

Suggestions for Lawson's Entry into the Global Market: Evidence from Operations and Strategy of Lawson Convenience Stores in China

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Abstract: Convenience store as a retail format meets urban population's demand of a more efficient and expedient lifestyle. This retail model originated in Japan, and Lawson, as the second largest Japanese convenience store chain, has reached saturation in the domestic market and is now looking to expand internationally for future growth. This essay examines Lawson's development in China and provides suggestions for its future growth in the global market based on its operations and strategies in China. Through the analysis of literature research, market data and Lawson's official annual reports, this paper gives a comprehensive analysis of Lawson's successful experience in the Chinese market and offers advice on the firm's global development, emphasizing detailed market research and entry mode, a well-structured supply chain and technological investment, and targeted marketing strategies.

Keywords: business operations, Lawson, convenience store, marketing strategy, supply chain management

1. Introduction

The concept of a convenience store (CVS) originated in the United States, but the retail format has matured in Japan. In today's increasingly urbanized environment, people have more needs for shopping convenience and emergencies than they do for purchasing in large supermarkets farther away. Therefore, CVS that are located near residential areas or business centers become people's choices for daily shopping as most of the stores have sufficient types of products that cover customers' needs. Due to the saturation of Japanese market, foreign CVS now searches opportunities of entering global markets [1]. Lawson, as the second largest CVS in Japan successfully entered Chinese market and became the largest foreign CVS, far exceeding that of its Japanese counterparts [2]. Lawson's success in China attributes to its well-developed internal operation management and clear external strategy. The essay provides suggestions for Lawson's entry into the global markets based on its current operations and strategies in China. This essay will first evaluate Lawson's internal operations, then analyze its external strategy and finally discuss the suggestions for Lawson's entry into other global markets.

2. Analysis

Lawson was established as a milk company in the United States in 1939, and entered the Japanese market in 1975 to establish a chain of convenience stores (CVS) [3]. Today, Lawson is the second largest CVS chain in Japan and aims to be "the hub of refreshments in every community" [4]. In 1996, Lawson entered Shanghai, China. With rapid franchise expansion, it has nearly 5,000 stores in 12 cities in China by the end of 2021 according to table 1, surpassing its Japanese competitors 7-11 and Family Mart according to figure 1 [5]. Lawson targets young urban consumers and locates mainly in densely populated areas, including schools, business centers, etc., with a focus on high-quality fresh food as its competitive edge. Despite having small store sizes ranging from 70-250sqm², Lawson offers a wide range of products and operates 24 hours a day, providing customers with convenient and immediate access [1].

Table 1: Year entered and current number of stores (by the end of 2021).

| Location | Year entered | Number of stores |
|-----------|--------------|-------------------|
| Shanghai | 1996 | 2470 |
| Chongqing | 2010 | 798 |
| Dalian | 2011 | 356 |
| Hangzhou | 2012 | No data available |
| Beijing | 2013 | 433 |
| Jiangyin | 2014 | No data available |
| Ningbo | 2015 | No data available |
| Wuhan | 2016 | 620 |
| Nanjing | 2017 | No data available |
| Hefei | 2018 | 231 |
| Changsha | 2019 | 158 |
| Shenyang | 2019 | 226 |
| Tangshan | 2020 | No data available |
| Hainan | 2020 | 141 |
| Chengdu | 2021 | No data available |
| Shenzhen | 2022 | 166 |



Figure 1: Japanese brands' number of stores in China.

2.1. Internal Operation

Lawson's franchise system and supply chain are key components of the company's internal operations. Lawson has developed a sophisticated franchise model that allows it to expand rapidly while maintaining a high level of quality and consistency. The franchise system is reinforced by a robust supply chain that guarantees timely delivery of products and efficient inventory management. In this section, the essay will delve into the intricacies of Lawson's franchise system and supply chain, examining how they propel the company's success.

2.1.1. Franchise System

Lawson's internal management adopts a franchise system, which differs from traditional market exchange arrangements, as they usually require franchisees to adhere to specific retail quality criteria, follow common policies and agree to non-linear payment schedules [6]. In return, franchisors provide support, oversee performance, and retain the ultimate authority to terminate the agreement.

