

# Applying the Concept of Embeddedness in the Retail Internationalization: A Case Study of Japanese Convenience Store FamilyMart in China

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*This paper applies the embeddedness concept identified by Hess (2004) and the 'Convenience Business Model (CBM)' framework to demonstrate how FamilyMart embedded itself in the Chinese market in two stages. This was achieved through a combination of societal, network, and territorial embeddedness. We discover that FamilyMart China transferred the basic CBM concept during the entry stage, and focused mainly on its 'background system' by entering into joint ventures. This embeddedness was primarily network-related. In FamilyMart China's growth and development stage, the focus shifted towards the CBM 'front system' to create value for its customers and its embeddedness was primarily territorial.*

## INTRODUCTION

The grocery retail market in China will be worth US\$ 1.450 billion by 2021 (IGD Retail Analysis, 2016). Convenience stores (c-stores) are a high growth business in the Asia-Pacific region (Planet Retail, 2017). However, the stores of the three largest local c-store companies in Shanghai had negative growth rates in 2015. In contrast, three Japanese c-store businesses had high growth rates. FamilyMart (1,501 stores) grew at 17.2%, Lawson (652 stores) had a growth rate of 28.3%, and 7-Eleven (192 stores) recorded a 12.9% growth rate (CCFA, 2016). FamilyMart is one of three Japanese c-store firms that have made profits in China since 2014.

The FamilyMart brand is owned by FamilyMart UNY, created after the merger of FamilyMart with the UNY Group in September 2016, making it the second-largest c-store chain in Japan. At the end of January 2017, FamilyMart UNY had 24,434 stores, including 18,100 stores in Japan and 6,334 stores in the rest of Asia. FamilyMart's Chinese subsidiary is the third-largest in terms of number of stores, after its Japanese and Taiwanese networks.

**How does a Japanese c-store business embed itself in such an extremely competitive and changing market as China? Do any challenges exist for the international c-store business in maintaining its growth in this market?**

This paper applies the embeddedness concept proposed by Hess (2004). An analysis of the elements of the 'Convenience Business Model (CBM)' provides an understanding of each CBM element: where, when, and how it will be embedded. Finally, we will discuss c-store growth issues in a challenging Chinese market.

The historical data used in this paper was generated through in-depth interviews with company executives in China in 2007 and 2016, and in Japan in 2015 and 2016. Company documentation, public websites, and third-party commentaries were also referred.

## THEORETICAL FOUNDATIONS

For Hess (2004), embeddedness is a spatiotemporal concept and differs from other embeddedness studies by providing societal, network, and territorial forms of embeddedness. ‘Societal embeddedness: Signifies the importance of where an actor comes from, considering the societal (i.e., cultural, political, etc.) background’, ‘Network embeddedness: Describes the network of actors a person or organization is involved in’, and ‘Territorial embeddedness: Considers the extent to which an actor is ‘anchored’ in particular territories or places’ (pp.176–177).

According to Hess (2004), “Globalisation is a process of transnational network building or embedding, creating and maintaining personal relationships of trust at various, interrelated geographical scales” (p. 176). He also mentions, “If actors engage in global production networks, they carry the ‘genetic code’ with them when going abroad” (p. 180).

Current research applying Hess’ (2004) embeddedness concept to an analysis of retail internationalization can be divided into two groups. The first group links Hess’ (2004) embeddedness to Dicken’s (2000) distinction between ‘Placing Firms’ and ‘Firming Places’ for the analysis of retail internationalization. The second group illustrates the embeddedness process of the international retailers through the retail business model.

