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碩 士 論 文

台灣零售業虛實整合商業模式研究: 以 7-11 與 7net 為例

A Case Study of Click-and-Mortar Retail Business: 7-11 and 7net in Taiwan

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中華民國一百年六月

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摘要

資策會研究顯示，2005 年起台灣 B2C 電子商務市場規模，每年以倍數成長，由於進入門檻較實體通路低，競爭趨向白熱化，除了既有網路公司，實體零售業也開始發展虛擬通路，成立自有購物網站以擴大客源。統一超商於 2010 年正式推出購物網站自有品牌--7net，定位為雲端超商，至此，7net 挾著統一超商完整的物流資源及多年累積之品牌優勢跨足電子商務市場，成為台灣第一個虛實整合(click-and-mortar)零售商。

本研究旨在探討 7-11 與 7net 的虛實整合商業模式，兩種通路如何相互配合，為供應商及消費者創造其獨特價值。本個案採質性研究法，從文獻及訪談所彙整之資料，先回顧統一超自成立以來，逐漸發展至電子商務的沿革，再以五力分析探討 B2C 外部市場的趨勢與競爭程度。以商業模式的觀點來剖析 7net 之核心能力與價值，再由內部與外部分析歸結出 SWOT，探討 7net 面臨的機會與挑戰，作為其它實體零售商進入電子商務市場之參考。

本研究發現，7-11 與 7net 的商業模式具備 Charles Steinfield 2002 年提出的四種虛實整合模式可能達成的優勢：低成本、加值服務、消費者信賴度、及地理性與客群延伸，是個體質健全的虛實整合模式。此外，7net 破除 7-11 店面限制，將貨架無限延伸；另一方面，7-11 密集的店面成為 7net 與消費者溝通的管道；以虛擬擴充實體、以實體支援虛擬，相輔相成產生綜效。然而，目前 7net 處於發展初期，知名度與產品項仍不足；市場上除既有的各大競爭對手，未來還可能有更多實體量販通路商跨足網路。面臨這些困難與挑戰，7-11 與 7net 須盡快找出目前最適合的市場定位發展品牌策略，才有機會在台灣 B2C 網購市場永續經營。

關鍵字：統一超、電子商務、虛實整合、零售業、商業模式、五力分析、SWOT。

Abstract

According to the research by Market Intelligence and Consulting Institute, B2C e-commerce market in Taiwan is growing exponentially since 2005. Because of the low barriers of entry, more players are joining the competition and thus the rivalry in virtual channels becomes high. Besides the existing dot-com companies, physical retailers are establishing own-branded shopping websites to expand their customer segments. 7-11 launched its own-branded shopping website—7net. By leveraging 7-11's logistics system and the brand awareness, 7-11 and 7net become the first click-and-mortar retailers in Taiwan.

The thesis aims to study the click-and-mortar business model of 7-11 and 7net and how the two channels cooperate to create unique values for vendors and consumers. This quantitative research is based on secondary and primary data to review the early development and c-commerce strategies of 7-11. Further, it analyzes the external market with Porter's Five Forces model, and depicts 7net's business model with Osterwalders and Pigneur's Business Model Canvas, along with its core competence and values. A SWOT follows to analyze the opportunities and challenges 7net may face, to serve as a reference for the other physical retailers that plan to go online.

The thesis finds that 7-11 and 7net possess the four potential benefits of a click-and-mortar business may achieve (Charles Steinfield, 2002): low cost, value-add service, trust, and expansion of geography and segments, indicating 7-11 and 7net have a robust click-and-mortar constitute to grow and create synergy. On the other hand, as a new comer, 7net must build up its clear market position to compete against both existing and potential players, to obtain sustainability in B2C Internet market.

Key Words: E-commerce, Click-&-Mortar, Retailer, 7-11, Business Model, Five Forces, SWOT

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在老師的指導與同儕的互相扶持下，學業終於告一段落。兩年來，在交大 GMBA 的學習所得，是人生中一段充實且特別的回憶，豐富了我的知識與心靈，更是開啟了今後成長與職業生涯嶄新的探索之旅。

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愛玲

中華民國一百年六月二十六日 於台北

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I. Introduction

1.1 Motivation

As the Internet infrastructure is expanding at a fast pace in Taiwan, more consumers are willing to make purchase online. Among all types of virtual retail channels, including mail orders and TV shopping channels, online shopping is growing much faster than the others. According to the research made by MIC and FIND.org (資策會), the total market revenue of domestic online shopping has grown up to NTD311.6 Billion in 2010 (B2C and C2C combined), with a growth rate of 30.4% compared to that of 2009 (資策會 MIC, 2009). In 2011, the market revenue is expected to reach NTD430 Billion. Besides the total market size is growing steadily, the average amount spent by individual consumer is growing as well, indicating that consumers have more confidence and trust toward online shopping.

Although a young and booming market as it seems, the competition in the market is fierce. MIC finds that more than 50% of the online stores in Taiwan have yet reached their breakeven points (資策會 MIC, 2009) Since the barriers to entry are lower than those of the conventional physical channels, almost everyone can start its own business online. However, among all the players, some possess their advantages to capture a larger market share. For example, Yahoo! Taiwan (雅虎台灣) and PChome (網路家庭) are the most dominant business-to-customer (B2C) shopping websites in Taiwan as they are the two top portal sites in the local market. As typical pure play companies, they run businesses without physical store exposure.

However, the market is not only reserved for pure-play companies. The significant growth of online shopping market has drawn conventional retailers to join the battle and change their brick-and-mortar business models to adapt the new market (賴麗秋, 2011). In July 2010, 7-Eleven Convenience Store (also known as President Convenience Store Chain, PCSC, TWSE: 2912), the giant of the physical retail store in Taiwan, has set up its own-branded shopping website www.7net.com.tw (hereinafter 7net), and is prepared to compete against existing e-commerce top players(王貞曄, 2010). It is the first brick-and-mortar retailer going online; whether it can successfully make it to the market will result in a new hybrid, click-and-mortar retail business model in Taiwan.

Although a late comer in domestic B2C online shopping market, 7net possesses its unique advantages to catch up with the competitors. Its abundant resources, including its physical stores that cover almost 50% market share in Taiwan, its efficient logistics capability supported by 7-11's sub-companies, the well-acknowledged brand name of 7-11, and many affiliates under its mother company, Uni-President Enterprise, are the resources 7Net can utilize to become a fledging rival against the major B2C pure-play competitors. How 7net can utilize these physical resources to gain for share and sustain its business in the Internet market has made this case unique, interesting and worthwhile investigating.

1.2 Purpose

The purpose of this case study is aimed to assess the internal and external environments of 7Net and make well founded conclusions and recommendations. The external part adopts Michael E. Porter's Five Forces Analysis; the internal assessment focuses on the Alexander Osterwalder and Yves Pigneur's Business Model Canvas analysis, how 7Net runs its business and brings in profit, and then to summarize its strengths and weaknesses. A SWOT analysis will follow the case study and draw recommendations. In short, the case study is made to find out where 7Net stands in the market and which direction it can lead to; the final notes in the last chapter can serve as managerial implications for other physical retailers when they plan to go online.

There are three main business models in e-commerce market in Taiwan: B2C, B2B2C, and C2C; 7Net belongs to the B2C market. As a new player, 7net needs to create unique values different from those of the competitors and make its position. From the data collected, one can find that household goods, such as food, beverage and other commodities, are still new to end-users to shop online. 7net's mother company, Uni-President Enterprise, is the leading company of food and beverage products in Taiwan and therefore brings 7net a large and unique opportunity in the market. On the other hand, since 7net is still young in the B2C market, it must strive to expand its product mix to provide one-stop shopping service to end-users in order to compete with the current top players and obtain a significant the market share.

In this case study, the results conclude that 7net, as a new B2C shopping website, highly relies on its physical resources to support its virtual business. Its **logistics capability** and **density of 7-11 stores** are the main advantages for 7Net to compete against the other B2C platforms. Also, based on observation, the characteristics of 7net align with the four potential benefits a click-and- mortar business model should achieve: **Low Cost**, **Value-add Service, Trust**, and **Geographic and Product Market Extension**. Therefore, as the first click-and-mortar retailer in Taiwan, 7net has a healthy constitution and should be able to grow and sustain its business steadily. Although cannibalization or channel conflict is the main concern of a click-and-brick business model, 7-11 and 7net's co-existence should create synergy instead, because the channel cooperation extends in both directions. For the physical side 7-11, there is no more geographic boundary to approach customers; as long as consumers have Internet access, they can purchase from 7-11, either by store pick-up or to-door delivery. For the virtual side 7net, every 7-11 physical store becomes an exposure to promote the website's existence; walk-in customers of 7-11 also become the potential customers of 7net. The cooperation between the two will expand the businesses of both sides.

After the internal and external analysis, the case observes 7net's opportunities and challenges for its business development. First, due to the keen competition in B2C market, 7net should improve the weaknesses proactively in order to strengthen consumers' confidence and build up the website's reputation. Secondly, to effectively expand its membership base, 7net may consider implementing the available e-services in the physical 7-11 stores to strengthen its differentiation from other B2C shopping websites. Finally, a single profit model (commission from vendors) seems weak for a growing B2C platform. Diversifying it profit model, for example selling advertisement service and crossover market campaign with 7-11's affiliates, should be a feasible strategy to increase 7net's profit.

Through this case study, one can find that an effective logistics network is essential for both virtual and physical retailing business. Although e-commerce retailers market their product and reach their consumers on the Internet, the back-end delivery is the key to build up customers' satisfactory.

1.3 Framework

The case study starts with the secondary data collected from journals, previous academic theses and government publications. Michael E. Porter's (1985) Five Forces Analysis model, the Nine-Block Business Model Canvas by Alexander Osterwalder and Yves Pigneur (2004, 2010), and Heinz Weihrich 's SWOT Analysis (1982) are the core analysis tools used in this case study. Five Forces analysis is the main framework for the external analysis; each force in B2C marketing in Taiwan is assessed. With the secondary data collected and compiled, a face-to-face interview with 7net internal staff is conducted as the key resources for primary data. Through the interview, the website's business model is depicted in details, including the definition of the nine blocks (Key Activities, Key Resources, Key Partners, Value Preposition, Customer Segments, Channels, Customer Relationship, Cost Structure, and Revenue Streams) in the visual template.

Five forces (external) and business model analysis (internal) are followed by a SWOT matrix analysis. Based on the result, recommendations are drawn for managerial implications; hopefully, this brief case study can be reviewed as a starting point of the further researches on click-and-mortar retailer business model in this ever-changing e-commerce market in Taiwan.

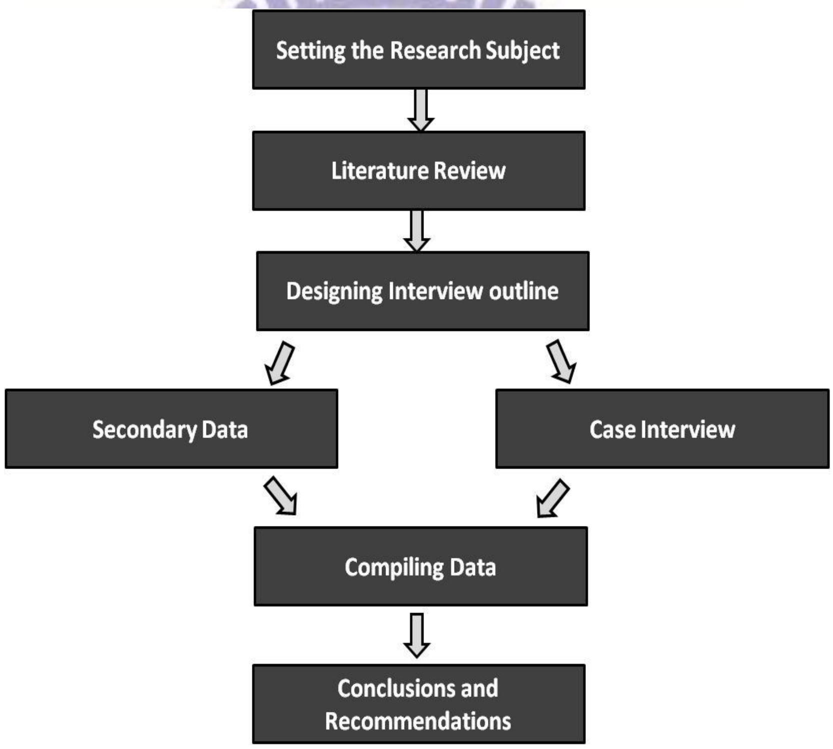

Figure 1. 1 The Process of the Case Study

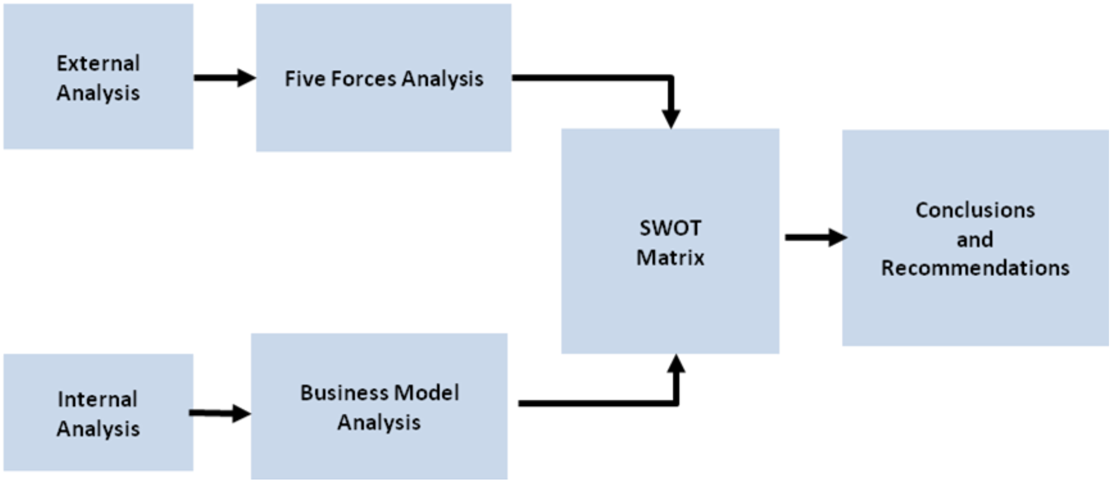

Figure 1. 2 The Framework of External and Internal Analysis

II. Literature Review

2.1 Competitive Strategies

Michael E Porter defines competitive strategy as how a company competes in a particular business. Competitive strategy is concerned with how a company can gain a considerable profit through a distinctive way of competing (Porter, 2001). Porter found three generic types of competitive strategies; a company will adopt one or more to maximize its profits and seek for sustainability.

