Deloitte Consumer Insights

The Evolution of Convenience Stores
Convenience Store as a “New Life Platform”

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From Trend to Lifestyle

Convenience stores are changing.

Much more than just a simple big box, the status of convenience stores is rapidly elevating to that of a smart personal assistant or lifestyle platform where people take care of grocery, pay bills, collect mails, and enjoy a never-ending list of new services.

The unique position of convenience stores in Korea is well reflected in how Koreans take advantage of their facilities and services. Convenience stores in Korea are not only a place where people can seat around a table amongst the clutter of beer cans on a late summer night, but also provide essential services like grocery, pharmacy, ATMs, parcel deliveries, laundry, and charging services for mobile phones or transportation cards.

But with this evolution of convenience stores comes with new challenges and fierce competition. Now they are adopting new technologies more than ever and the adoption will only accelerate. Tech savvy stores are driving the revolution at lightning speed to survive and prosper. Imagine how this will transform our world and daily lives.
42,712 convenience Stores in Korea (grew from 10,000 stores in 2007)

One convenience store for every 1,226 Korean people

81.46% of Korea’s total population lives in urban areas

Korean convenience store industry revenue grows 13.93% annually
The Evolution of Convenience Stores

Introduction

Gambling and doing a business may share similarities as they both seek the best value in every bet or investment in the ultimate system of ‘winner takes all’. So here is a simple answer to the question ‘why are convenience stores changing and evolving so rapidly?’. The market is so abundant with opportunities that it is impossible not to play and just walk away.

According to Korea Association of Convenience Store Industry, the number of convenience stores in Korea reached 42,712 earning KRW24.4 trillion (approximately U$ 24.4billion) in revenue in 2018. It is remarkable because Korea’s first convenience store ‘Lotte Seven’ had been established only 37 years ago in November 1982. Now the convenience store industry is a huge component of Korea’s retail industry. Korea’s convenience store industry is growing rapidly thanks to customers’ increasing demands and up-and-coming new business opportunities. Although some studies indicate that Korea’s convenience store industry has reached the saturation point, growth rate is steady and stable due to the improvements convenience stores have made by getting involved in customers’ everyday lives rather than focusing only on variations of products. Convenience stores have been evolved from just physical stores to ‘new life platform’ that can meet various customer needs.

Now the focus is on how different store formats affect the needs of customers leading the ‘Life-Platformization’ of convenience stores. For example, the number of convenience stores in the United States is 153,237, and 79.6% (121,998) of them are combined with gasoline stations (by NACS report). Roughly 80% of the gasoline stations industry revenue in the United States are derived from those convenience stores connected to the gas stations. The sales margin and retail merchandise margin, however, are not the same. In the Casey’s case, average margin of groceries sales was 32% for the past 5 years (2010 to 2015), while the average margin from gasoline sales was only 5%. It leaves convenience stores with a mission to increase profitability by transforming to drive high-margin ‘in-store sales’. In other words, whether convenience stores close early at night (Australia) or offer high-class exclusive restaurant cuisine (Japan), however, the intrinsic value of convenience stores still remains. And how could these core values lead the transformation of convenience stores as a ‘New Life Platform’?

There were only about 10,000 convenience stores in South Korea in 2007, but that number almost quadrupled over the next decade.

1) Korea Association Of Convenience Store Industry
Challenged by e-commerce

According to the report by Statistics Korea, the domestic retail market size excluding the automotive fuel retailers, was KRW 363 trillion (approx. USD 300 billion) in 2018, which is an increase by 5.1 percent compared to KRW 345 trillion in 2017, and the Compound Annual Growth Rate (CAGR) was 4.6 percent over the past four years. With annual growth of over 10 percent, Korea’s retail sector is leading its domestic economy as its growing supply generates constant demand. Contrary to the industry-wide macroeconomic indicators showing steady growth, growth rates for different retail channels show different facets.

The 4-year CAGR of department stores and hypermarkets, which used to be the major traditional retail channels, were 1.02 percent and 0.61 percent respectively. The 4-year CAGR of the entire retail sector was well below 4.62 percent, while the CAGR of non-store retail (online) sector was 14.53%, leading the growth of the entire retail industry. This is in line with the global trend of online retail channels gradually replacing brick-and-mortar retail channels, as a new emerging power player in retail industry.

Interestingly, however, sales volume of convenience stores doesn’t seem to follow the global downtrends of other offline retailers. The 4-year CAGR of convenience stores was 13.93%, showing no significant difference from the CAGR of online retailers. It is noteworthy that the growth will most likely continue (Figure1). In terms of growth, online retailers and convenience stores led the growth of retail sales due to increased consumer demand for convenience and value.

The table indicates that the sales volumes of department stores and hypermarkets are decreasing while there is a visible uptrends in sales volumes of online retail channels and convenience stores. It also suggests that the new channels like online retailers and convenience stores create and provide new values that traditional retailers have not offered before. Its price competitiveness and accessibility triggered the new trends for offline retailers to go online, gradually shifting its ground to omni-channel experience where there are no boundaries between online and offline.

