

7-Eleven: Slurpees Delivered on Demand

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ABSTRACT

On-demand food delivery is a rapidly evolving service that consumers are coming to expect. 7-Eleven has been exploring and testing several different options for offering on-demand delivery of 7-Eleven goods, but how can 7-Eleven adequately compete in the crowded delivery market? This case study explores the history of 7-Eleven, their marketing strategies, what they have tried in on-demand delivery, their competitors, and options moving forward.

Key Words: 7-Eleven, delivery, convenience, on-demand

HISTORY OF 7-ELEVEN

7-Eleven is a Japanese-owned American international chain of convenience stores, headquartered in Irving, Texas, that operates, franchises, and licenses some 64,319 stores in 18 countries as of January 2018, according to their website. The chain was known as Tote'm Stores until it was renamed in 1946. Its parent company, Seven-Eleven Japan Co., Ltd., is located in Chiyoda, Tokyo. Seven-Eleven Japan is held by the Seven & I Holdings Co (About 7-Eleven, n.d.).

The 7Eleven brand is known and loved around the world, and their iconic products are a big part of the American culture. Although they have grown significantly over the years, their focus stays fixed on making life easier for customers. This simple idea is the reason they are the marketplace leader. It's also why our customers, employees, franchisees and community leaders are proud to be part of the 7Eleven story.

7-Eleven was created in Texas in 1927 by "Uncle Johnny" Jefferson Green. To make life easier for everyone he had the bright idea of opening the first convenience store to sell everyday staples from the dock of a local icehouse in Dallas, Texas, and that is how the first convenience store was born. In 1933, prohibition was repealed and the ice docks started to sell beer and liquor which dramatically impacted the store growth. In 1937, Southland Ice Company President and Founder Joe C. Thompson Jr. took Uncle Johnny's idea to other local ice docks. Within a decade, locations selling the new product line tripled. The new "convenience stops" are called Tote'm Stores. In 1946, the name changed from Tote'm Stores to 7-Eleven to reflect the new extended hours—7am to 11pm, seven days a week.

Seventy five percent of 7-Eleven stores are owned by independent franchisees. According to their website, the process to get your own store can take as little as three to six months. Gaining franchising with 7-eleven has 7 steps (“Franchise process”, n.d.):

- 1-Review your qualification criteria
- 2-Apply
- 3-A couple of assessments and a few meetings
- 4- Pick your store
- 5-Make you an offer
- 6-Training
- 7-Celebrate with your community

MARKETING STRATEGIES OF 7-ELEVEN

In the past, 7-Eleven has defined the “convenience store” business model. They have been physically close to the customer by choosing the best locations and opening massive numbers of stores. They also extended the business hours from its original 7am-11pm to 24/7. With a busier and higher on-demand consumer, they have been redefining convenience by easy access of the digital technologies and potentially home delivery. Understanding the different needs of each customer is the key to creating a successful customer experience in-store, on social media, and on their phones. Advertisements are everywhere and presented visually and auditorily. Sometimes it would be pictures on the window of the gas station that helps acknowledge the customers what products and deals are offered. On top of that, 7-Eleven is making their mobile application to be more helpful by providing services such as mobile ordering and bill pay. They have also teamed up with DoorDash and Postmates as third party on-demand deliveries (Dupre, 2016).

Products

As an international convenience store brand, 7-Eleven provides a variety of products to fulfill its customer’s needs. These products include food and beverage, from breakfast, lunch, dinner, snack, drinks, alcohol, as well as merchandises for travel and living such as phone accessories or personal care items, also gas at some locations.

Price:

The prices of common items are competitive to other convenience stores, also with higher priced private label items such as Slurpee. Those items are exclusive at 7-Eleven stores and loved by its fans. That is why they have a premium price the customers are still willing to pay.

Place

The first 7-Eleven store in the United States was opened in Dallas, Texas in 1927. Now there are 60,000 stores worldwide. 7-Eleven also has an online presence as well as mobile apps to enhance the customer experience. The app is mostly for getting reward points, also includes functions like delivering food and paying.

Promotion

The approach for 7-Eleven’s promotional strategy is comprehensive, including digital offers, social events, and on site promotions. They have made July 11th 7-Eleven day in the United States to celebrate for promotion purposes. Deals like free Slurpee on the 7-Eleven day or on fuel purchase for new customers are offered throughout the stores (7-Eleven Marketing Mix, n.d.)

PARTNERS FOR 7-ELEVEN HOME DELIVERY

Postmates

Postmates was founded in 2011 by Bastian Lehmann, Sean Plaice, and Sam Street. According to their website, the goal of Postmates is enabling anyone to have anything delivered on-demand. Through the Postmates app, customers can get goods from restaurants and shops that Postmates has partnered with, and unlike other on-demand delivery apps Postmates will also deliver from restaurants and shops that they do not have agreements with. Restaurants and shops that have partnered with Postmates pay a 10-20% commission charge for all orders and the customers pay a \$4 delivery fee. If a customer orders from a restaurant or shop that Postmates does not have a partnership with, the customer pays a higher delivery fee of up to \$8. Variable percentage service fees are also added to the delivery fee for both types of orders. Postmates also has a subscription service where customers pay \$9.99 per month or \$83.99 per year and receive free delivery on orders from all merchants on the Postmates platform when the cart size is over \$20 (Ryan, 2017).