Overall Cost Leadership: a strategy that allows a company to provide the similar products to its customers at a lower cost.

Differentiation: a strategy that allows a company to provide one or more unique products or services to consumers. The value of the products or services is hard to copy and therefore customers are willing to buy such products or services at a higher price.

Niche Market: a strategy allowing a company to exclusively focus on a single market and fulfill its market need. This certain market can be defined either by geography, customer segments, or product categories. A company that adopts niche market strategy will only focus on a limited range of product categories, and usually are able to respond to market change faster than larger-sized companies. Such a company is more likely to possess advantages on the cost, quality, and features of the product or service.

2.2 Five Forces Analysis

Five Forces is a framework to analyze a certain market and develop business strategies based on the conditions. It was first form by Michael E Porter of Harvard Business School in 1979. The five forces include threats of new entrants, bargaining power of buyers, bargaining power of suppliers, threats of substitute products or suppliers and competitive rivalry among existing firms (See Figure 2.1).

Porter believed that these five forces belong to micro economic aspects instead of macro economics, and they will have strong influences on the structure and the competition in the industry, Also, they have impact on a firm's profitability and management style; any change occurred among the five forces may induce an exit or entry of this firm.

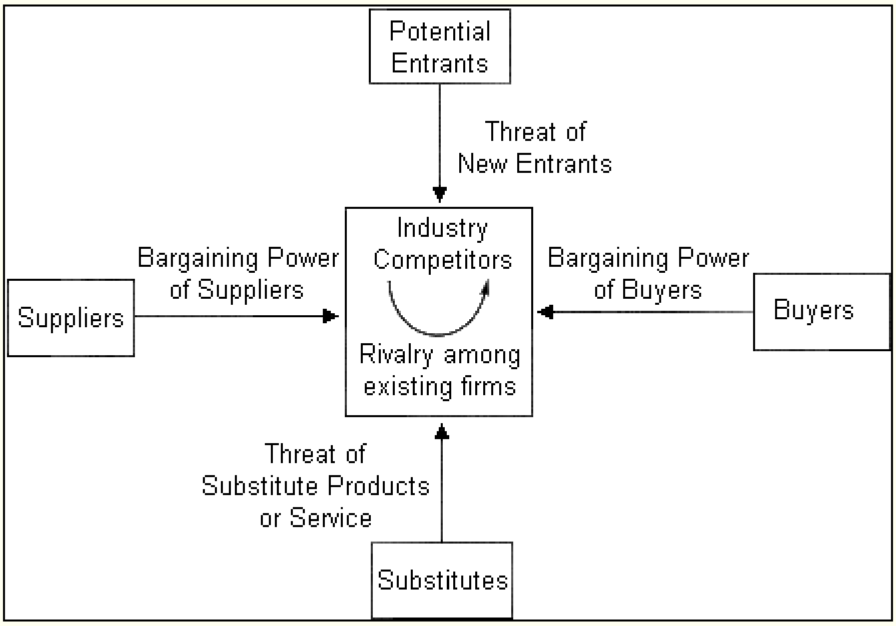

Figure 2. 1 Five Forces in the Market

Source: Michael E. Porter: "Competitive Strategy: Techniques for Analyzing Industries and Competitors"

Five forces are described as follows:

1. **The bargaining power of buyers (also described as the market of outputs)**: it depends on the volume of the demand; if the buyers (customers) have demands larger

volume of the product, it will have stronger bargaining power. Also, if the customers possess more knowledge on the product, or if there are quite a few suppliers to fulfill the need (meaning customers have to pay little switching cost), the customer will hold stronger bargaining power.

2. **The bargaining power of suppliers (also known as the market of inputs):** the main factors to shape the bargaining power of suppliers are the number of the existing suppliers in the market, and the exclusivity of the product or service they offer. Suppliers will have stronger bargaining power if they possess abilities integrate toward upstream.

3. **The threat of the entry of new competitors:** new competitors bring new capacity into the market, and take away resources and market share from the existing firms. Aaker (1984) thinks that any company that tries to expand its product lines, implement vertical integration, or possess unique capacity to compete in the same industry may be considered as new competitors. However, for the new competitors, there may be barriers to entry in the market, which may include exclusive resources of the existing firms, economic scale of the existing firms, or regulations of the government.

4. **The threat of substitute products or services:** substitute products or services determine the maximum profit of a product. If the product price exceeds the limit, the customers will switch their demand to substitute products or services. When the substitute can replace most of the features of the product, it will form a considerable threat to the existing market.

5. **The intensity of competitive rivalry:** when there are many existing firms in the market, the rivalry among them are strong. It will get stronger if they can replace each other, or if it no differences for the customers to buy products or services from which firms. The

barriers to entry and exit may also determine how strong the rivalry is.

2.3 SWOT Analysis

As one of the most commonly used analytical approaches, SWOT analysis can be used to scrutinize an organization's advantages and disadvantages, and optimize its resources to seize its best opportunities. The approach was initialed by Heinz Weihrich in the 60s; ever since it has been widely researched and became the foundation for many studies. It also gives direction and serves as a basis for the development of marketing plans. SWOT analysis separates the information into internal (Strengths and Weaknesses) and external (Opportunities and Threats) issues (see Table 2.1); also, it indicates something that will assist the organization or the plan in accomplishing it objective (Strengths and Opportunities) as well as obstacles that have to be overcome or minimized (Weaknesses and Threat) (Danca, 1999).

Johnson (1989) stated that SWOT analysis is a general tool designed to be used in the preliminary stages of decision-making and as a precursor to strategic planning in various kinds of applications. Balamuralikrishna and Dugger in Iowa State University (1997) find that in order to be most effectively used, a SWOT analysis needs to be flexible. Situations change with the passage of time and an updated analysis should be made frequently.

There are four strategies derived from SWOT matrix:

1. S-O Strategy: Combining the organization's internal strength and external opportunities to create a niche, in order to optimize the organization's advantages.

2. S-T Strategy: When the organization is facing threats from external environments, it utilizes its strengths to overcome the threats or obstacles. With utilized strengths,

the threats are to be minimized or eliminated.

3. W-O Strategy: Through leveraging the opportunities from the external environments, an organization's weaknesses may be improved.

4. W-T Strategy: To minimize both an organization's weaknesses and threats to reach its growth target.

Table 2. 1 SWOT Matrix

Conceptual Structure of the SWOT Analysis

	Internal Factors	External Factors
Favorable Factors	Strengths	Opportunities
Unfavorable Factors	Weaknesses	Threats

Source:Valentin, Journal of Marketing (2001)

2.4 E-Commerce

Electronic commerce, also known as e-commerce or EC, consists of the transaction of products and services over electronic systems such as the Internet. Although the history of E-commerce is short, merely no more than 20 years since the advent of the Internet in 1990, there are already abundant researches about e-commerce. Jeffrey F. Rayport and Bernard J. Jaworski formally define e-commerce as technology-mediated exchanges between parties (individuals or organizations) as well as the electronically based intra- or inter-organizational activities that facilitate such exchanges (Rayport & Jaworski, 2001). Therefore, in the general category, electronic banking or TV shopping by phone can be a type of e-commerce as well. However, since the subject of this case study closely relates to Internet shopping, the following content will focus mainly on the Internet-based e-commerce.

Rayport and Jaworski further define four distinct categories of e-commerce with a matrix with different combinations of buyers and sellers (see Figure 2.2). The e-commerce conducted between businesses is referred to as business-to-business or B2B. Alibaba.com is a recent example for businesses to search for and purchase the products and services they need from the others. E-commerce that is conducted between business and consumers is referred to as business-to-customers or B2C. Although it is usually much smaller than B2B transactions, B2C may be considered the most common type of e-commerce (Lin & Wang, 2008).

As 7net belongs to this category, this paper will further describe its details in Paragraph 2.4.1. Well-known B2C shopping websites include Amazon.com, Books.com.tw, and Buy.yahoo.com.tw. From the consumer's side, another type of e-commerce is referred to as consumer-to-business or C2B. Under this category, consumers can join together as a purchase group and make deals with businesses, mainly to get a discount from the business with larger demand. Groupon.com and ihergo.com.tw are the examples of this type. Consumer-to-consumer, C2C, or peer-to-peer e-commerce involves transactions between and among consumers. C2C websites play the role as a third-party platform to facilitate such transaction and sometimes charge for services such as online exposure and advertisements. Examples are auction websites such as eBay.com or Yahoo! Auction and recruiting websites such as Monsters.com.

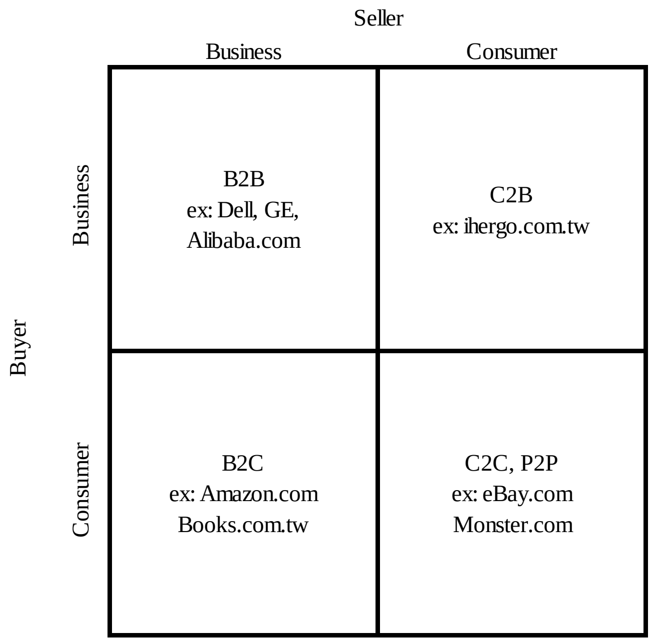

Figure 2. 2 Four Types of E-commerce

Factors of an Effective E-commerce

In the book *E-commerce*, six dimensions, or six flows, are defined as the transaction processes of e-commerce. The six flows are business flow, logistics flow, financial flow, information flow, design flow, and service flow (see Figure 2.3) (欒斌, 陳玟任, & 羅凱揚, 2006).

1. **Business Flow** indicates the transaction between businesses and consumers, mainly selling and buying and should occur in all four types of e-commerce.

2. **Logistic flow** in e-commerce is similar to that in the physical channels; except for the virtual products such as software and the other digital products, deliveries to consumers relies largely on a physical logistic system.

3. **Financial flow** in e-commerce may involve credit or debit cards as a tool for consumers to pay for the purchase. Security may be an issue for the consumers, so

gaining trust from consumers is vital to a successful shopping website. As online shopping market is growing, websites may develop alternatives such as ATM transaction and paying cash on-site that lowers the risks consumers may have to bear.

4. **Information flow** is a two-way communication between the sides; businesses and consumers exchange their information via the Internet. Businesses may be able to collect sufficient consumers' profiles for data mining and further marketing analysis.

5. **Design flow** refers to product or website planning, the website is the virtual store, so the user's interface of the website is equivalent to the store planning.

6. **Service flow** provides integrated and customized service based on the website's resources to facilitate the transaction between the website and the users.

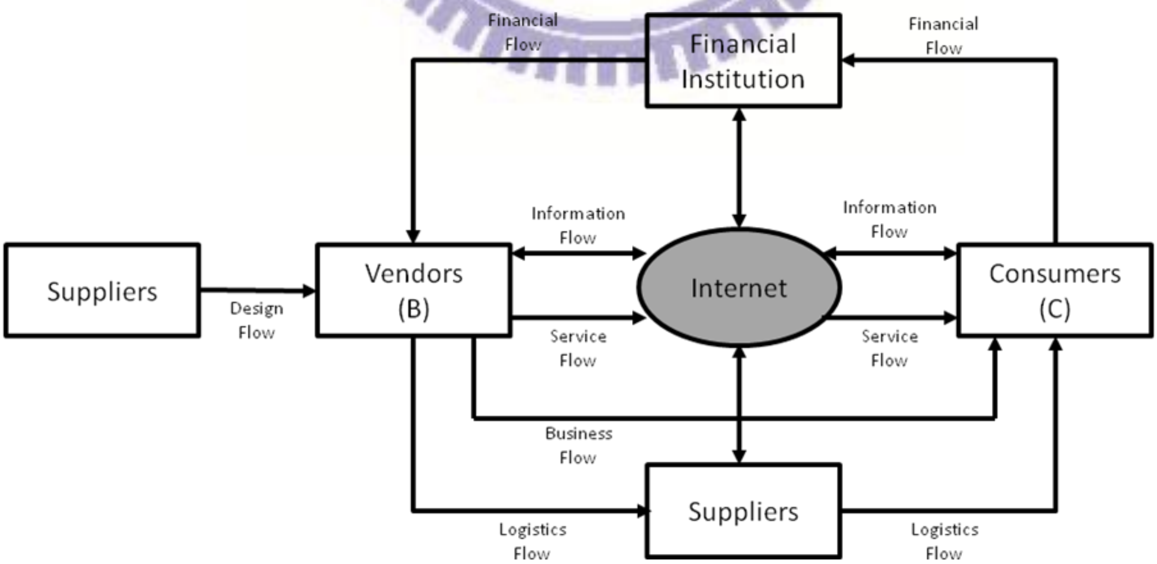

Figure 2. 3 Six Flows of an E-commerce Model

Source: *E-commerce (5th Edition),* 欒斌、陳玟任，*2006*

2.4.1 B2C Online Shopping

B2C online shopping, or Internet shopping, is the process whereby consumers directly buy goods or services from a seller real-time over the Internet (Rayport & Jaworski, 2001). It is one rapidly growing market ever since the advent of the Internet. A large body of research made efforts to draw the definition and classification of B2C online shopping, key success factors, e-business models, and consumers' behavior.