1) DB financial Investment co., LTD & Deloitte Analysis 2) Statistics Korea
Growth factors of convenience stores

According to Statistics Korea, Korea has the highest convenience store density in the world, one for every 1,226 people in 2018. And the number is rapidly increasing due to continuous openings of new stores followed by recent explosive expansion of the convenience store market. Whereas Japan, leading global convenience store trend, has one store for every 2,249 people 1), Therefore, Korea is now regarded as a convenience store giant that has already surpassed Japan for having the most number of convenience stores.

Looking closely at the history of Korea’s convenience stores, some useful insights could be found on how stores strive in the midst of fierce competition and how we predict the future of convenience stores. There are three major success factors for Korean convenience stores to grow at such a rapid pace (Figure 2).

Figure 2. Revenue and number of convenience stores in Korea 2)

1) In 2011, the number of people per each convenience store in both countries was reversed for the first time.
2) Korea Fair Trade Commission
Traditional retailers have been replaced by convenience stores with the improving socioeconomic circumstances and changing demographics in Korea.

The first factor is the emergence and prosperity of small retailers. Under the Act on fair transactions in large franchise and retail business, hypermarkets are legally restricted when opening new stores, which created a perfect opportunity for small retailers. It has contributed a great deal for convenience stores to expand rapidly in such a short period of time thanks to the government giving benefits to small businesses. In addition, as they put new restrictions on hypermarkets’ business days and hours, convenience stores, opening 24/7, became huge beneficiaries of the regulatory action and were able to make quick inroads into the main league with its great accessibility advantages.

The second factor is the thorough change in merchandising preferences caused by humanistic environmental changes in population structure. There have been new social circumstances in Korea such as improved economic standard, expeditious increase of single-person households, inevitable trends of young people deciding not to get married, and economic recession. Korea’s population is rapidly aging and the density is swiftly increasing in large cities. As a result, prior consumer preferences for large discount stores and bundles has been extinguished, whereas convenience stores have positioned their pie by meeting customers’ needs and selling in small quantities.
As Home Meal Replacement (HMR) market is rapidly growing, stores are enhancing their MD for HMR including bento box, instant meals, small-portion food, and deserts. In addition to that, convenience stores are now transformed from ‘a place where they sell goods’ to ‘a restaurant where you can have meals, desserts, and snacks’ attracting customers who used to eat out in local restaurants. The third factor is attributed to the effort they made to enhance their own advantage of being a ‘convenience store as a lifestyle-platform’. The convenience store business starts as an ‘industrial activity’ where the business owner makes a contract with a franchiser so that the store can receive products such as groceries and cigarettes. ¹ The world’s first convenience store was an ice provider in Texas which opened until late night and even on Sundays due to customers’ constant needs. That was the first store who were there to offer convenience to customers. As convenience stores open 24 hours nowadays, customers do not have limitations on shopping time anymore. They enjoy the advantage of ‘accessibility’ as the small stores are now located anywhere in every city. Combined together with the advantages and convenience, the stores entered the era of evolution as a ‘24-hour accessible shopping place’ and an ‘everyday service provider with variety of products’. This is a huge improvement from a store only selling goods to a store now creating synergy with modern customers’ lifestyle changes. Using social services including paying for utilities, receiving parcels, and going to bank is not a convenient option for businessmen and single person households. Convenience stores successfully bridged the gap by providing convenience for various utility services. Now the spotlight is on the convenience stores as an alternative to existing channels, pampering their customers with extreme convenience.

¹) Korean Standard Industrial Classification (KSIC)
The evolution of convenience stores

What are the similarities of ‘home, parcel, neighborhood, card, subway, daily life, location, delivery, ATM, and charging station’? There seems to be no connection to the words but these are the related keywords that come up when you search ‘convenience store’. In fact, most frequently used service in convenience stores is the ATM. Even more frequent than purchasing a soft drink. And these have never been the services you would ever expect traditional retailers.
The first convenience store in Korea was 'Lotte Seven' which opened in November 1982 followed by 2 more convenience stores opening in the same year. After they all closed down in April 1984, 5 years later in 1989, world's oldest convenience store chain 7-Eleven launched its first flagship store in the Olympic Apartment shopping center. Since then, large convenience store chains such as Circle K and Family Mart started launching stores in Seoul and opened a new era of Korea's convenience store industry. It is interesting to compare the evolution of convenience stores in Korea to Japan. In Korea, convenience stores began providing services such as utility bill payment in 1997 and in-store dining area in 1998, then it brought ATMs in 2000. Each stage started almost exactly 10 years behind the same stages for convenience stores in Japan. So we have assumed the future of Korea's convenience store by referencing changes of Japan's convenience stores.

