of the examination hall.
- Only ballpoint pens are allowed to be used in answering the questions, with the exception of multiple choice questions, where 2B pencils are to be used.

WARNING: The University Examination Board (UEB) of BERJAYA University College regards cheating as a most serious offence and will not hesitate to mete out the appropriate punitive actions according to the severity of the offence committed, and in accordance with the clauses stipulated in the Students' Handbook, up to and including expulsion from BERJAYA University College.

Total Number of pages = 6 (Including the cover page)

PART A : CASE STUDY QUESTIONS (60 MARKS)

INSTRUCTION(S) : Answer all **SEVEN (7)** questions in the answer booklet provided.

Case Study: Seven-Eleven Japan Co.

Established by Ito-Yokado in 1973, Seven-Eleven Japan set up its first store in Koto-ku, Tokyo, in May 1974. The company was first listed on the Tokyo Stock Exchange in October 1979. On September 1, 2005, Seven & i Holdings Co. Ltd., was established as the holding company for Seven-Eleven Japan, Ito-Yokado, and Denny's Japan. As a result, detailed financial results for Seven-Eleven Japan have not been available since then and are only reported as the convenience store portion of Seven & i Holdings. Seven-Eleven Japan realized a phenomenal growth between 1985 and 2009. During that period, the number of stores increased from 2,299 to 12,753 and annual sales increased from 386 billion to 2,785 billion yen in Japan. Globally, the firm had over 40,000 convenience stores by January 2011 and was the world's largest chain in terms of retail outlets. Global revenues for Seven & i from convenience store operations were 1,968 billion yen in 2009 with an operating income of 183.8 billion yen. The firm was present in 38 of Japan's 47 prefectures and opened 966 stores in Japan while closing 511 stores in 2009. Customer visits to Seven-Eleven outlets totaled 4.1 billion in 2007, averaging almost 35 visits to a Seven-Eleven annually for every person in Japan.

Company History and Profile

Both Ito-Yokado and Seven-Eleven Japan were founded by Masatoshi Ito. He started his retail empire after World War II, when he joined his mother and elder brother and began to work in a small clothing store in Tokyo. By 1960, he was in sole control, and the single store had grown into a \$3 million company. After a trip to the United States in 1961, Ito became convinced that superstores were the wave of the future. At that time, Japan was still dominated by mom-and-pop stores. Ito's chain of superstores in the Tokyo area was instantly popular and soon constituted the core of Ito-Yokado's retail operations.

The Convenience Store Industry and Seven-Eleven in Japan

The convenience store sector was one of the few business areas that continued to grow during the prolonged slowdown in Japan toward the end of the 20th century and the start of the 21st century. From 1991 to 2002, the number of convenience stores in Japan increased from 19,603 to almost 42,000. As a percentage of all retail stores in Japan, this represented an increase from 1.2 percent to 3.2 percent. During that period, annual sales at convenience stores more than doubled, from just over 3 trillion to 6.7 trillion yen. As a percentage of all retail sales in Japan, this represented an increase from 2.2 percent to 5.0 percent. Japan's convenience store sector gradually consolidated, with larger players growing and smaller operators shutting down. In 2004, the top 10 convenience store chains accounted for approximately 90 percent of Japan's convenience stores. As the chains improved their operating structures and better leveraged economies of scale, smaller operators found it hard to compete.

Seven-Eleven Japan had increased its share of the convenience store market since it opened. In 2008, Seven-Eleven was Japan's leading convenience store operator, accounting for 34.3 percent market share in the convenience store segment. Seven-Eleven was very effective in terms of same-store sales. In 2004, average daily sales at the four major convenience store chains excluding Seven-Eleven Japan totaled 484,000 yen. Seven-Eleven stores, in contrast, had daily sales of 647,000 yen—more than 30 percent higher than the competition put together. By 2009, average daily sales at Seven-Eleven Japan stores had declined somewhat to 616,000 yen. In 2004, Seven-Eleven's operating income of 165.7 billion yen positioned it as a leader not only of the convenience store sector but also of Japan's retail industry as a whole. In terms of growth, its performance was even more impressive. In 2004, Seven-

Eleven accounted for 60 percent of the total net increase in the number of stores among the top 10 convenience store chains in Japan. This growth had been carefully planned, exploiting the core strengths that Seven-Eleven Japan had developed in the areas of information systems and distribution systems.

The Seven-Eleven Japan Franchise System

Seven-Eleven Japan developed an extensive franchise network and performed a key role in the daily operations of this network. The Seven-Eleven Japan network included both company-owned stores and third-party-owned franchises. In 2004, franchise commissions accounted for more than 68 percent of revenue from operations. To ensure efficiency, Seven-Eleven Japan based its fundamental network expansion policy on a market-dominance strategy. Entry into any new market was built around a cluster of 50 to 60 stores supported by a distribution center. Such clustering gave Seven-Eleven Japan a high-density market presence and allowed it to operate an efficient distribution system. Seven-Eleven Japan, in its 1994 annual report, listed the following six advantages of the market-dominance strategy:

- Boosted distribution efficiency
- Improved brand awareness
- Increased system efficiency
- Enhanced efficiency of franchise support services
- Improved advertising effectiveness
- Prevented competitors' entrance into the dominant area