B2C online shopping is defined as businesses, including manufacturers, wholesalers, and retailers, provide an online platform and display their products and services to the consumers, and allow the consumers to directly purchase the items on the platform without the limits of opening hours or locations (欒斌, et al., 2006).

The design of the users' interface may be one of the keys to draw customers' attention and expand its customer base (Elliott & Speck, 2005). To improve performance, B2C shopping websites must more assiduously attend to every aspect of execution and optimize the sites for easiest flow of information to an increasingly sophisticated customer. Michael T. Elliot and Paul Surgi Speck in University of Missouri –St. Louis (2005) find that there are five important factors can strengthen consumers' favorable attitude toward the shopping website: 1.) ease of use; 2.) product information; 3.) entertainment; 4.) trust; 5.) currency. These factors positively relate to consumers attitude toward the site, purchase intent, shopping likelihood, site loyalty, and confidence in brand belief.

Rayport & Jaworski concluded that there are seven essential elements for an effective users' interface, which is the virtual representation of a firm's chosen value proposition. It is referred to as the 7Cs framework: Context, Content, Community, Customization, Communication, Connection, and Commerce (Rayport & Jaworski, 2001).

2.5 Business Model

Timmers (1998) defines a business model as *"an architecture for the product, service and information flows, including a description of the various business actors and their roles; and a description of the potential benefits for the various actors; and description of the sources of revenues*". Weill and Vitale (2001) define a business model as "*a description of the roles and relationships among a firm's consumers, customers, allies and suppliers that identifies the major flows of product, information, and money, and the major benefits to participants*" (Osterwalder & Pigneur, 2002).

Many of the researches about business models actually focus on the business model based on rapidly growing information and technologies. Most agree that they tend to transform traditional business models or develop new ones that better exploit the opportunities enabled by technological innovations. The models involved in technologies, especially the Internet, are referred to as e-business models. Rayport and Jowarski (2001) describe four components of an e-business model: (1) a value proposition or value cluster for targeted customers; (2) an online offering, which could be product, service, information, or all three; (3) a unique, defendable resource system; and (4) a revenue model.

Alexander Osterwalder and Yves Pigneur (2001) conclude that an e-business model is composed of four main pillars, which are **Product Innovation, Infrastructure Management, Customer Relationship** and **Financial Aspect** (Osterwalder & Pigneur, 2002). In 2004, Osterwalder further decomposed the four pillars into the nine blocks: Value Proposition, Target Customer, Distribution Channel, Relationship, Value Configuration, Core Competency, Partner Network, Cost Structure. In 2010, the nine blocks are slightly changed into Value Proposition, Customer Segment, Distribution Channel, Customer Relationship, Key Partner, Key Activities, Key Resources, Revenue Model, and Cost Structure. The four pillars are elaborated as follows:

Product Innovation covers all product-related aspects; Osterwalder and Pigneur conclude that elements are value proposition a firm wants to offer to specific customer segments and the capabilities a firm has to be able to assure in order to deliver this value. Value Proposition is the only block belonging to this pillar and may consider the most important factor of all in a dissected business model. Keeney commented that in e-commerce, the value proposition provided by a website must include the value proposition of the product eventually purchased (Keeney, 1999). For instance, a customer is buying a book online; he or she knows exactly what to expect when the product is delivered, but the process of buying it, including users interface, the payment method, and the delivery lead time will enhance or worsen the customer's buying experience. Later in the Business Model Canvas by Osterwalder and Pigneur, this pillar, or factor, is put in the center of the canvas as the core value a company can bring to its customers.

Infrastructure Management describes the value system configuration necessary to deliver the value proposition. This comprises the Value Configuration of the firm, the Core Competency, and the firm's Partner Network, indicating the tangible and intangible assets a company possesses to run the business. In the Business Model Canvas, this pillar represents Key Partner, Key Resources, and Key Activities on the left side.

Customer Relationship describes how the firm communicates with its customers and maintains their relationship in order to build up customer loyalty and repetitive purchase. It comprises Target Customer (or Customer Segment), Distribution Channel, and Customer Relationship. In the Nine-block Canvas, they represent the three blocks on the right side.

Financial Aspects represents how a firm employs its monetary resources to run its business and the way it makes revenue and gain profit. It comprises Cost Structure and Revenue

Model.

In 2010, the concept of a nine-block business model is published as Business Model Generation, a handbook introducing five different business models that mainly are related to e-commerce, which are Unbundling, Long-tail, Multi-sided Platform, Freemium, and Open. Sometimes a business may match the characteristics of two or more models. In this handbook, the four pillars are no longer emphasized, but the core concept still aligns.

Table 2. 2 The Development of Osterwalder and Pigneur's Busines Model

Osterwalder and Pigneur's Business Model

Pillars	Business Model Building Blocks		Description
2001	2004	2010	
Product Innovation	Value Proposition	Value Proposition	an overall view of a company's bundle of products and services.
Customer Relationship	Target Customer	Customer Segments	Customer segments a company wants to offer value to.
	Distribution Channel	Channel	the various means of the company to get in touch with its customers.
	Relationship	Customer Relationship	the links a company establishes between itself and its different customer segments.
Infrustructure Management	Value Configuration	Key Activities	the arrangement of activities and resources.
	Core Competency	Key Resources	the competencies necessary to execute the company's Infrastructure business model.
	Partner Network	Key Partner	the cooperation with other companies necessary to efficiently offer commercial value.
Financial Aspects	Cost Structure	Cost Structure	the monetary consequences of the means employed in the business model.
	Revenue Model	Revenue Model	the way a company makes money through a variety of revenue flows.

Source: Osterwalder, Pigneur, and Tucci, (2005, 2010)

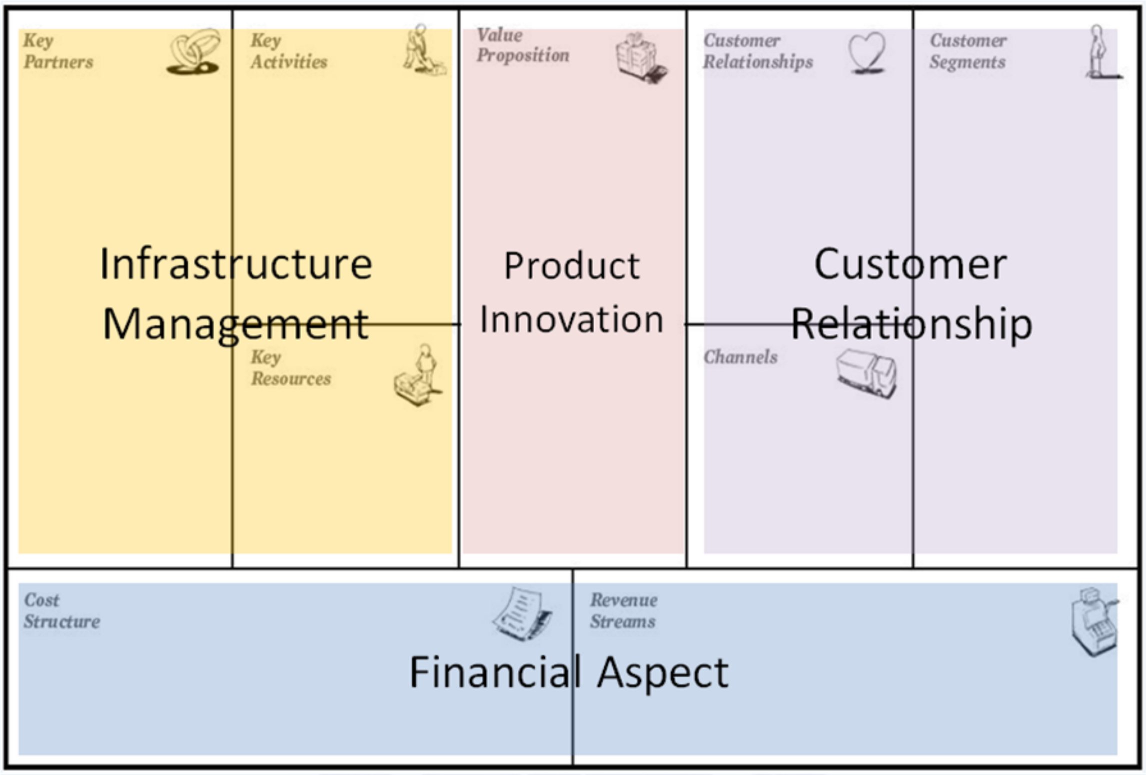

Figure 2. 4 Business Model Canvas By Osterwalder & Pigneur

Source: Business Model Generation, A. Osterwalder & Y. Pigneur, (2010)

2.6 Click-and-Mortar Business Model

Ever Since the prevalence of Internet shopping, a number of traditional enterprises have moved to integrate e-commerce into their channel mix, using the Internet to supplement brick-and-mortar retail channels (Steinfield, 2010). Such a combination of physical and web channels is a distinct e-commerce business model and commonly referred to as “clicks and mortar,” “bricks and clicks,” “surf and turf,” “cyber-enhanced retailing,” and “hybrid e-commerce.” Mahadevan (2000) further defined of this term does not include organizations that have merely set up some websites displaying information on the products that they sell in the physical world (Mahadevan, 2000). Only those firms that conduct commercial transactions with their business partners and buyers over the net are considered.

Why do traditional enterprises strive to go online to approach end-users? Besides the fact that the Internet-using population has grown large enough to become a potential market size for any business to set up a shop on web, there are some synergy benefits that traditional enterprises can obtain from such a new business model. Steinfield, Adelaar, and Lai (2002) identify four categories of synergy potential benefits for click-and-mortar businesses to achieve, which are (see Figure 2-5):

1. lower costs, meaning cost savings may occur in labor, inventory, marketing, and distribution;

2. differentiation through value-added services, which may include loyal program to be provided either online or in store, or additional product information aids for consumers;

3. improved trust, which means established firms are able to leverage their familiar name to make it easier for consumers to find and trust their affiliated online services;

4. geographic and product market extension; firms may add new revenue generating information services online that would not be feasible to offer in physical stores.

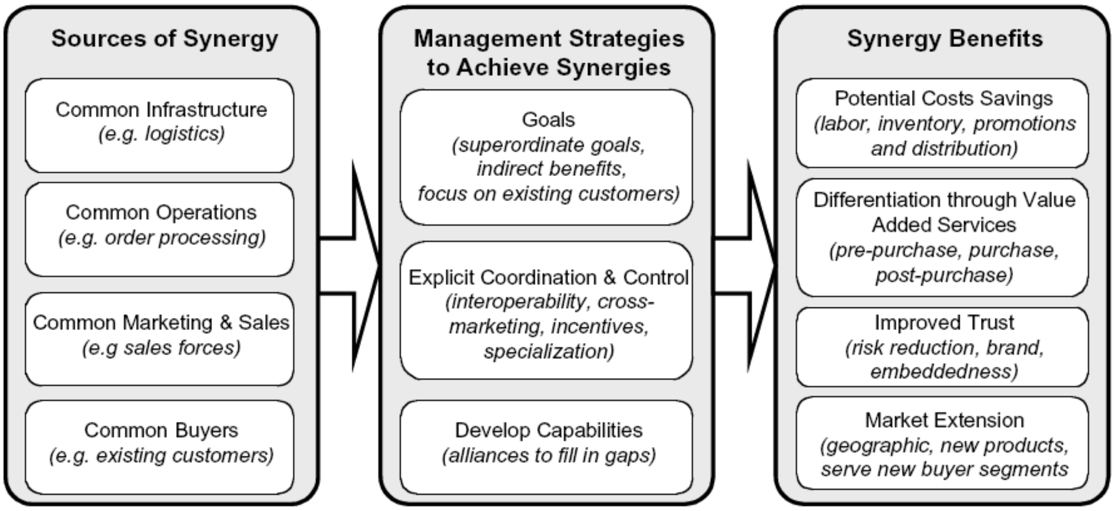

Figure 2. 5 Sources, Management Requirements, and Benefits of Click and Mortar Synergies.

Source: Steinfield, Thomas Adelaar, and Lai (2002)

Many marketing theorists recognize that channel conflicts or cannibalization may occur when the traditional physical companies start to provide an alternative channel for consumers, and it makes sense that when a retailer introduce its own e-commerce capability, it potentially threatens to cannibalize sales from its own physical operations. Because the on-line arena represents a new distribution channel, conflicts may arise with other, more traditional, distribution channels. For example, a middleman distributor may protest at having to now compete with direct sales over the Internet (Otto & Chung, 2000). Thererfore, in practice, many conventional companies tend to operate its e-commerce channels independently from its existing physical channels, attempting to gain additional advantages from the Internet without too much extra costs. However, there are some resources in a company that can be shared by both physical and Internet channels, such as logistics systems, IT infrastructures, marketing and sales assets such as product catalogues or advertisement (Steinfield, 2010). If the company can run its e-commerce channel properly and provide different values in the two channels, it should create synergy rather than channel conflicts.