As we can see in table 2, Lawson China uses two main formats: the act of an individual accepting the entrustment of Lawson and managing the entrusted stores according to the predetermined contract, and the Lawson allowing the franchisee to engage in business activities using its name, trademark, proprietary technology, products, operational management experience, etc., in exchange for a fee [7]. To ensure the standardized quality, Lawson provides various supports as summarized in table 3. Guided by the three main practices, serving customers courteously, providing a quality product offering that meets community needs; and keeping our stores and communities clean.”, Lawson managed to expand rapidly and maintain a high-quality level [8].

Table 2: Two methods for Lawson franchise in China.

| | Requirements for collaborators | Main fees |
|---|---|---|
| Franchise program FC-B | Chinese citizenship, with capital of at least 200,000CNY Self-owned property that meets the company's store opening requirements Able to invest or work full-time (Requires two individuals to serve as store manager and assistant manager) Must obtain a business license, food license independently Contract period of 5 years | Franchise fee 50,000 CNY Security deposit 100,000 CNY New store miscellaneous expenses 6,000 CNY Design and supervision management fee 4,000 CNY |
| Entrusted operation program Entrustment B | Chinese citizenship, with capital of at least 200,000CNY Entrust the operation of a store owned by the company Able to invest or work full-time (Requires two individuals to serve as store manager and assistant manager) Must independently obtain a business license for a sole proprietorship or limited liability company Contract period of 5 years | Collaboration fee 50,000 CNY Security deposit 100,000 CNY New store miscellaneous expenses 6,000 CNY Design and supervision management fee 4,000 CNY |

Table 3: Lawson's support for franchise stores.

| Types of Support | Key Actions |
|-------------------|---|
| General support | LAWSON will handle the accounting tasks for the franchise stores. LAWSON will provide necessary business equipment, goods, and training to the franchise stores. LAWSON will provide regular inventory checks and logistics delivery. |
| Operation support | A comprehensive training system Supervision and guidance on daily operation and management Regular inventory check |
| Logistic support | Multiple daily delivery |
| System support | Advanced ordering and checking system Maintenance for store IT equipment |
| Product support | Launch of new products Diversified promotional activities |
| Store support | Professional site selection and evaluation Innovative store design Hardware facilities Provision of business equipment |

This special business model can benefit the two parties and perfectly stimulate the enthusiasm of both franchisors and franchisees to strive for the same business goal, while also helping to reduce and diversify the business risks of Lawson. In China, Lawson will particularly form franchises with large local firms that have certain retail experience and social connections in the local market, which will facilitate the landing and future development of Lawson convenience stores. In return, large franchisees will receive more support from Lawson, such as more promotion and advertising support. Although there is concern that franchise system means individuals pay high franchise fee which may limit Lawson's expansion, it's formation with large firms rather than individuals would benefit expansion and solve the problem as company normally could afford the franchise fee and are more resilient with costs incurred later. It would also be easier to manage and expand to prevent other CVS from taking up key store locations. Additionally, cooperation with a single large firm would prevent potential risks, including hygiene problems, poor services, etc., as it's easier to manage than various small individual firms. The franchise system ensures a standardized service and product quality, fostering customer loyalty. In general, although most foreign CVS adopt franchise models, Lawson's choice of forming franchise with large local companies accelerates its development in China and allows for quicker expansion opportunities.

2.1.2. Supply Chain

The supply chain is a vital part of the operation of convenience stores, especially for Lawson that provides fresh food. Local farms, processing centers, and stores are linked together to ensure the freshness of food. Therefore, Lawson China collaborates closely with local suppliers to construct "processing centers" (named "Houchu") in different areas and ensure that products are delivered on time and to quality standards [9]. Throughout the process, Lawson leads product research and development, whilst the local supplier takes charge of purchasing, processing and logistics under the instruction of Japanese expertise. All the agricultural products are purchased directly from the farms with controllable growth process by processing centers. This shortened the transaction process and reduced any hidden costs. The large-scale procurement in different centers also decreases costs from bulk-buying. Each processing center has multiple factories: fresh food, bakery, desert and salad, as

well as the logistics and cold-chain warehouses. An example would be the Nanjing processing factory which can produce up to 400,000 products, covering more than 1000 stores [10]. Additionally, the product range produced in processing centers in various areas are different based on the consumer demand. As to the final logistics, all the products are transferred directly from the center, which is equipped with low temperatures, constant temperatures, and the refrigeration storage function.