The first group consists of geographers. They focus mainly on the aspect of territorial embeddedness. For instance, Wrigley, Coe, and Currah (2005, p. 437) explain “how it is the necessarily high territorial embeddedness in markets and cultures of consumption, planning and property systems, and logistical and supply chain operations that defines the distinctive theoretical and organisation challenge of the retail transnational corporation (TNC)”. Additionally, they use Dicken’s (2000) distinction between ‘Placing Firms’ and ‘Firming Places’ to explore the relationship with Hess’ (2004) embeddedness concepts. In the ‘Placing Firms’ question, ‘Where firms come from is important’ (Dicken 2000, pp. 277–282) and the key here is to explore the dialectical relationship between Hess’ notions of societal embeddedness and territorial embeddedness. The ‘Firming Places’ question ‘How TNCs use space and place’ (Dicken 2000, pp. 282–287) relates directly to Hess’ notions of network embeddedness. Following this thematic structure, Coe and Lee (2006, 2013) mobilizes the notions of territorial embeddedness and strategic localization of Samsung–Tesco in South Korea. Wood, Coe, and Wrigley (2016) explore how Tesco has addressed the multi-scalar aspects of localization and capability transference across its Asian operations.

On the other hand, Burt, Johansson, and Dawson (2016) focus on the internationalization of IKEA and explicate how the concept of embeddedness can provide a better understanding of the process of retailer internationalization via a consideration of the components of the retail business model by Osterwalder and Pigneur (2010) (pp. 715–747). However, each of food grocery, fashion, and electronics has a different retail business model (Dawson, 2015; Burt, Davies, Dawson, & Sparks, 2008; Burt et al., 2016). For the retail type of c-store focused on food and grocery items, this paper makes use of the c-store business model (CBM) proposed in Chung (2016).

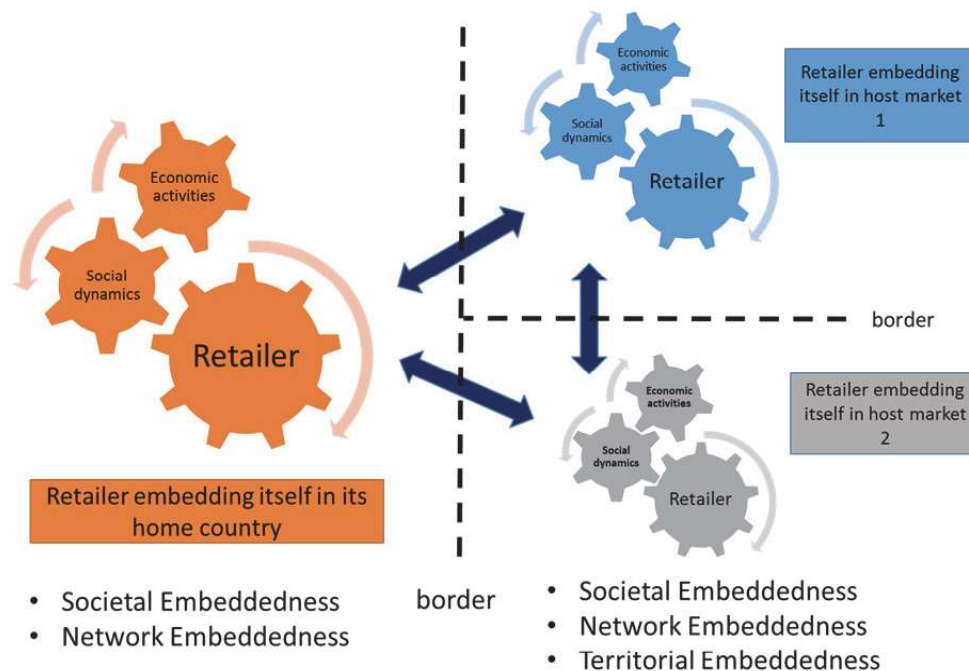
Why do we need to apply the embeddedness concept when investigating the process of internationalization of FamilyMart in China? Viewing embeddedness as a ‘temporal’ concept, as stated in Burt et al. (2016), the concept of embeddedness can be used to develop a framework for gaining a better understanding of the activity of retailers when they enter and subsequently develop in a foreign market (p.720). By considering embeddedness as a ‘spatial’ concept, we can first examine the interactions across subsidiaries and local market contexts (Meyer, Mudambi, & Narula, 2011) and then the “two-way knowledge flow between the home market and subsidiaries, and between subsidiaries themselves” (Wood, Coe & Wrigley, 2016).