III. 7-11 Background Introduction

As the leading convenience store in Taiwan, 7-11, or PCSC (President Chain Store Corporation), has been a popular research subject in both commercial and academic field. Its diversified product offerings have been well-acknowledged in the market; many of them were first-movers and have successfully boosted up sales in a short period of time. The following paragraphs review its early development and its recent expansion, and how it has built up the back-end resources sufficient to transit from conventional brick-and-mortar convenience store to a brick-and-click business model. The history of 7-11 is long and complicated since it involves more than 40 subsidiaries and affiliates. This chapter, however, will mainly focus on those milestones that are related to its early e-commerce development and 7Net.com, the own-branded shopping website that plays an important role in its click-and-brick business model.

3.1 7-11's Brick-and-Mortar Evolution in Taiwan

7-11 Taiwan was a subsidiary company of Uni-President Enterprises Corporation, established in 1978. Back to the 80s, when the economy was still in early developing stage, it was not easy to sustain a convenience store business in the local market. Starting from the first year, 7-11 was at loss in consecutive seven years and was once merged back to Uni-President Enterprise as a only a department of the mother company in 1982. After a series of policy adjustment and implementation of its channel management, 7-11 was back on the right track; it had expanded to 100 stores in 1986 and reached it break-even point for the first time. In 1990, with revenue of NTD 10.8 billion, 7-11 has officially become the leading company in retail business in Taiwan (巫俊彥, 2006). The number of its chain stores and franchises has grown exponentially ever since; it reached its first 1000 stores in 1995, Since then, 7-11 has expanded at a pace of approximately 1000 stores every 3 year . In 2006, there are over 4380 stores in Taiwan; in 2011, the number has reached 4750 (See Figure 3-1).

Figure 3. 1 The Store Expansion of 7-11 in Taiwan

Source: 7-11 Corporate Information (Public Disclosure)

The reorganization of Uni-President Enterprises in 2002 was the turning point for 7-11's expansion. By function, all the subsidiaries were formed into four sub-groups: Manufacturing, Logistics, Trading and Holdings. 7-11 becomes the leading company among the 42 companies in Logistics Sub-group, integrating retail and logistics-related subsidiaries to share all the resources and create synergy. The Logistics Sub-Group mainly comprises of four different types of companies: Supportive, Retailers, Non-Retailers, and Overseas Holdings (林盈芊, 2008). Retail Support International (RSI), Wisdom Distribution Service, UPCC and PLIC are the major couriers/logistics sub-companies to support 7-11 and ensure the deliveries are on time. Since then, 7-11 were able to provide innovative services to consumers by leveraging these sub-companies, mainly related to e-commerce. For instance, 7-11 started to cooperate with Books.com.tw, a leading online bookstore in 2000. The logistic flow is like this: Books.com.tw places buffer stocks in RSI; after consumers confirm order on Books.com.tw and designate which chain store they would like to pick up the purchases, RSI completes sorting and packaging, and then Wisdom Distribution Service delivers the orders to the 7-11 stores designated by consumers. Consumers no longer need to pay by credit card or ATM in advance; the flow allows consumers to pay cash when picking up the purchase in the store. Since then, Books became the first online bookstore that offers “cash upon pick-up at convenience store.” In the past, online payment mechanism were mainly through ATM and credit card, which might cause information leak and therefore consumers would have to bear the risk when transacting online. This innovative service has solved consumers’ concern about privacy issue, and made consumers more willing to try online shopping. Consumers are not the only people benefit from this service; this new partnership between Books.com.tw and 7-11 also created a win-win situation: Books gained more sales through this new channel; 7-11 gained more walk-in potential consumers in its physical stores. The pick-up service was a success; later in 2007, 7-11 started to expand its partnership to non-affiliated e-retailers (林寬宜, 2009). Until now, 7-11 has cooperated with over 250 e-retailers and provided them pick-up service, including many sellers at Yahoo or PChome ("7-11 Official Homepage," 2011). This cross-platform system has made “cash upon pick-up at convenience store” service more widely accepted by consumers. With such a new business model, 7-11 is no longer only a physical convenience store; it becomes a solution provider for other retail businesses. What it offers to consumers is no longer only physical products, but also intangible services.

Innovative marketing strategies of 7-11 are widely acclaimed by media and the government. In 2004, 7-11 has been awarded as “the Leading Enterprise” by Common Wealth Magazine for consecutive 10 years. In 2004, 7-11 launched its I-Cash prepaid card product; consumers can top-up and refill cash into a plastic IC card for future transaction in 7-11. This gives consumers a new paying method other than cash only. It was widely accepted by the market; up till now, 7-11 has released 9.2 millions of ICash cards; total revenue transacted by ICash has reached 11 Billion (盧諭緯 & 羅之盈, 2010).

3.2 7-11's Early Development of Corporate Shopping Website

Within 20 years, 7-11 has gained full experiences in physical chain store management in Taiwan. From 2008, 7-11's market share in Taiwan has reached 51%, followed by Family mart, Hi-life, and OK Convenience Stores (2010 台灣連鎖店年鑑, 2010). With such a large scale, 7-11 has to continuously diversify its revenue model to maintain its growth in a saturated market. Since it has dominated the conventional physical retail market, there is little room left for 7-11 to grow significantly (蔡薇欣, 2009). It seems to make sense that 7-11 starts to move on to the e-commerce and find new revenue streams online. In fact, 7-11 did attempt to start its click-and-mortar business model early; back to 1992, 7-11 developed a mail order catalog named Uni-mall and set up a simple website in 2000 named 7eShop.com as its online channel, mainly sold women apparels. Ten years ago, while online shopping market was still underdeveloped, Uni-mall may be considered one of the first movers and could have seized its market share. Besides, it had 7-11 as its channel to promote the shopping website and expand its customer base. However, due to the lack of brand recognition and clear positioning, the sales has been gloomy for years and could not compete with the rapidly-growing shopping websites such as Yahoo and PChome. The poorly-managed website was criticized by the users; reviews about its bad quality of customer services can be easily found on the online forums (台灣研究院-搜尋引擎優化與行銷, 2009). Without efficient business model or clear product offering, Uni-mall could not survive in the ever-changing e-commerce market in Taiwan, even if it had strong back up of its mother company. In December 2009, Uni-mall shopping website was shut down and became history; the management team was merged back to Internet Shopping Business Division of

7-11.

3.3 7-11's New Attempt for Own-Branded Shopping Website: 7net.com.tw

Uni-mall's failure did not stop 7-11 from approaching the B2C e-commerce market in Taiwan. After a series of internal review, 7-11 decided to make a new plan to go back to the Internet. In July 11th 2010, the new 7-11's shopping website 7Net.com.tw is launched. 7net becomes the new brand name that is easier for consumers to associate with 7-11 (盧諭緯 & 羅之盈, 2010). The Chief Operating Officer of 7-11, Chien-Nan Hsieh, commented on this new website, "We have a very clear positioning for our new website, which is the extension, or complementary platform of our physical 7-11 stores. 7-11 will move on to a "Net Store" model; the store is the foundation, while the net is on top of it. 7-11 is no longer only a shop, but a click-and-mortar platform. In the past, a physical convenience store can display about 3000 items; now, with a virtual extension platform, 7-11 can expand its capacity unlimitedly; there will be no boundaries between physical and virtual stores for consumers anymore. 7net will be the gateway to a new brick-and-mortar business model (方巧文, 2010)."

Currently, 7net has a membership size of around 200 thousands; average spending per customer transaction is about NT700 (方巧文, 2010). Unlike the previous platform Uni-mall, which focused on women apparel, 7net.com mainly focuses household goods and wholesale food and beverage, along with 3C products, women's apparel and accessories, and exclusive mail order brands from Japan such as Nissen and Cecil (王貞曄, 2010). There are over 100 thousands of items available online, The main slogan under 7net's logo is "Order Today; Pick Up Tomorrow", conveying an appeal of fast delivery. Utilizing the advantages of the dense 7-11 store networks in Taiwan, each store becomes the hub for 7net's consumers to pick up their order from, without minimal purchase amount. Besides convenient delivery method, 7net offers consumers a new paying method; consumers can now pay by their I-Cash prepaid card when shopping on 7net, as long as consumers have a card reader linked to the internet. This becomes another unique feature of 7net that no other B2C websites can offer.

Tu-Chang Tsai, the General Manager of Marketing of 7-11, commented on its membership base, “the size of the membership base is the key to revenue growth. In the past, Unimall could not successfully gain membership base growth; therefore, it was difficult to hit the expected revenue. Now, 7net, with clear positioning and innovative marketing strategies, the membership base is growing ever since (方巧文, 2010).”

The management team holds great expectation for 7net. According to the press release, 7net’s estimated revenue in 2011 is NT2 Billion, 4 times of that in 2010. As for product offering, the management team expects to increase its product lines from 100 thousands to 1 millions. In the midterm, 7net aims to reach its accumulated revenue of NT5 Billion in the upcoming three years.

Figure 3. 2 Homepage of 7net.com.tw

Source: 7net.com.tw

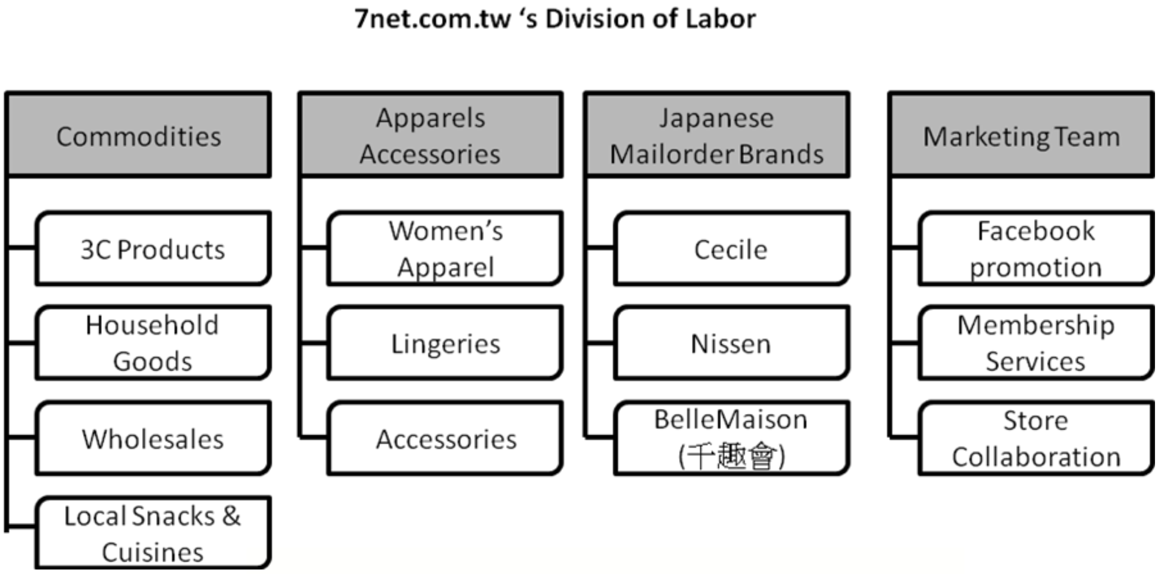

Figure 3. 3 7net.com.tw's Division of Labor

Source: Interview with Internal Staff of 7net.com

3.配送圖示說明:

圖示	取貨	宅配	廠配	單店結帳
說明	代表此商品可以7-11門市取貨	黑貓宅配到府	轉單由廠商直接配送	需於單店頁面完成結帳
運費	免運費	單次消費未滿490元，須加收80元運費。	除特殊標示之商品外，不需另外負擔任何運費	依各單店規則

Figure 3. 4 Flexible Methods Provided by 7net

Source: 7net.com.tw

Table 3. 1 Chronicle of events of 7-11's Development

Chronicle of Events of 7-11's development	
Year	Events
1978	President Chain Store Corporation (統一超商股份有限公司) was established
1983	Started its 24-hour business model
1985	Launched microwave foods and finger food products
1986	Reached the first 100 stores and its break-even point
1990	Became leading retailer in Taiwan (revenue reached NTD10.8 Billion)
1990	Cooperated with Japan and established RSI, the exclusive distribution center for 7-11
1996	Unimall shopping website was launched
1998	Cooperated with China Telecom (中華電信) to launch the first in-store bill collectionTaiwan.
1999	Wisdom Distribution Service (大智通文化行銷股份有限公司) was established
2000	Launched pick-up services with Books.com.tw, later became the main shareholder of Books.com.tw
2002	Re-organization of mother company Uni-President Enterprises; four groups are developed.
2003	Co-funded with Japan and Established Muji Rouhin Taiwan (台灣無印良品股份有限公司)
2004	Launched Icash Prepaid IC card
2006	Launched ibon kiosk, providing in-store service such as printing, scanning, paying bills, ticketing, etc.
2007	Partnered with e-retailers
2008	Rakuten.com.tw (樂天市場) was established
2009	Unimall is closed
2010	Launched 7Net.com.tw as 7-11's own-branded shopping website

Source: Compiled Data

IV. E-commerce Market Analysis

In the following paragraphs will elaborate current market status and the characteristics of the main business models in details. A few names will be mentioned frequently, such as “platform”, “e-store”, and “online shopping website”; they all refer to the same thing, which is virtual interface on the Internet for selling and buying products in real-time.

A five-force analysis will follow the market overview as the external analysis and will be the background of the Opportunities and Threats in SWOT analysis.

4.1 Domestic Online Shopping Market Overview

After the burst of the dotcom bubble in 2000, the online shopping market is booming in the recent 10 years. According to the research made by MIC, in 2010, the scale of online shopping market in Taiwan was up to NTD358.3 Billion; this year it is expected to reach NTD430 Billion. Besides the overall market size, the average spending of individual consumers has also grown over years. In 2006, the average spending of each consumer on B2C shopping websites was NTD9103; in 2010, it has increased to NTD9671 (資策會 MIC, 2011). Such a market growth may result from several factors: first of all, the ever-growing Internet infrastructure has made “getting online” become a daily routine of many and therefore they are willing to try online shopping as a new channel; second, the development of information security has made consumers more willing to bear the risks it may cause while paying by credit card online. Moreover, as the market is expanding, more paying mechanisms are available for consumers; except paying by credit card, consumers can choose whether by ATM transactions, IC ATM card payment (SmartPay), by cash on to-door delivery, or by cash upon pickup in a convenience store. Among the methods, cash upon pickup in store has been widely accepted; in 2010, the growth rate of this method is 10.7% (MIC, 2010), the greatest growth among all the methods.