Adhering to its dominant strategy, Seven-Eleven Japan opened the majority of its new stores in areas with existing clusters of stores. For example, the Aichi prefecture, where Seven-Eleven began opening stores in 2002, saw a large increase in 2004, with 108 new store openings. This represented more than 15 percent of the new Seven-Eleven stores opened in Japan that year. Seven-Eleven had a limited geographic presence in Japan. In 2009, the company had stores in about 80 percent (37 of 47) of the prefectures within Japan. However, within prefectures where they were present, stores tended to be dense. As the 2004 annual report stated, "Filling in the entire map of Japan is not our priority. Instead, we look for demand where Seven-Eleven stores already exist, based on our fundamental area-dominance strategy of concentrating stores in specific areas." With Seven-Eleven franchises being highly sought after, fewer than one of 100 applicants was awarded a franchise (a testament to store profitability). The franchise owner was required to put a significant amount of money up front. Half of this amount was used to prepare the store and train the owner. The rest was used for purchasing the initial stock for the store. In 1994, 45 percent of total gross profits at a store went to Seven-Eleven Japan, and the rest went to the store owner. The responsibilities of the two parties were as follows.

Seven-Eleven Japan responsibilities:

- Develop supply and merchandise
- Provide the ordering system
- Pay for the system operation
- Supply accounting services
- Provide advertising
- Install and remodel facilities
- Pay 80 percent of utility costs

Franchise owner responsibilities:

- Operate and manage store
- Hire and pay staff
- Order supplies
- Maintain store appearance
- Provide customer service

Store Services

Besides products, Seven-Eleven Japan gradually added a variety of services that customers could obtain at its stores. The first service, added in October 1987, was the in-store payment of Tokyo Electric Power bills. The company later expanded the set of utilities for which customers could pay their bills in the stores to include gas, insurance premiums, and telephone. With more convenient operating hours and locations than banks or other financial institutions, the bill payment service attracted millions of additional customers every year. In April 1994, Seven-Eleven Japan began accepting instalment payments on behalf of credit companies. It started selling ski-lift pass vouchers in November 1994. In 1995, it began to accept payment for mail-order purchases. This was expanded to include payment for Internet shopping in November 1999. In August 2000, a meal delivery service company, Seven-Meal Service Co. Ltd., was established to serve the aging Japanese population. Seven Bank was set up as the core operating company for Seven & i in financial services. By 2009, virtually every Seven Eleven Japan store had an ATM installed with Seven Bank having more than 14,000 ATMs. The company averaged 114 transactions per ATM per day. Other services offered at stores include photocopying, ticket sales (including baseball games, express buses, and music concerts) using multifunctional copiers, and being a pick-up location for parcel delivery companies that typically do not leave the parcel outside if the customer is not at home. In 2010, the convenience stores also started offering some government services such as providing certificates of residence. The major thrust for offering these services was to take advantage of the convenient locations of Seven-Eleven stores in Japan. Besides providing additional revenue, the services also got customers to visit the stores more frequently. Several of these services exploited the existing Total Information System (see text following) in the store.

Source: Adapted and modified from Chopra, S., & Meindl, P. (2019). Supply Chain Management: Strategy, Planning, and Operation. (7th ed.) Pearson Education.

Question 1

Seven-Eleven's supply chain strategy in Japan can be described as attempting to micro-match supply and demand using rapid replenishment. Assess **FIVE (5)** risks associated with this strategy.

(10 marks)

Question 2

Seven-Eleven Japan (SEJ) ensures that all purchase prices are decided as a result of negotiations with suppliers. Explain **FIVE (5)** fundamental skills in negotiation.

(10 marks)

Question 3

Evaluate the following statement: "A convenience store chain attempts to be responsive and provide customers with what they need, when they need it, and where they need it." Provide a relevant example to support your answer.

(10 marks)

Question 4

Seven-Eleven does not allow direct store delivery in Japan but has all products flow through its distribution center located in respective countries. Explain **THREE (3)** benefits Seven-Eleven derives from this kind of delivery system.

(6 marks)

Question 5

The United States has food service distributors that also replenish convenience stores. Describe **FOUR (4)** advantages and **FOUR (4)** disadvantages of having a distributor to replenish convenience stores versus a company like Seven-Eleven managing its own distribution function respectively.

(8 marks)

Question 6

Briefly interpret what Seven-Eleven has done in its choice of facility location, inventory management, transportation, and information infrastructure to develop capabilities that support its supply chain strategy in Japan.

(6 marks)

Question 7

Seven-Eleven Japan (SEJ) increasingly relies on the effectiveness of business negotiations for their survival and growth. Critically debate **FIVE (5)** crucial factors that make international negotiations different.

(10 marks)

END OF PART A

PART B : ESSAY QUESTIONS (40 MARKS)

INSTRUCTION(S) : Answer all **TWO (2)** questions in the Answer Booklet provided.

Question 1

Supply Chain Management works as a backbone of an organization in managing critical issues of business like global expansion, environmental concerns and rapid growth which create the value for the business. Elaborate on the **FOUR (4)** roles of supply chain management in the 21st Century.

(20 marks)

Question 2

Examine **FOUR (4)** differences between Procurement and E-Procurement in a supply chain. Provide a relevant example for each difference to support your answer.

(20 marks)

END OF EXAM PAPER