7-Eleven first partnered with Postmates in 2015 in the San Francisco and Oakland, California areas. According to the Postmates blog, by 2017, they had expanded their partnership to 1,100 stores in 35 metro areas throughout the U.S. Through the Postmates app, users in participating areas can browse and order items from nearby participating 7-Eleven stores. The delivery fee is set at \$4 and there is no minimum order size.

DoorDash

DoorDash was founded in 2013 by Stanford students Andy Fang, Stanley Tang, Evan Moore, and Tony Xu. The company's goal was to enable every merchant to deliver and the company started with prepared food deliveries. DoorDash partnered with restaurants, charging a commission believed to be around 20%. According to Jungleworks, customers pay a delivery fee of \$5 to \$8 per order.

In 2015, two months after starting their partnership with Postmates, 7-Eleven partnered with DoorDash to deliver 7-Eleven items through the DoorDash app (Inverso, 2015). This was the first time that DoorDash partnered with a non-restaurant. The cities where this partnership is available are the Los Angeles, CA and San Francisco/Oakland, CA areas.

Tapingo

Tapingo was founded in 2012 and the company bills itself as a mobile shopping platform, even though much of its offerings involve food. Through its app, you can order food or other items and have them delivered or pick them up at the store without having to wait in line. The company focuses on college campuses and has even partnered with many schools to accept the schools' "campus cards." According to their website, Tapingo is now present in over 200 colleges and universities in 44 states in the U.S.

Also in 2015, after the partnerships with Postmates and DoorDash were announced, 7-Eleven partnered with Tapingo to deliver 7-Eleven products on the campuses of 8 colleges in 5 different states throughout the U.S. (Kezar, 2015). The partnership has expanded since then and 7-Eleven products are now available through most Tapingo markets with a nearby 7-Eleven.

On-Demand Delivery Through the 7-Eleven App

In December 2017, 7-Eleven announced that they were testing on-demand ordering for delivery on in-store pickup through their new smartphone app called 7-ElevenNOW. The test was occurring at ten 7-Eleven stores in Dallas, Texas, home of their U.S. headquarters. The delivery components of this trial will be handled by Postmates (Pomranz, 2017).

In one scenario, 7-Eleven has already partnered with Postmates for ordering 7-Eleven products through Postmate's app. In the other scenario, the new trial focuses on ordering through the 7-Eleven app and having Postmates deliver the products. Having customers order through the 7-Eleven app has positive and negative effects for 7-Eleven. On the positive side, 7-Eleven will have more control over how their products are displayed, they will be able to offer more tailored promotions, and they will be able to collect more data on consumer preferences and habits. The 7-ElevenNOW app will also be linked with the 7Rewards customer loyalty points program, so loyal 7-Eleven customers will have an incentive to order through the 7-Eleven branded app instead of directly through Postmates. Another positive for 7-Eleven using its own app is that on Postmates, DoorDash, and Tapingo, consumers can easily compare items and prices between different stores offered through the app. For instance, if you are browsing Postmates and see that a 6-pack of Coca Cola and it is more expensive at 7-Eleven than it is at your local grocery store, what incentive do you have to order from 7-Eleven?

On the negative side of the 7-ElevenNOW app, 7-Eleven is not an expert in mobile apps nor the technology required to support the apps. There is some advantage to having Postmates handle the app, since that is what they specialize in. Also, 7-Eleven has partnered with different delivery providers because each of them has strongholds in different cities and market. If 7-Eleven expands on-demand delivery through the 7-ElevenNOW app throughout the U.S., will they have to partner with different delivery couriers or will they only go into markets where Postmates is present?

7-ELEVEN COMPETITORS

Convenience Stores

7-Eleven is in the convenience stores industry. 7-Eleven also has gas stations at about 20% of its locations, making it also a part of the gas stations with convenience stores industry. According to the IBIS Industry Report, in 2017, the U.S. convenience stores industry had profit of \$27 billion from 41,000 businesses. In the same year, the U.S. gas stations with convenience stores industry had a profit of \$411 billion from 65,000 businesses.

7-Eleven has 29% of the market share of the U.S. convenience store only market. The next biggest competitor is the Canadian company Alimentation Couche-Tard Inc. (ACT) which operates Circle K and other convenience stores and gas stations. ACT has 8.9% of the market share in the U.S. gas station with convenience store market and 4.9% of the market share in the U.S. convenience store only market. Other main competitors are petroleum refining companies that operate gas stations with convenience stores, mostly through franchises or licensees, including Shell, Marathon, Chevron, BP, Exxon, and Sunoco. Other competitors are mostly focused in certain regions of the U.S. and include Casey's General Stores, Kwik Shop (Kroger), Wawa, Pilot, and Sheetz, among others (Kress, 2017). Other than the few larger competitors, these industries are highly fragmented with most establishments being small operations that employ less than 5 people.