However, not everyone in the competition can dig for gold. Among all the players, only 28.6% can make profits from their online business; 54.9% are still in the red (MIC, 2010). This may result from the fact that price comparison online is so easy for consumers that the websites have no choices but to follow the transparent market price. Besides, online forums and social networks allow consumers to exchange and share their comments freely; very little information can be hidden on the business side and therefore the profit margin remains low. To stand out in this perfect competition market, a website has to differentiate itself by providing add-on services.

Some product categories are rather mature online. Publications (including books and magazines), accessories and apparels for women, beauty products, computer and peripherals and 3C mobile devices are the most popular categories selling online (MIC, 2009). These products have lower average selling price, and are usually standardized. The business model of an e-store determines how it generates revenue and makes profit. In general, there are three main business models in Taiwan e-commerce retail market: B2C, B2B2C, and C2C (see Table 4-1). B2C e-stores, or platforms, sell products or services to consumers directly, mostly by mid-to-large businesses with brand awareness. C2C e-stores are often run by small scale business or individuals; B2B2C platforms are often comprise of many small-scale e-stores. B2C market is growing steadily among the three markets (See Table 4-2, Figure 4-1).

Table 4. 1 Three Forms of E-business Model in Taiwan

Form	Business Model	Examples	Businesses
B2C	e-stores → consumers	7Net, PCHome 線上購物, Yahoo 購物中心, PayEasy, 博客來	mid-large
B2B2C	e-stores → e-malls→ consumers	PCHome Mall (商店街), Yahoo 超級商城, 樂天市場	small-mid
C2C	individuals/e-stores → consumers	Yahoo奇摩拍賣, 露天拍賣	individuals/ small

Source: MIC (2009)

Table 4. 2 B2C Online Market Scale In Taiwan, 2005-2009

(Billion NTD)	2005	2006	2007	2008	2009
B2C Market Revenue	60.5	82.4	106.8	133.4	168.9
Growth Rate	n/a	36.23%	29.65%	24.89%	26.58%
Market Share	66.11%	61.49%	57.99%	55.82%	54.19%
Share in the whole retailing industry	1.90%	2.60%	3.30%	3.70%	4.20%

Source: TIE Professional Report for Virtual Retail Industry, 2010/2

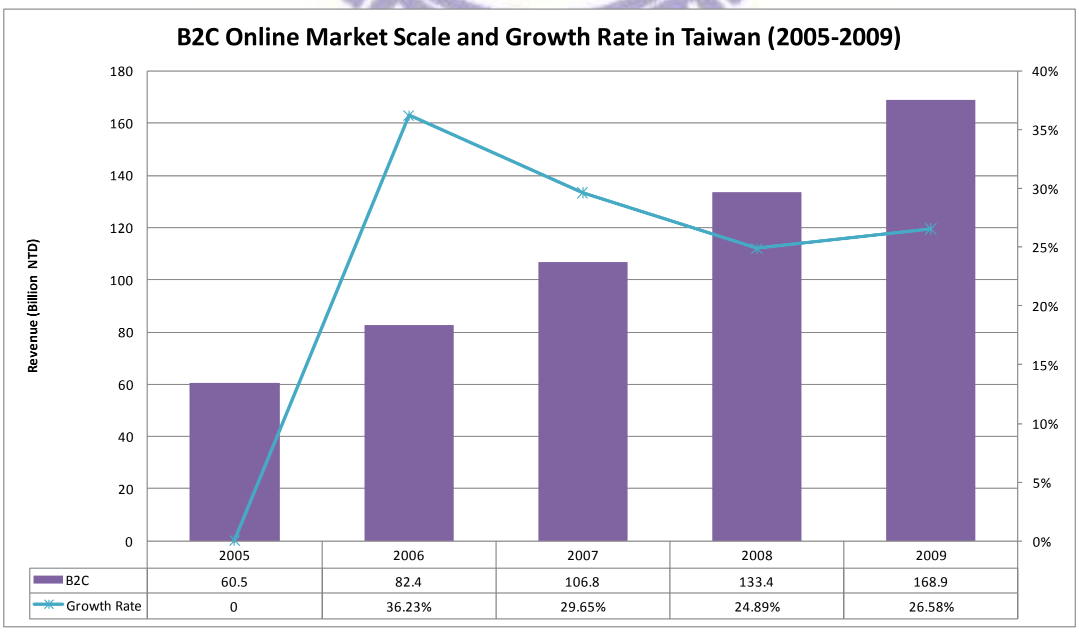

Figure 4. 1 B2C Online Market Scale and Growth Rate in Taiwan (2005-2009)

Source: TIE Professional Report for Virtual Retail Industry, 2010/2

4.2 Three Main e-Business Models in the Market

B2C platform

A Business-to-Customer (B2C) platform has a business model analogous to a brick-and-mortar department store. The trading occurs between the consumers and the B2C platform; the invoices should be issued to the consumers by the B2C platform, instead of the product brand name or vendor. A successful B2C platform should have diverse product lines also a user-friendly interface to provide convenient one stop shopping experience to consumers. Staffs of a B2C platform are usually positioned as product managers; they may be in charge of communicating with vendors, optimizing the web pages, designing e-flyers (eDM), and planning for marketing campaign. In a dominant B2C platform, a product manager may have to manage up to 20 thousands types of products per quarter. To sell a product on a B2C platform, a brand name or a vendor usually has to pay the platform a commission equal to a certain percent of the total revenue or the end-user price. The B2C platform basically provides product exposure and up front communication with end-users, but may not be necessarily in charge of logistics.

To look into the logistics of a B2C platform, it can be divided into 2 models (See Figure 4-2): Distribution Center Delivery and Direct Delivery. The former one may be seen as a total solution for vendors, and will costs higher than the latter since the platform has to bear extra cost for the distribution center and the rest steps of the logistics such as sorting, packing, and delivery. If the vendor decides to go with the former model, very likely it will store some buffer stocks in the platform’s distribution centre (usually consignment). Based upon consumers’ requests, the distribution center will deliver the order to door or the designated convenience store. Delivery lead time is usually well controlled, with enough buffer stocks, many B2C platforms now can guarantee the delivery lead time to be within 24 hours.

From the vendor's point of view, since it will be too large an investment to build up its own logistic capability, it tend to outsource logistic flow to the platform; all it has to do is to make sure there are enough buffer stocks in the distribution center. However, as convenient as it seems, not every platform is able to provide such model. Renting or building up a distribution center may be an expensive cost to the platform, so the platform needs a customer base large enough to support such a cost.

For the vendors that have less business flow or smaller business scale, they might choose the second model, Direct Delivery. In this model, the platform plays a much simpler role; it only provides product exposure on the website, and transfers the purchase order to the vendors. Vendors have to control the inventory, fulfill and pack the order, and handle the to-door delivery by themselves. Some vendors provide cash upon pickup in a convenience store. They may have to pay the convenience store partner NTD 20-30 each order from consumers. If the vendor chooses this service model with the platform, the upfront cost it has to pay to the platform may seem less, but it has to deal with a few other counterparts such as third-party couriers.

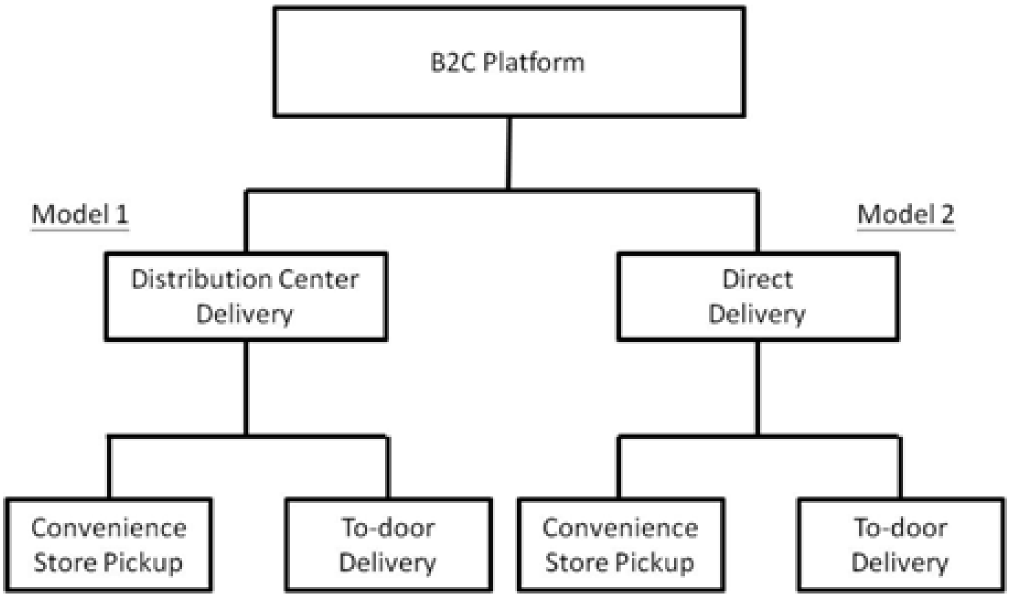

Figure 4. 2 Common Logistic Flows for B2C Platform in Taiwan

Source: Interview with Internal Staff

B2B2C Platform

A B2C2C platform may be considered a domain or a cluster of individual e-stores. It can be analogous to a physical shopping mall, with a lot of independent stores dealing with consumers directly. Small-to-mid businesses may set up their own e-stores under the domain by paying a fixed annual maintenance fee, and a commission equal to certain percent of their total revenue. A B2B2C platform may give instruction or consulting services, and provide a basic framework for the stores, but the stores have to design their websites, control their inventories, and handle logistics by themselves. PCHome Mall is the most popular B2B2C platform in Taiwan; 30% of the e-stores have their physical stores as well, for instance well-known bakeries and branded women's apparel (MIC, 2009).

C2C Platform

Customer-to-customer (C2C) e-stores in Taiwan are mainly auction websites. Formally a platform for selling second hand products, nowadays auction platform has become an e-store for small businesses or individuals to participate. Most of the C2C platforms in Taiwan provide services at low cost or free of charge; everyone can post their product information under the domain.

Rating system is one of the typical features of a C2C platform. Both seller (business) and buyer (consumer) can rate the other and place comments. Rating system influences customers decision significantly; sellers with higher rates are considered to be more trustworthy and are able to draw larger customer base. Yahoo! Auction (75.1%) and Ruten Auction (21.9%) are the dominant platforms in C2C market (insightxplorer, 2009).

4.3 Major Players in B2C Market

To understand where 7net stands in domestic B2C market, one has to fully understand those benchmark players. These are the leading B2C platforms that have been in the market for long and possess their own competitive advantages.

4.3.1 Yahoo! Shopping

Yahoo! Shopping (buy.yahoo.com.tw, hereinafter "Yahoo Shopping Taiwan) was established in 2002, formerly known as Monday Technologies; it is acknowledged as a mega virtual department stores. As the survey made by MIC in 2007, Yahoo Shopping Taiwan is ranked as "the Most Frequently Visited Website" by the Internet users in consecutive four years. It carries over 400 thousands of products, 13 product categories, and cooperates with over 2500 vendors (7-11 official website). To keep the fixed cost light, Yahoo Shopping Taiwan does not own a distribution center; most of the orders are directly transferred to the vendors only.

Under the domain name of Yahoo Taiwan, the most popular domestic portal website, Yahoo Shopping Taiwan enjoys the greatest reach among all the domestic B2C platforms. According to Alexa.com, Yahoo.com has a daily reach about 25 worldwide (meaning every day there are 25% of the global Internet users browsing Yahoo.com); 0.2% of the users visit Yahoo Shopping Taiwan, meaning that on the average, per day there are 0.0498% of the global Internet users visiting Yahoo Shopping Taiwan. The total number of global Internet With such a large traffic, Yahoo Shopping Taiwan seizes a large share of B2C online shopping market in Taiwan.

Figure 4. 3 Homepage of Yahoo! Shopping (http://buy.yahoo.com.tw/)

4.3.2. PChome Online Shopping

PChome Online Shopping is the second most popular portal website in Taiwan (Alexa.com). Established in 2000, PChome Shopping is the first B2C platform. As a large scale domestic B2C shopping website, PChome Shopping carries all types of products that are similar to those of Yahoo Shopping Taiwan, but it claims to be the largest 3C products channel in Taiwan. According to Alexa.com, on the average there is 0.016% of the total global Internet users browse Pchome Shopping, about one third of that of Yahoo Shopping Taiwan (Pchome Shopping official website).

In 2007, PChome launched its “delivery within 24 hours” to distinguish itself with the competitors. To control its strict lead time, PChome rents a distribution center in Taoyuan, Taiwan. The total operating cost may be much heavier than that of Yahoo Shopping Taiwan, but the logistics quality can be closely monitored; sufficient buffer stocks, organized sorting systems, and scheduled delivery shifts minimize bottlenecks and reduce errors in the flow.

Figure 4. 4 PChome Shopping Homepage (http://shopping.pchome.com.tw/)

4.3.3. Other Platforms

Momo (momoshop.com.tw) was established in 2004, the first TV shopping channel expanding to B2C e-stores and physical stores. Founded by Fubon Finance, Momo aggressively started its retail business by building its TV shopping channels, publishing its mail order catalogs, and setting up its B2C shopping website in 2005. In 2008, Momo expanded to physical chain stores; it has become the only retail store that covers both virtual and physical channels (Momoshopping Official website).