Although the convenience store market in Korea opened later than Japan, the scope of services they offer have reached similar level thanks to rapid industrial development and fierce competition among the players. There seems to be no correlation between the services although they both exist for convenience. Convenience stores are transformed into a 'platform'. Convenience stores are now used as garages for car sharing services and battery charging stations for electric scooters. Also, convenience stores in Japan have a long history of providing services especially targeted for single-person households, office workers, and seniors as Japan was aging fast due to low birth rate. This lead to changes that more convenience stores are unmanned or equipped with smart vending machines for those who wants to avoid face-to-face interaction.
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Development History of Convenience Store Services in Korea

1997
- Utility Bill Collection Service started (’97)
- Install Eat-in place (’98)

2000
- ATM Services (’00)
- Package Delivery (’01)
- Mobile Phone Charging Station (’01)

2005
- Affiliate Discount Programs with Mobile Companies (’04)

2010
- Store with a Pharmacy (’12)
- ‘Dosirak Café’ with meeting rooms (’14)

2015
- Parcel Keeping (’15)
- Car Sharing Service (’16)
- Banking Kiosk (’16)

2020
- IoT-backed Meat Vending Machine (’18)
- Electric Scooter Charging Station (’19)
In Japan, however, convenience stores started evolving in quite different directions from Korea since 2016. They are now more focused on providing targeted customization services through diversifying their store formats for different targets such as seniors and kids.

Lawson’s ‘CISCA’ is a mixed-format convenience store targeting women with specific interest in ‘grocery + deli + café’ mostly living in urban areas. One of the special features of the store is that the customers can immediately consume the liquor and snacks they purchased in store. Another type is ‘Petit Lawson’, a mini convenience store and self-service snack kiosks installed at offices. It improves quality of life for office workers by providing accessibility and convenience. As a solution to chronic staff shortages due to increasing double-earner households, ‘Seven Nanairo Nursery Schools’ offer nursery schools for employees as well as local residents to solve the years-long waiting lists of day care centers. Seven-Eleven convenience store is located in each center. ‘Fit&Go’ FamilyMart which opened in 2018 is a convenience store with a fitness center. Convenience store is located on the first floor, and gym with workout products and foods are located on the second floor. Japanese convenience stores strive to meet customers’ various needs showcasing a wide variety of spaces combined with convenience stores.

In Korea, on the other hand, the focus of the evolution is slightly different. Convenience store chains are now developing more private label brands (PB) to secure higher profitability and to differentiate themselves from other competitors. They also try to collaborate with popular characters and trendy brands that younger generations like.
In addition, variety of different store formats have been adopted to provide more diverse customer experience. Korea’s direction of the evolution is quite different from that of Japan. Korea’s convenience stores are partnering with existing venues to find avenues of growth. For example, CU runs a store inside a karaoke in Hongdae, where there are mirror balls and neon signs. Also, Emart24 recently opened a store at Seoul Arts Center providing high-quality classical music to customers. Another example is ‘2Garden’ by E-mart24 which is transformed into a multi-cultural space, which originally was a warehouse of an abandoned factory but now changed into a multi-cultural space reviving the city. These cases show how convenience stores are changing to provide customer experience and entertainment, rather than simply combining different spaces. They seek to create a complex space via diversifications of the formats. In addition to O2O services, services including international shipping, foreign currency payment, coffee stand, and used mobile phone marketplace are now available in Korea’ convenience stores. Also, it is noteworthy to look at the changes from increasing adoption of cutting-edge information technology, such as automated payment system, facial recognition payment, and unmanned stores like Scan & Go. Recently 7-Eleven opened an unmanned store in the Lotte Tower, where pre-registered customers can load their items on a self-scanning machine, and checkout by a ‘bio pay’ system connected to their credit card. The number of tech-savvy stores are rapidly increasing from 25 in 2018 to 60 in the first quarter of 2019.

Although the number of convenience store services in Korea and Japan is even bigger than the numbers of the rest of the world, the evolution of convenience store in other countries like United States, China, and Taiwan shows similar movements.

1) Lee, Kaha, & Kim, Seung-In (2017). A Study on Development Direction of Convenience Store Living Platform -Focusing on domestic and overseas cases.
Korea’s Changing Convenience Store Market

**Changes in Merchandising**

- Increase of private label (PB) products
- Collaboration with trendy brands
- Fast reflection of trendy products

**Changes of Platforms**

- A convenience store which transformed an abandoned warehouse to a space with flower garden, restaurant, bookstore, toy shop, and wine shop
- ‘Luxurious Su’ convenience store with mirror balls and neon signs

**Expansion of Services**

- Same day wine pick up service
- Powder Room
- Unmanned laundry service

**Adoption of New Technology**

- Foreign currency payment, coffee subscription, payments for tickets, delivery, car-sharing services, and international document shipping, ...
- Unmanned convenience store with vending machines
- Face recognition and automatic payment system connected to personal bank account.

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What’s next?

In order to survive and thrive in the fierce competition, convenience stores in Korea and Japan transform existing stores. Higher cost of labor resulted in opening more unmanned stores threatened by market saturation and rise of online retailers. Now it is not ‘good enough’ for convenience stores to deliver new values by bridging the gap and limitations of existing retailers. It seems obvious that only ‘digitally transformed’ stores will avoid extinction. The new stores will have to meet customer needs by adapting to a this extremely fast changing environment. Although convenience stores managed to accomplish growth at a remarkable pace despite the rise of online retailers, the odds are how they adopt new technology and transform. As Napoleon Hill said, “Strength and growth come only through continuous effort and struggle.”
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