One of the main benefits that convenience stores offer to consumers is being convenient. The stores are numerous, centrally located, and they carry a little bit of everything. Adding on-demand delivery as a part of their services only further improves their convenience. 7-Eleven has been the main leader in the convenience store industry when it comes to offering on-demand delivery. Some of their competitors have offered on-demand delivery through third-party online ordering services. Circle K has partnered with Postmates, Sheetz has partnered with OrderUp from Groupon, and Wawa has partnered with both Postmates and Grubhub.

7-Eleven's service expansion into on-demand delivery puts them in competition with new companies:

Instacart

Instacart is a startup company, founded in 2012, that partners with different stores to allow consumers to place grocery orders online or via a mobile app and have the orders delivered in as little as an hour or scheduled for a specific time during the day. Instacart hires professional shoppers as independent contractors, similar to Uber, who receive the customers' orders, shop for and purchase the items, and deliver the items to the customers in their own cars. The customer pays for the order online and the personal shopper uses a pre-paid Instacart debit card to pay at the store. The cost of the Instacart service to the consumer depends on the cost of the order and the delivery time frame chosen--the delivery fee for orders over \$35 is cheaper as it is for 2 hour delivery versus 1 hour.

Amazon

In 2007, Amazon first beta tested their grocery and delivery service, Amazon Fresh. Customers can order from over 500,000 items including perishable items that can be delivered to the customer's homes. Orders can be placed in the morning for same-day service or at night for early morning delivery, depending on available delivery slots. Amazon Fresh is a subscription service that is only available to customers in select locations. A customer must first be an Amazon Prime member, at a cost of \$99 a year, then the customer can add on the AmazonFresh subscription service for \$14.99 a month. Orders through AmazonFresh that are less than \$50 incur a \$9.99 delivery fee. All other orders have no delivery charge.

Many items that are available at 7-Eleven are also available through Instacart and Amazon Fresh. How can 7-Eleven stand out? One positive aspect that 7-Eleven has is its brand recognition and proprietary products. You can't get a Slurpee from Instacart, so consumers who are loyal to those 7-Eleven products will not be swayed to purchase through Instacart instead of through 7-Eleven or Postmates. How can 7-Eleven ensure a competitive advantage over these new competitors?

BRING DELIVERY IN HOUSE

In the long term, an option for 7-Eleven would be to build up and take charge of its own home delivery system. Below is a SWOT analysis of this option.

Strengths:

7-Eleven would control the quality of the service rather than the delivery partners. There is an incentive for 7-Eleven to run the home delivery service well because profits are directly related to how well it runs this service (Jacob, 2015). Independence is another strength of 7-Eleven offering this service themselves. They will be less reliant on other companies, they eliminate the risk of negative impacts caused by bankruptcy or improper management of the partner companies (Weidenbaum, 2005). 7-Eleven has a very wide range of stores, so they can develop their home delivery business more rapidly because of shorter distances from stores to customers' homes. 7-Eleven has strong brand name recognition and loyal customers which will make it easier to obtain market share (Bartolacci, 2012).

Weaknesses:

The beginning of the business may be tough, since 7-Eleven lacks experience in the home delivery area, which is different from high volume logistics (Zueva, 2012). A large amount of capital is required to establish the service, there are increased liabilities, and the company may become asset-heavy (7-Eleven financial report, 2017). The whole company's reputation may be affected if home delivery doesn't work well.

Opportunities:

The opportunities are to reduce the cost of home delivery by giving up outsourcing, and increasing vertical integration, thereby 7-Eleven can occupy the retailing market as much as possible. With vertical integration, 7-Eleven builds up more competitive advantages against other identical retail companies, like Amazon and Walmart.

Threats:

Similar businesses have already been established, the competition among home delivery field might be intensive, and 7-Eleven might find it difficult to occupy market share. The relationships with the home delivery partners are another threat. DoorDash and Postmates are current partners of 7-Eleven. Once 7-Eleven decides to expand the home delivery business with its own app, the contracts with these two partners might be terminated because it's not good to use different apps to order merchandises from the same company in the long term.

IMPACT TO FRANCHISEES

Advantages

The profits of stores have more room to increase than before through proper management by the franchisees, since 7-Eleven occupies a bigger market section. Franchisees can execute standard and quality control of home delivery easier, because they use internal employees.

Disadvantages

One disadvantage is an increase in the workload of store owners. Since they would no longer be outsourcing the delivery to DoorDash or Postmates, local owners must be responsible for the whole procedure. This would require more employees, recruiting, hiring, training, welfare and performance evaluating. The relationship with the franchisor would also be affected. Since the new home delivery is a decision for every franchisee, some of them might not like it because of their remote location, inconvenience and expensive transportation. As a result, the relationship between franchisees and franchisors might be strained.

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