Momo TV Shopping specifically targeted at housewives and office ladies over 30 years old, which is a target audience completely different from the Internet shoppers in Taiwan. After entering to B2C e-stores market, Momo strives to seize younger segment. With sufficient experience in TV shopping, Momo has become one of the major B2C players and considered a direct threat to 7Net. In terms of traffic, currently Momoshop.com.tw ranks as 26th website in Taiwan, 3rd B2C shopping website (after Yahoo Shopping Taiwan and PChome Shopping) (Alexa.com).

Books.com.tw was established in 1995 and was the first online bookstore in Taiwan and Greater China (Books.com.tw official website) In 1999, it started to run its own distribution center; in 2001, 7-11 invested a large share in Books.com.tw and became the biggest shareholder. The website is considered a subsidiary of 7-11 since then.

Books.com.tw started with selling only publications (books, magazine, and audio, video products) online, but now it has expanded to carry over 4.2 million types of products, from beauty products, 3C products to e-ticketing. However, publication still holds the largest share of its revenue. For its constant lower price compared to brick-and-mortar bookstores, Books.com.tw became a major channel for publication (劉威麟, 2006). In terms of traffic, Books.com.tw ranks as 32rd website, 4th B2C shopping website in Taiwan.

4.4 External Environment Analysis

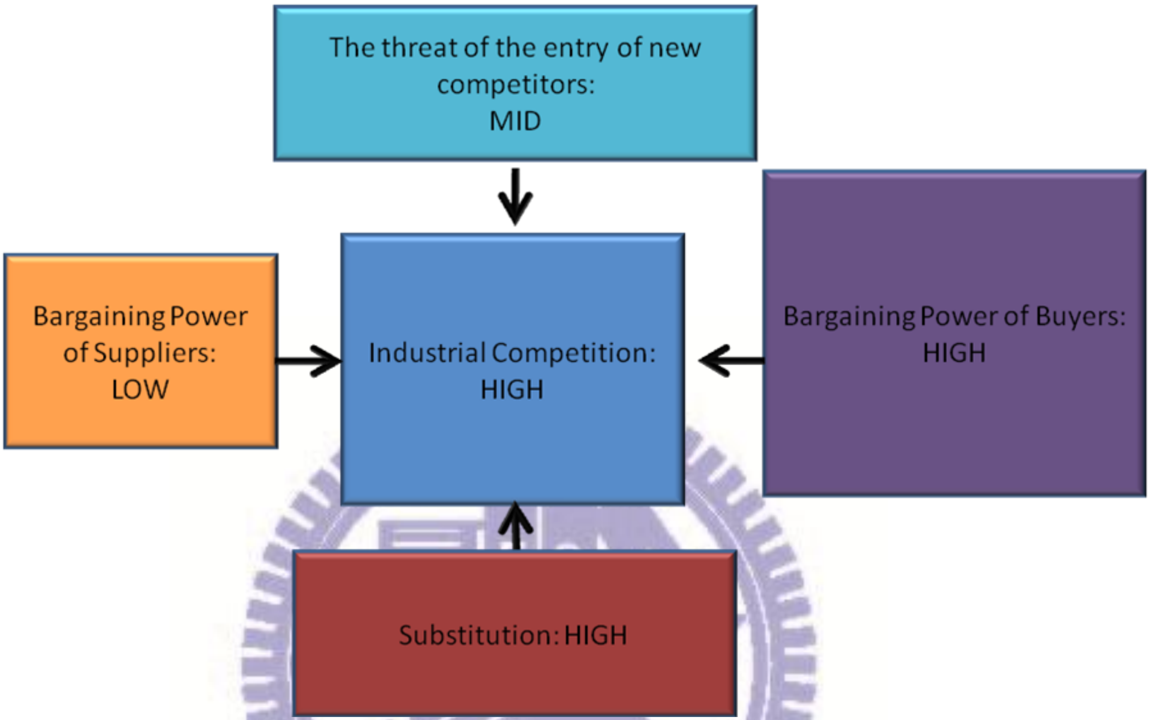

Figure 4. 5 The Five Forces Analysis

Sources: Compiled Information from Chapter 3, and 4.

Previously in Chapter 2, Porter's Five Forces model is reviewed as a tool for external environment analysis. Following paragraph, based on the indexes, is about to scrutinize how strong each force is, and what opportunities and challenges 7net may encounter in the external environment (See Figure 4-5). Each force will be scaled as low, mid, or high based on its characteristics.

1. The bargaining power of buyers: High

As the consumers (buyers) making purchase on shopping websites, they usually fully understand the products they are buying and they see the virtual channel as a substitute of physical channel. Even when buying something that is exclusively available on the Internet, the consumers will have several options on which shopping website they prefer to shop, and there are few differences between them. In the other words, it does not make significant differences for consumers to purchase on which platform, therefore the switching cost for consumers are very low. Thus, the bargaining power of buyers to online shopping is defined as high.

2. The bargaining power of suppliers (market of inputs): Low

To define the bargaining power of suppliers in e-commerce market, one has to consider the top B2C competitors as a whole. Since the suppliers reply on them to gain product display and make actual sales, the suppliers most likely have to follow the rules made by these B2C platforms, including the advertisement fee, payment methods, and commission percentage. Especially when a leading B2C website which can provide high reach rate, it will have very strong bargaining power over suppliers. There may be some rare cases that a brand possesses pull power from the consumers strong enough to become a must-have brand for a shopping website to carry, but most of the time, the website has most of the power. Therefore, the bargaining power of suppliers is defined as Low.

3. The threat of the entry of new competitors: Mid

Almost any brick-and-click retail company can enter the market by simply setting up a shopping website without spending too much resource. However, if a new shopping website wants to compete head-to-head with the existing players in Taiwan, such as Yahoo or PChome, it has to invest a large amount of capital to reach the standard, as they are already established their considerable customer basis and market share. To take a close up at the case company 7-11 and 7net, if the product segment is focused on food, beverage, and other commodities, the potential new competitors in this market will be the local mass merchandisers such as Carrefoure, Fe-Geant, and Rt-Mart. Why they are seen as potential competitors is because they also possess physical resources such as warehouse and logistics capabilities just like 7-11. The bargaining power should be equivalent as well. Therefore, these mass merchandisers should be considered threats to 7net if someday they decide to go online.

4. The threat of substitute products or services: High

The threat from substitute is defined as high since e-commerce is considered as a burgeoning channel from the conventional physical channel. Although it is growing significantly every year, the total revenue has only reached 4% of that of the physical channel in Taiwan (MIC, 2009). Although there are more and more people are willing to try online shopping, or already get used to online shopping, the purchasing is very easily to be replaced by conventional physical channel, so the threat from substitute products or services is considered high.

5. The intensity of competitive rivalry: High

The fact that no more than one third of the competitors can earn profit shows the extremely high rivalry in the market. One thing that makes the rivalry so high is that low-price is an essential incentive for consumers in e-commerce markets; if there is no such incentive, consumers would simply choose to buy the products in through conventional brick-and-mortar channel. Therefore the profit a shopping website can make is limited.

V. 7net's Business Model Analysis

In this chapter, A. Osterwalder and Y. Pignuer's nine-block business model canvas is the main tool to analyze 7net's business model. There are nine elements in the canvas: Key Partner, Key Resources, Key Activities, Value Preposition, Customer Relationship, Channel, Customer Segment, Cost Structure, and Revenue Model. Among the blocks, Value Proposition is the key element for a platform to differentiate itself and fulfill its customer segment's need, so it is elaborated first. Since the nine blocks are originally decomposed from Osterwalder's four main pillars, Product Innovation, Infrastructure Management, Customer Relationship, and Financial Aspects, the nine blocks are respectively described under each pillar (See Figure 5-1). In the end of this chapter, a visualized business model canvas will provide an overview picture of how 7net runs its business.

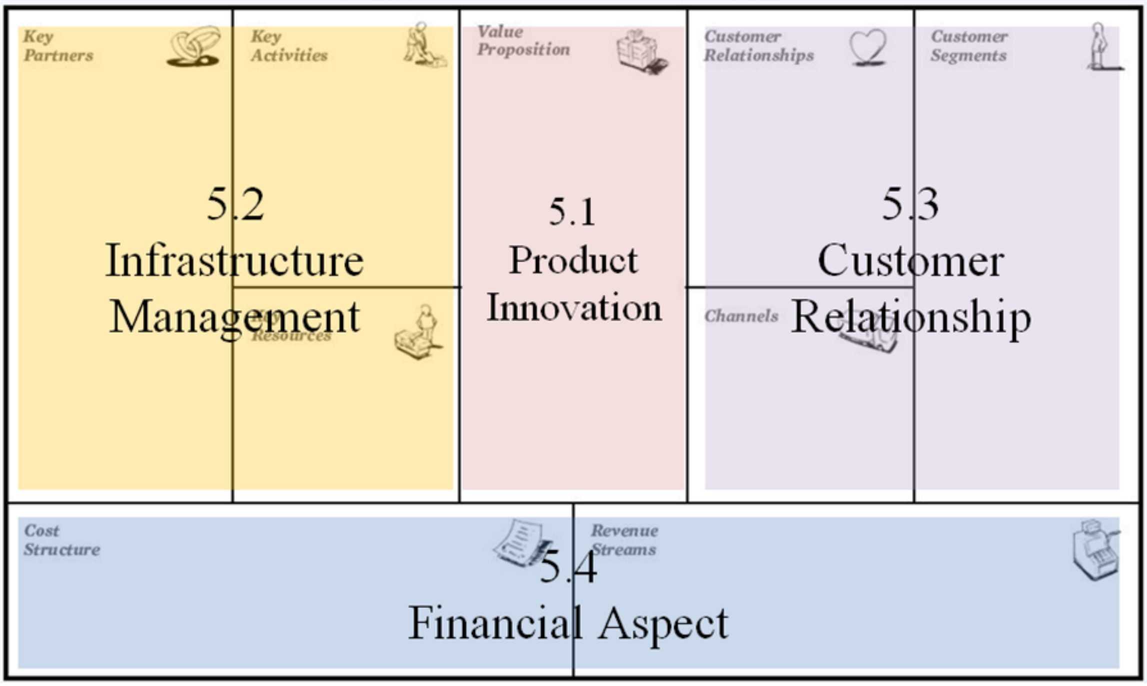

Figure 5. 1 Paragraph Allocation Based on Business Model Canvas

5.1 Product Innovation

Value Proposition

As a virtual retailer, or a platform, one has to provide value propositions for both suppliers and Internet users to buy services and products from it. According to the result of the interview with internal staff, the value propositions for suppliers (or brands) and consumers are concluded as follows:

1. **Cost Reduction:** 7net is able to provide integrated services to vendors because of it s mother company's subsidiary RSI as the logistics backup. From slotting, advertising, to distributing center storage, sorting, packing, and delivery, the fixed percentage of commission includes all the steps of the deliveries to consumers. Yahoo Shopping has different commission system; it only covers the front-end service such as slotting and financial services (i.e. online transaction). If a vendor wants advertising service, it has to pay additional commission to Y websites. Moreover, since Y is a pure play website and has no distribution center, the vendors have to handle inventory and delivery by themselves. In short, 7net's total solution to vendors makes it convenient and cost –efficient for them.

2. **Physical Retail Store Exposure:** 7-11 has the highest retail store coverage in Taiwan. Over 4,700 of chain stores and franchises provide physical store exposure as the most effective communication channel to consumers. Such a large number of stores is also a powerful source to expand website's member base; imagine the managers of each store gather 10 people to sign up for 7net's membership, then over 4700 new members are recruited. With such a fast-expanding membership base, the vendors can certainly communicate with a larger target audience.

3. **7-11's Brand Awareness:** Although 7net is a late comer in B2C e-commerce market, through the widely recognized brand image, the website can build up its awareness and customer base faster than any other new B2C platform.

4. **7-11 Abundant Resources:** 7net is able to develop synergies with over 32 subsidiaries of 7-11. Cross-marketing can be designed with Starbucks, Cosmed, MUJI, etc, which may be a strategy to attract consumers.

The unique values to provide to consumers are as follows:

1. **Low prices equivalent to those offered by mass-merchandisers:** Most of the food and beverages and other commodities available on 7net come in half a dozen or more. In this way, the price offering can be lower than that of the convenience stores and almost equivalent to those of the mass-merchandisers. Besides, consumers have the freedom to choose their preferred delivery methods: to-door delivery or pick-up at a designated convenience store. A website that provides low prices of a wholesaler and convenience of a superstore" becomes the market position of 7net to attract its customers.

2. **Flexible delivery methods:** the mature logistic system of 7-11 allows consumers to have another option for payment and delivery, which is cash upon pick-up at a store. After a consumer check out on the website and choose "cash upon pick up at store", 7net will notify the consumer by emails or text messages when the purchase arrives at the designated store (usually within 24 hours). The method is safe for and benefits the consumers who are not able to stay home waiting for to-door delivery. Besides, since this method does not involve ATM transaction or payment by credit cards, consumers' personal information is secured. The other B2C shopping websites such as Yahoo

Shopping is cooperating with 7-11 physical stores and provide the same service, but the products are limited since Yahoo does not own a distribution center. PChome Shopping currently only provides to-door services. Therefore, compared to the other platform, 7net offers more convenient service to consumers.

3. **Exclusive mail-order brands from Japan:** 7net's predecessor Unimall was once a mail-order magazine that carried Japanese brands such as Nissen, Bellemaison and Cecil. These brands target at housewives and office ladies, who possess higher consumption power and have interest in apparels. 7net continues to carry these brand names and also seeks to add other well-known local brands to its product offering, in order to provide one stop shopping experience to consumers.

5.2 Infrastructure Management

Key Partner and Resources

Based on the observation of 7net's process flow, one can see that the logistics capability and 7-11's dense physical store network are the greatest advantage and the most critical resources 7net possesses. A network of more than 4700 stores in Taiwan provides the most convenient service for consumers; the logistics sub-companies such as RSI, Wisdom Distribution, and T-Cat are its key partners. Without these logistics companies, fast deliveries and pick-up at store services cannot be done. On the other hand, since the logistic capabilities and density of chain stores are not exclusively developed for e-commerce, the additional cost for 7-11 and 7net to establish logistic system for e-commerce is little. Therefore, 7net possesses two great advantages to grow its online business. These resources and partners are difficult to replace and also made it possible for 7net to provide a total solution for the vendor, which includes distribution center storage, sorting, packing, delivering and customer services.