To accompany this process, Lawson utilizes information technology to collect point-of-sale data to predict customer demand and achieve just-in-time inventory management to decrease waste and cost. The key points focus on customer analysis and store operation control respectively. For customer front-end, mobile check-out technology such as Wechat Pay and Ali Pay in China automatically track customer's payment data and uses them to analyze consumption trend. Additionally, Lawson utilizes AutoNavi, Alibaba's mapping unit, to analyze demographic information to choose store locations [11]. The virtual shopping cart introduced in 2017 helps improve shopping efficiency. Lawson collects customer data throughout these processes, laying the foundation for mid-end ordering. As to stores management, Lawson introduced a semi-automatic ordering system in 2015 that utilizes artificial intelligence (AI) to suggest optimal order volumes based on individual store sales capacities and factors like weather [12]. Lawson also uses fresh food barcode system which include product code and expiration date, thus prevent expired food from being sold.

To summarize and evaluate, the partnered supply-chain "Houchu" demonstrates Lawson's efforts to strengthen its competitiveness in the food category. This will improve Lawson's supply chain capabilities, own-brand product capabilities, and competitive capabilities, particularly in the fresh food category with responsive logistics. By leveraging partnerships, Lawson can develop its stores with less capital investment while also gaining access to more resources for integration. This can increase its ability to respond promptly to fresh food demands and support expansion plans. With more stores, Lawson can use the revenue generated to reinvest in factories and supply chain development, therefore achieving constant growth and economies of scales.

2.2. External Strategy

The current Chinese market provides Lawson with a positive external environment. The aging population provides new customer groups, as senior citizens tend to prefer more accessible retail options. The younger generation's increase in consumption level makes them less price-sensitive. Meanwhile, the demand for convenience stores has increased due to frequent overtime work in China's working environment. While worries exist as increasing number of competitors and emerging local convenience stores cause negative effects for Lawson, the firm utilizes targeted strategies to maintain its competitive edge. Lawson's external marketing strategy could be evaluated by the 4P marketing mix analysis, which provides details on how Lawson uses product, price, promotion and place to facilitate its development in China.

2.2.1. Product

The product is the primary factor that Lawson emphasizes. Lawson offers various food categories, including processed, fast, ready-to-eat, instant, and fresh foods, as well as non-food products like groceries and services such as posting and courier storage. Research also suggests that the store acts as a social hub for people to socialize after work or school [13]. The integrated functions therefore meet the diverse needs of customers, especially urban workers who pursue efficiency. The firm achieves product differentiation and gains the competitive edge through three main approaches.

Localization. Coming from Japan, one of the challenges for Lawson's products is the cuisine cultural differences between the two countries. Whilst Japanese dishes emphasizes simplicity and natural ingredients, Chinese cuisines is known for diverse flavors and complex cooking processes.

Lawson incorporates Chinese local dishes such as Chongqing Noodles due to residents' preferences for spicy dishes. Meanwhile, Lawson has retained products with Japanese characteristics, such as onigiri and sushi, which have a mature production system and high reputation to ensure the stability of the quality of signature products.

Innovation. A concern about CVS products is that, as the products do not require high production technology, it is easy to imitate and thus hard to differentiate from rivalries. Lawson stores typically offer 1500-2500 stock-keeping units (SPUs), and the brand's own-label products account for 40%-50% of sales [14]. Innovation at Lawson is driven by shifts in consumer preferences and social and political changes. One example would be during COVID-19, Lawson introduced a boxed lunch with a 30-day shelf life to meet the needs of customers who were required to self-quarantine and could only leave home once a week or less frequently. This agility and innovation enables Lawson to stay ahead of its competitors and strengthen customer loyalty.

Specialization. Lawson is most well-known for the desert, which is now its brand characteristic. Targeting young consumers, unusual desserts align perfectly with their demand. The product "ice skin cake" went viral once launched and has been sold for two or three years, compared to six months to one year for a general product. Lawson actively promotes its desserts through online marketing and collaborations with internet celebrities, frequently releasing new versions to maintain customer interest [15]. Desserts have become an integral part of Lawson's brand image, driving consumer loyalty and attracting customers specifically for its desserts.