Pure-play shopping websites may be able to provide the similar service to vendors, for instance cooperate with third party couriers or 7-11's e-services by paying annual fee and handling charges, but in this way they would have to bear additional cost.

Such resources are also the keys to expand 7net's membership base. As mentioned in the last chapter, a large membership base is the key factor of a successful shopping website and also the main appeal to vendors. 7net carries on the membership base of its predecessor Unimall, and moves on to recruit new members with its association of 7-11's brand name. On Business Next, a monthly magazine which reports mainly about Internet business, ranked 7net as one of the 100 largest and the most successful websites in Taiwan, "With the strong physical channel resources of 7-11, 7net is able to expand its membership base very fast; among the 100 websites, 7net is the only one that reached its scale within eight months."

On the other hand, there are still questions about whether 7-11's brand name can successfully draw consumers to purchase all types of products online. 7-11' s brand name is well-recognized as a symbol of convenient service that provides immediate fulfillment for customers needs, mainly for commodities such as food and beverage at lower average selling prices. Walk-in customers of 7-11 do not see price as its first priority; it is the convenience and variety of product offering that attracts them to make purchase in 7-11. In this case, whether 7-11 and 7net are able to expand its brand association from ordinary convenience store products to a wider spectrum is a key for them to successfully build up a true one-stop shopping website.

5.3 Customer Relationship

Customer Segments

As described previously, value propositions can be divided into two categories; one for vendors and one for consumers.   7net targets at mass market and female consumers who age from 25 to 45. For these two segments, 7net provides different product offering; for the mass market, cheaper price and fast delivery are the most influential factors for online shopping intention. The value propositions described in the last paragraph align with these factors. On the other hand, female consumers who age from 25 to 45 have significant interests in apparel and home furnishing, and have higher consumption power. The exclusive mail-order brands from Japan appeal to this customer segment.

Customer Relationship and Channel

Distributing eDM online is the most common strategy for a shopping websites to maintain their customer relationship. By sending the latest promotion to the members' email box, the website will attract the consumers to visit and shop on it repetitively. 7net also uses this as one of their customer relationship management, but what makes it different from the other platform is that it is able to utilize 7-11 physical channels to build click-and-mortar marketing tactics. For instance, when 7net was newly launched last year, new members were entitled to redeem a cup of City Café coffee as an incentive for registering. As soon as a consumer signed up for 7net membership, a series number will be sent to him, then he can get a cup of coffee for free in any 7-11 physical store in a limited period of time. Another example of its click-and-mortar marketing promotion: point collection market promotion, a common strategy in Taiwan's convenience stores market, is also implemented on 7net. Most of the purchase amount on 7net is entitled to redeem points, which may appeal to point collecting fans. This has become one of the effective click-and-mortar strategies of its customer relationship management.

7-11 and 7net are continuously working on their click-and-mortar marketing promotion.

IBon Kiosks in 7-11 physical stores are now ready for walk-in consumers to place order from 7net from April 2011. The service is aimed to expand 7net's customer segment to those who do not have Internet access at home, or those are not familiar with Internet shopping. In this way, 7-11 physical stores have become an alternative for the virtual shopping website 7net, providing walk-in consumers thousands of items that are not possible to display on the shelf in 7-11.

In financial flow aspect, 7net also works on customer relationship management. Until 2011, 7-11 has issued over 9 million iCash cards in Taiwan; the accumulated revenue by iCash has reached NTD 11 billion. Now consumers can pay by iCash on 7net along with a card reader. It becomes a new online paying method other than ATM transaction and credit cards, giving consumers another alternative while checking out.

5.4 Financial Aspects

Cost Structure and Revenue Model

Logistics cost comprises a large share of 7net's cost structure. The rest of the items, such as human resources and webpage maintenance, are mainly similar to those of the other shopping websites. The revenue model of 7net is simply sales revenue and commission from vendors; consumers purchase the items and pay the amount to 7net (See Figure 5-2). After 7net delivered the consignment inventories to consumers, 7net would pay the sell-in price to the vendors. On the average, the sell-in price of 7net is 65% of the end-user price; the rest 35% can be considered as the commission for 7net. This is the key profit model for 7net. Different services will charge vendors different commission. Take distribution center service for instance, 7net charges 35% of the vendors' revenue to cover the whole flow, including online exposure, advertisement, warehousing, sorting, packing, delivering, and return. This works as a total service package for vendors and is relatively more convenient than other platforms' offerings. If the vendor prefers to handle logistics by itself, then 7net will only play as a role as product display platform and transfer purchase orders to the vendors. In this case, the average commission is around 25%.

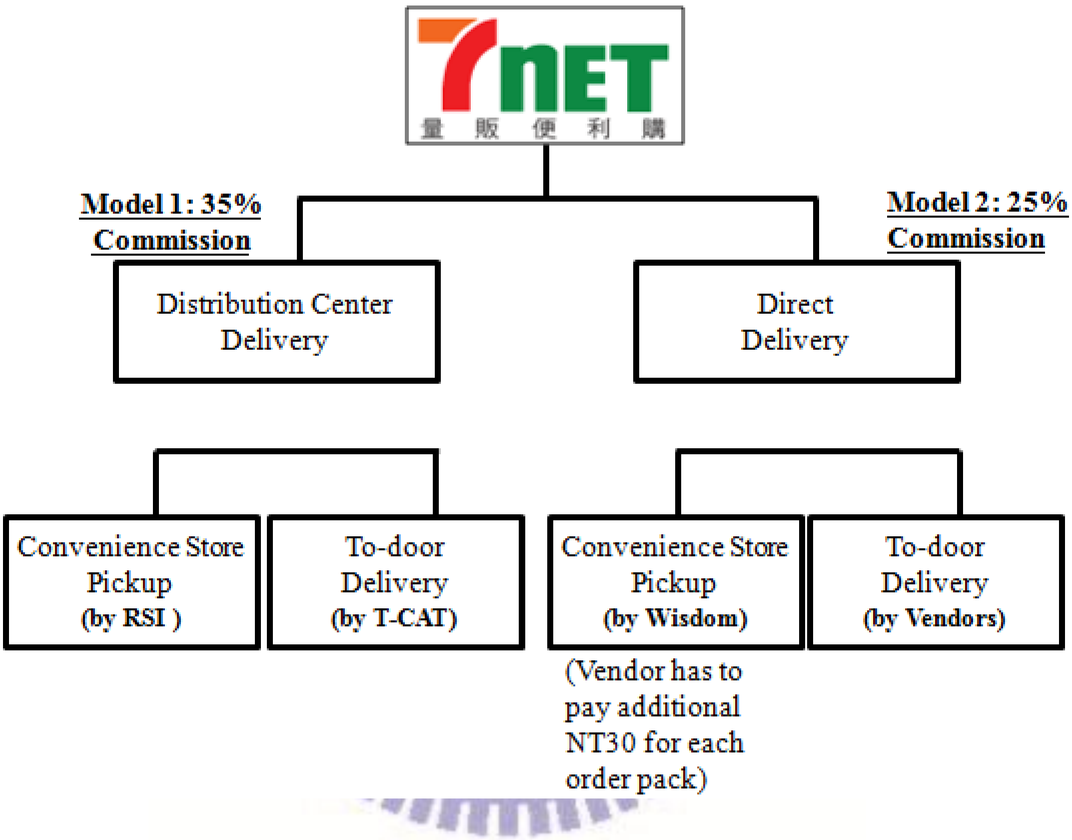

Figure 5. 2 7net's Commission Models for Vendors

Source: Interview Information

5.5 Visualized Business Model Canvas of 7net

As elaborated in the previous paragraphs, the business model of 7net can be summarized into the visualized canvas as below (See Figure 5-3).

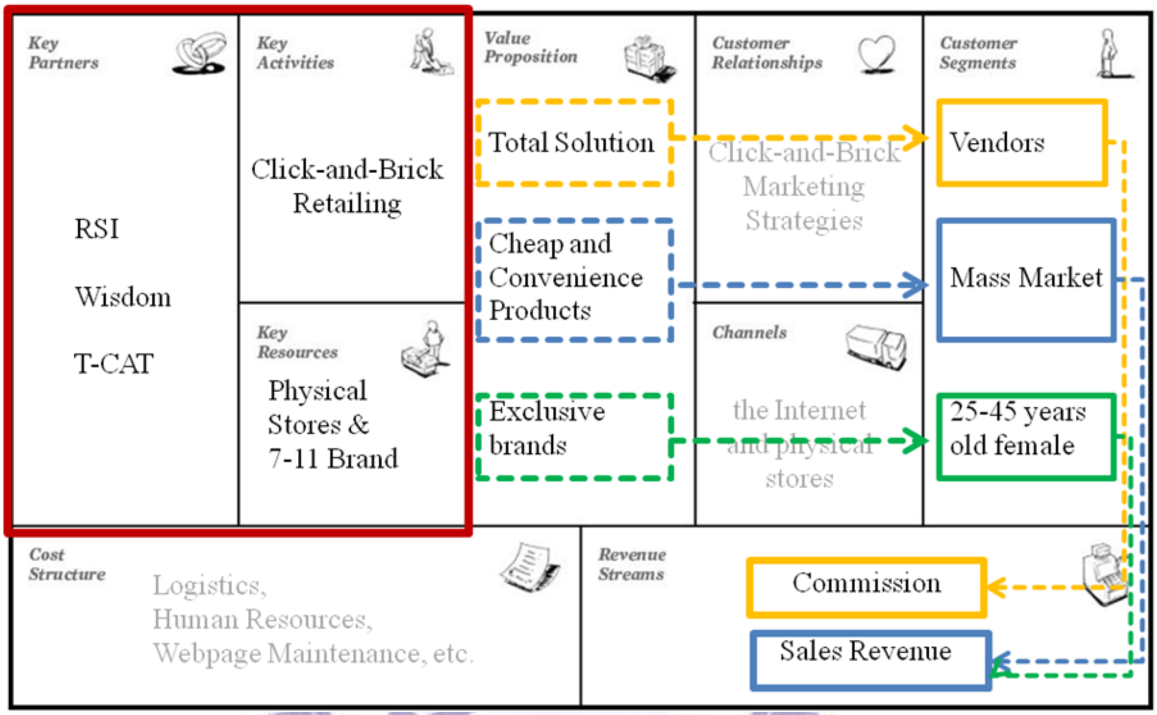

Figure 5. 3 Visualized Business Model Canvas of 7net.com.tw

Source: Compiled Information

There are two points can be observed. First, 7net's value propositions rely strongly on its key partners and key resources, which are mainly strong **physical logistic capability** and **density of 7-11 stores.** The value preposition is also based on these factors; without them 7net cannot possibly provide total solution to vendors or cheap a convenience products to consumers. Therefore, the business model as a whole relies on its infrastructure management.

Second, **the value prepositions are customized for different customer segments.** As a platform, 7net must provide value to both vendors and consumers. In this case, 7net utilizes its infrastructure to provide a total solution for vendors, which is difficult for pure-play shopping websites to copy. To consumers, flexible delivery options and cheaper price than that of the convenience stores are what is appealing.

5.6 Opportunities and Challenges for 7net

To sum up the opportunities and challenges of 7net, a SWOT analysis can be drawn as the follows(See Table 5-1):

Table 5. 1 SWOT Analysis of 7net

Strengths	Opportunities
1. Logistics Capacity 2. Density of 7-11 Physical Chain Stores 3. 7-11 Brand Awareness 4. Affiliates of 7-11	Growing B2C E-commerce Market
Weaknesses	**Threats**
1. Limited Membership Base 2. Limited Product Spectrum 3. Single profit model	1. Continuous Growth of Existing Competitors 2. Mass Merchandisers (ex: Carrefour) Going Online

Source: Compiled information from Chapter 3,4, and 5

Strengths

As a physical convenience store moving to virtual channel, 7-net can utilize its **logistics subsidiaries** such as RSI, Wisdom, and T-Cat, and density of 7-11 stores to build up its service network to both vendor and consumers. These capabilities are definitely the major strengths of 7net. For its pure play competitors, due to the nature of their business, it is difficult for them to own such physical resources; therefore such strengths are difficult to replace.

Well established brand image of 7-11 is another considerable strength 7net possesses. To consumers, 7-11 is a brand name that stands for good and convenient services. The name 7net made it easier for consumers to associate it with 7-11; consumers may be interested in registering as a member, and hence will receive the information from 7net and be more inclined to purchase on 7net.

Abundant resources from Logistic Sub-Group are also what 7net can leverage in the future. Just like the click-and-mortar promotions with 7-11, 7net can also develop cross-stores marketing campaign with 7-11's affiliates, such as Cold Stone, Starbucks Taiwan, or Cosmed. These potential partners may help create more incentives for consumers to keep paying attention to and actually purchase on 7net.

Weakness

Limited membership base is the major weakness of 7net. As a late comer that only has entered online shopping market since July 2010, 7net has to strive to expand its membership base in order to reach the same size of market of Yahoo or PChome.

Limited product spectrum of 7net is another major weakness. Compared to the benchmark shopping websites in Taiwan, obviously products available are still very limited on 7net; from personal observation, many products are often shown as out of stock and thus the experiences can be disappointing to consumers and may be have detrimental effects in the long run.

Another weakness observed in 7net’s business model is its **single profit model**. Currently 7net only charges approximately 35% of the sales revenue of vendors as the handling fee, which covers exposure, advertising, and all the logistics and customer services. The other benchmark platforms, such as Yahoo, charge vendors 15% to 22% only for online exposure; if the vendors seek for advertisement service, they would have to pay more. 7net’s profit model is relatively single and weak; it may be an incentive for vendors to join 7net in the beginning, but in the long run, 7net would need to seek other profit models to obtain steady growth.

Opportunities

Based on the data and the result of the interview, B2C market in Taiwan will not cease to grow and therefore it provides an opportunity for 7net to expand. In retrospective, B2C market revenue in Taiwan has had over 25% growth per year; the market revenue has almost tripled from 2005 to 2009(資策會 MIC, 2010). Not only the total market size, the average spending per transaction per customer is expected to grow as well, therefore the total available market will expand exponentially. This provides a great opportunity for 7net to expand its business in the coming years; as long as 7-11 and 7net manage to utilize their click-and-mortar advantages, the business is expected to grow significantly and sustain.

Threats

The continuous growth of existing leading players such as Yahoo, PChome, and Momo Shopping is the main threat for 7net’s development. As the first movers in the market, these companies hold the large membership bases and therefore it is relatively easy for them to bargain prices with vendors or expand its product spectrum. Since it makes little differences for consumers to buy from any websites, 7net needs to strive hard to strengthen its value.

Local mass merchandisers such as Carrefour and Fe-Geant may be potential threats to 7net. The price offering in those stores are often cheaper than that of the convenience stores as the products come in large packs. If the mass merchandisers start to approach their consumers online by setting up shopping websites and providing door-to-door delivery services, the cheaper price offering may be an incentive to consumers and therefore 7net's value proposition of "cheap and convenient products" will be directly impacted.

To seize the opportunities and minimize the challenges to come, 7net may take a few actions to keep on the right track in the e-commerce market in Taiwan, and improve its sustainability in the future. First, **improve the weaknesses proactively in order to strengthen consumer confidence.** 7net's major weaknesses to consumers are limited product spectrum and constant "out of stock" status of products. The status is commonly found in "exclusive brands from Japan" section. To make a real product sale, availability of the product is the key after the potential consumers are aware of the product's existence. Therefore, the weaknesses of 7net are considered detrimental to build up consumer confidence, especially when 7net seeks to develop an image of a shopping website providing convenience to consumers. If a consumer experiences frustration or disappointment when attempting to purchase on a certain website, it leaves little opportunity for that consumer to come back to the website again. Once a consumer loses its confidence in the website, it costs more to win the consumer back than to attract it at the first place. Therefore, improving these weaknesses is the urgent action for 7net as for now.

Second, implement the available e-services in the physical 7-11 stores to strengthen its differentiation and to expand membership base. Providing billing collection service is one of the strength of physical 7-11; the service itself brings little revenue for the stores, but the key is that it brings people into the stores and make potential purchase. The same concept can be implemented on 7net as well. Since 7-11 already established the infrastructure for bill collection service, it costs relatively little for 7net to implement the similar service online. Consumers in Taiwan who are aware of or already using the service in 7-11 will be more inclined to try the service online as well. This is a feasible way to expand 7net's membership base in the current phase. Although only a small amount of handling charge will contribute to 7net's revenue, it is the registration of the consumers that may bring more revenue in the future.

Finally, 7net may plan to **diversify its profit model.** Currently 7net only has a single profit model, which is the commission-based profit from the supplier's sell-out revenue. The overall percentage is 25% to 35%, depending on in which service mode the vendor chooses to cooperate with 7net. Although the total package is a significant value for vendors, the profit 7net can make has little room to increase. It is recommended for 7net to gradually launch chargeable services for vendors, for instance additional online advertisement service, or cross-branding marketing campaign with the affiliates of 7-11. It should be a feasible strategy to reach 7net's sustainability in the future.

VI. Conclusions and Recommendations

6.1 Conclusions

Based on observation, the characters of 7net's business model align with the potential benefits a click-and-mortar business should achieve: lower costs, value-add services, improved trust, and extension of geographic and product market. Therefore, although it is a late comer to the B2C e-commerce market, 7net has its unique advantages to sustain its e-commerce business and reach a steady growth. When looking into the Business Model Canvas, 7net highly relies on 7-11's logistics capacity and physical store exposure to compete with the other B2C platforms. Based on the observation of 7net's business model canvas, it is obvious that the model relies heavily on its Key Partners and Key Resources; these elements are also the foundations and core advantages of 7net to provide its value proposition to both vendors and customers, and to stabilize its click-and-mortar business model. For the upcoming B2C competitors who do not possess such resources, they would need to build up their physical infrastructure (warehouse, logistics, and physical stores for pick-up services) to compete with 7net, so the entry barrier for such new competitors is relatively high. Based on the completeness of 7-11's physical resources, 7net should be able to keep its advantages for some years.

The co-existence of physical and virtual channels brings synergies to both 7-11 and 7net instead of channel conflict or cannibalization as the channel cooperation extends in both sides. As long as consumers have Internet access, they can buy products from 7-11 through 7net, no matter there are 7-11 physical stores around their neighborhood or not. From the other side, every 7-11 physical store becomes the promotion center for 7net. The intensive exposure provided by 7-11 physical stores allows 7net to communicate more effectively to consumers and approach potential consumers to shop online. The cooperation between the two sides makes this new business model complete and will create synergy rather than conflicts.

As the e-commerce market never ceases to grow, the competition will continue to be very significant. Besides the existing leading shopping websites that strive to gain more market share, there must be more new competitors coming up in the future. Since 7net markets itself as a convenience shopping website providing cheap prices, it should be aware of the other retailers, particularly those mass-merchandisers which possesses strong purchase power and may also provide competitive prices online. To compete against those existing and potential players, 7-11 and 7net must improve the weaknesses as soon as possible, for example, its limited product spectrum and product availability, to build up consumers' confidence. Also, 7-11 and 7net should establish a clear position in the e-commerce market, to overcome the challenges they may encounter in the foreseeable future.

6.2 Recommendations

This thesis aims to be the starting point of click-and-mortar business model research in Taiwan. As a giant convenience store group in Taiwan, unavoidably, 7-11 is going to seek more revenue growth online, since the traditional retail market will eventually saturate. 7-11 and 7net is the first and the typical click-and-mortar retail business model in the market, leveraging one side's advantage to benefit the other; any physical retail business that would like to expand its channel to the Internet can look into 7net's business model and create its unique one. However, the most important factor of 7net still lies in the back-end physical resources—especially logistics capabilities. The reason for the competitors, for instance Yahoo Shopping and PChome 24 Hours Shopping, are able to gain such a stable position in the market is also because of their reliably short delivery lead time. **Therefore, an effective**

logistics network is the key resource for both virtual and physical retail businesses.

As a burgeoning B2C player, 7net needs to stabilize its value proposition, and seek to increase its market share. This is its major task at this moment. 7-11 and 7net's brand awareness is remarkable in the domestic retailing market, but there are still questions about whether this brand can successfully attract consumers to buy all kinds of products on its shopping websites, especially those products that have little association with 7-11, for instance electronic products or fashion accessories at higher price. How 7net is going to expand its product spectrum in the future will be an interesting research subject to look into.

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Appendix: The Interview Log with Project Manager Ms. Chiang

EC-Merchandising Manager of EC-Merchandising, E-Commerce Dept

Date: Nov 29th, 2010 15:00-18:00, Taipei

What is your perspective about Internet shopping market in Taiwan? Do you think it is already saturated or still have room to grow?

Personally, I think that the Internet shopping market in Taiwan is yet saturated. There is still a plenty room for growth. Base on the research conducted by MIC, less than 50% of the consumers use the Internet, therefore, theoretically the market has the potential to grow twice as big. Through my observation, there are three market characters worth mentioning.

First, credit card transaction had been the main paying mechanism for online shopping before 2005; this may cause information security issues, so consumers usually did not feel confident shopping online. After 2005, more options are available for consumers; ATM transaction and cash upon pickup at store mechanisms allow consumers to shop without credit card number disclosure. Besides, the technology for information security is well developed; therefore, the consumers are more willing to bear the risk to shop online, which has made the market size larger.

Different platforms aiming for different customer segments: Internet shopping market in Taiwan can be divided into three segments: B2C, C2C, and B2B2C; B2C and C2C have larger shares than B2B2C. Even though all the platforms are striving to expand its product spectrum as much as they can, they still have different customer segments. For instance, Yahoo Shopping focuses on women’s apparel; PChome Shopping focuses on 3C electronic products. 7net currently focuses on commodity products such as food and beverage. Since the focus products are different, the market segments are different as well.

Undeveloped product lines: Currently all the platforms focus on tangible and physical products; there are still many products, in intangible forms, yet to be sold online, for instance bill collecting and human labor services, can provide this market to grow.

Books.com.tw and Rakuten.com.tw are affiliates of 7-11. Does owning three shopping platform cause internal conflicts?

7net and Books are both B2C shopping websites and based on commission; although they share the same logistics system, they have independent managements and buffer stocks. Products, Books.com.tw mainly focuses on publications, while 7net focuses on commodity products. As for Rakuten.com, it should be categorized as a B2B2C platform. With different product segments, positioning and business model, these three platforms will not encounter internal or channel conflicts.

7-11 used to run Unimall to approach the Internet shopping market. What are reasons for 7-11 to re-organize Unimall to 7net?

Unimall used to focus more on mail order business and invest less resource on the Internet. In 2010, 7-11 aims to evolve its brand image and increase its brand awareness on the Internet. Compared to the name Unimall, 7net makes it easier for consumer to associate it with 7-11, and with this name, the core competence--convenience and variety—of 7-11 can be emphasized.

Does the coexistence of both physical and virtual channel cause channel conflict and internal cannibalism? What is the store managers' attitude toward 7net?

The most common complaint from the store managers is about the packages waiting to be picked up in the stores occupy too much space. Therefore, 7net encourages consumers to choose to-door service by providing a lower minimum purchase to waive delivery charge. Besides, the stores get additional handling fee for each package they receive, so the stores are commonly supportive toward 7net.

Which part comprises the most of 7net's cost structure?

Logistics costs comprise a large share of the structure. Since the distribution center RSI has to handling sorting, packing, delivering, and customer services, so it's the main segment of the whole structure.

Compared to the other existing B2C platforms, for instance Yahoo Shopping Taiwan and PChome Shopping, what would you consider as the unique values 7Net can offer to its customers?

I would consider vendors and consumers are both our customers. Starting from the vendors, there are several exclusive benefits that 7Net can offer to them, while the other platforms cannot due to their lack of physical resources:

Cost Reduction: 7net is able to provide integrated services to vendors because of it mother company's subsidiary Retail Support International (RSI) as the logistics backup. From slotting, advertising, to distributing center storage, sorting, packing, and delivery, the fixed percentage of commission includes all the steps of the deliveries to consumers. Y website, as I am aware of, has different commission system; it only covers the front-end service such as slotting and financial services (i.e. online transaction). If a vendor wants advertising service, it has to pay additional commission to Y websites. Moreover, since Y is a pure play website and has no distribution center, the vendors have to handle inventory and delivery by themselves. In short, 7net's total solution to vendors makes it convenient and cost –efficient for them.

Physical Retail Store Exposure: 7-11 has the highest retail store coverage in Taiwan. Over 4,700 of chain stores and franchises provide physical store exposure as the most effective communication channel to consumers. Such a large number of stores is also a powerful source to expand website's member base; imagine the managers of each store gather 10 people to sign up for 7net's membership, then over 4700 new members are recruited. With such a fast-expanding membership base, the vendors can certainly communicate with a larger target audience.

7-11's Brand Awareness: Although 7net is a late comer in B2C e-commerce market, through the widely recognized brand image, the website can build up its awareness and customer base faster than any other new B2C platform.

PCSC Abundant Resources: 7net can develop synergies with over 32 subsidiaries of 7-11. Cross-marketing can be designed with Starbucks, Cosmed (康是美), etc, which may be a strategy to attract consumers.

There are some unique values to provide to consumers such as:

Price cheaper than that of convenience stores: Most of the B2C shopping website set a minimal purchase amount for free shipping; consumers have to either buy more things to reach the amount or pay for the delivery. 7Net provide free store pick-up service on every item that goes to distribution center, meaning that consumers do not have to pay more for delivery charge.

Flexible paying and delivery method: most of the products available on 7net can be delivered to convenience store. Consumers can choose either to-door delivery or cash upon pick up at stores, which is more flexible than other major B2C shopping websites.

Brick-and-click promotion: combining with 7-11 physical channels, 7net would launch more marketing campaign than the other shopping websites, for instance point collecting campaign for a free cup of coffee or figurines, or the online payment method through Icash prepaid card, which provides members a value of flexibility.

Exclusive mail-order apparel brands from Japan: One of the major target segment of 7net is female customers who age from 23-50. To appeal to their taste, 7net exclusively carries mail-order brands from Japan, such as Nissen, Cecil, and Bellemaison, which bring more variety to its product lines.

What are the short-term, mid-term, and long-term goals of 7net?

Since 7net is still young, in short-term, we aim to expand our customer base and focus on significant revenue growth. In the mid-term, we aim to be the leading shopping website for commodity products in Taiwan. In the long run, we aim to become the most convenient and fastest shopping website, in terms of paying method, delivery lead-time. We hope that 7net can be perceived by consumers as convenient as 7-11 physical stores.

In your opinion, what is the bottleneck or obstacle of 7net's development?

The most difficult obstacle for 7net is its late market entry. Due to lack of first mover advantages, 7net is still working on expanding its membership base. Although 7-11, as a powerful physical retailer, possesses influential purchasing power, but to vendors 7net would still need to provide large membership base. As for now, 7net still need to strive to convince well-known brands to post onto its website.

What is the main profit model of 7net?

7net provides two kinds of services to vendors: distribution center storage or direct order transferring, which allows vendors to provide consumers two ways for delivery, distribution center delivery(入倉) and direct delivery. Distribution service costs 35%-40% of the revenue, for instance the end-user price of a product is NT100, 7net will charge NT35-40 as the handling fee. The second service costs around 25%.