2.2.2. Promotion

Lawson's popular promotion strategy involves cooperating with game and animation intellectual properties (IPs) to create themed stores, featuring limited edition products and decorations related to the IPs [15]. This approach caters to younger generations and leverages the popularity of virtual characters to enhance brand recognition and loyalty. Lawson's innovative approach of combining CVS with gaming IPs sets it apart from competitors and increases customer engagement.

2.2.3. Price

As to price, apart from membership discounts that most CVSs use, Lawson generally uses price bundling. When introducing new products, Lawson often offers discounts to encourage customers to try them out or bundles them with other products at a reduced price when purchasing two items together. Usually, the bundled products are either substitutes or complementary goods. Low-priced bundles can boost Lawson's sales, advertising products while reducing inventory and thus lowering costs.

2.2.4. Place

Regarding place, Lawson sells its products both online and offline. Its offline stores are commonly located in densely populated areas such as residential and office areas to maintain steady consumer flow and foster customer loyalty within the area. The Lawson Point app provides online purchasing and other services for members, such as coupon packages and pre-orderings. However, most users are not aware of the app and the reviews are not favorable, so offline shopping remains the mainstream.

3. Suggestions for International Expansion

Given the analysis discussed above, the following advices can inform Lawson's entry strategy into international markets.

3.1. Market Research and Entry Mode

Comprehensive market research including analysis of market size, competition, consumer behavior, and cultural differences is necessary to identify potential market for Lawson's expansion and evaluate whether franchise system would be appropriate based on local regulations and policies. By utilizing its proficiency in operating franchise systems, Lawson can seek growth opportunities overseas by collaborating with local enterprises. Whilst the franchising model can help Lawson to achieve greater efficiency, the complexity of obtaining necessary licenses and permits, registering trademarks and patents would incur excessive costs. Thus, the viability depends largely on local market environment.

3.2. Supply Chain and Technology Investment

Developing a strong supply chain will be essential for Lawson to ensure that it can provide consistent product quality and availability in international markets. Lawson may need to partner with local suppliers to ensure that it can offer products that meet the specific preferences of consumers in different regions. Meanwhile, the investment in technology is essential. By implementing systems that track inventory, analyze consumer behavior, and provide real-time communication between franchisees and headquarters, Lawson can improve operational efficiency, balance inventory levels, and strengthen franchisee relationships. However, good logistics also depend largely on local infrastructure, and a complete high-tech supply chain can be costly, so its implementation needs to be determined according to different markets.

3.3. Marketing

Lawson's marketing strategy in global market should emphasize on localization that leverage consumer preferences and behavior and developing unique selling proposition to differentiate itself from local competitors. Stores' locations should be decided based on target customer groups' population density and resident's consumption habits. Own-brand products that cater specific demand should be the primary choice as they usually have high gross profits due to controllable costs and are easily identified with Lawson's logo so that to enhance the customer loyalty. The combination of online advertising and offline discounts can effectively promote target products. However, the effectiveness of marketing may be affected by the performance of local stores as customers are more used to domestic CVS. Whilst Lawson may bring exotic Japanese products, it may only cater younger customers who are open to changes whilst the senior groups would opt to choose local goods. As a result, the marketing practices should focus on targeted consumer groups to achieve the most effective effects.

4. Conclusion

In conclusion, this essay provides an in-depth analysis of Lawson's expansion in China, focusing on its operations management practices and external marketing strategies. Based on its development in China, the essay discusses three main implications for Lawson's future expansion into other global markets, emphasizing the use of franchise system, a comprehensive supply chain, the use of digital technology, and the importance of a tailored marketing strategy. Although this article provides a comprehensive analysis of several aspects of Lawson's operations, due to data limitations, it cannot cover all the details of convenience store operations such as HR, product development, and so on, and cannot provide a more detailed plan for overseas expansion. Considering the high level of imitability of convenience stores and low barriers to entry in the market, future research can focus on how Lawson can improve its probability of entering the market through innovative research and

development and how it can adapt to local lifestyles and dietary habits in Western countries, especially in Europe, to compete with local convenience stores.

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