### **Applying the Embeddedness Concept to Explain the Transfer of the ‘Convenience Business Model (CBM)’ to Overseas Markets**

Building on the earlier studies, this paper summarizes the analysis of retail internationalization and embeddedness; further, it recommends that it should be investigated from both the ‘temporal’ and ‘spatial’

angle. From the ‘spatial’ angle, retail internationalization can be seen as transferring and embedding the results of innovation from the originating in the home country to the host market in which the retailer operates. When innovation occurs in the host market in which the retail company operates, it will probably influence the strategies of the home office and others in the host market (See Figure 1).

**FIGURE 1**  
**EMBEDDEDNESS BETWEEN THE HOME COUNTRY AND THE HOST MARKETS**



Source: Summary by the author

From the ‘temporal’ angle, the retail internationalization process can be seen as consisting of different stages such as pre-entry, entry, growth and development, and withdrawal. The timing, content, and outcome of the retail business system’s embeddedness in the host markets are different.

Considering embeddedness as a ‘temporal’ concept, we investigate the embedding process through two stages: entry and growth and development. As embeddedness is also a ‘spatial’ concept, we study the interaction between the firm and the Chinese market. This paper will also apply the embeddedness concept to explain the transfer of the CBM to the Chinese market.

Chung’s (2016) CBM consists of nine elements in three categories: (1) The front system: Retail mix, service, quality, and cleanliness (S&QC), and franchise chain store development strategies. (2) Store operations: The supervisor, franchise accounting, and human resources education systems. (3) Background system: The merchandise-sourcing (such as ready-to-eat food facilities), merchandise supply, and distribution and information systems.

### **Embeddedness in the Entry Stage (2004 to 2010): Embedding the Basic ‘CBM’ Concept**

FamilyMart operates in China under China CVS Holding Corporation, which was established in Shanghai in 2004 as a joint venture of Japan FamilyMart, Taiwan FamilyMart and the Ting Hsin Group, their local partner. The Ting Hsin Group is a Taiwanese capital corporate group that owns the famous ‘Master Kong’ instant noodles and drinks brand, as well as fast-food restaurants in China.

The analysis revealed six important points of action for ensuring FamilyMart's embeddedness during the entry stage: (1) FamilyMart transferred their basic CBM concept through their subsidiary, Taiwan FamilyMart. Taiwan and China have a similar culture and language, and Taiwan FamilyMart had a successful development experience in Taiwan. (2) FamilyMart embedded itself into the local network through its local partner, Ting Hsin Group, which invested in an information system and distribution center, catering exclusively to FamilyMart China. (3) FamilyMart localized their product assortment, and especially in the ready-to-eat food category. Although tobacco generates high sales in c-stores in Japan, foreign companies cannot sell it in China. Therefore, ready-to-eat foods are becoming crucial for the sales of these stores. (4) FamilyMart practised territorial embeddedness by expanding their business into different locations and areas. For example, the subway station proved an important target location. In 2007, FamilyMart also expanded its business into other cities such as Guangzhou and Suzhou. (5) FamilyMart discovered a solution to barriers in extending their franchise business, as individuals do not own land or stores in China. The company solved this problem by preparing stores for their franchisees, and introduced special discount programs to incentivize their employees to own its franchise stores. (6) FamilyMart also developed a three-stage training program for their Chinese employees, who would receive certifications from FamilyMart on completing their program(s).

Overall, embeddedness in the entry stage focuses on network embeddedness, by building an infrastructure of background systems and transferring the basic CBM concept. FamilyMart opened their 500th store in China at the end of 2010, and became profitable in the third quarter of the same year.

### **Embeddedness in the Growth and Development Stage (2011 to Present): Turning the Management Crisis into a Growth Opportunity**

FamilyMart China experienced high-speed store expansion in 2011 and 2012, reaching 800 stores by the end of 2012. However, the firm also recorded a 500 million yen loss in that year due to increase in store rentals, soaring labour costs, and operational issues caused by the company's expansion strategy during 2010–12.

Facing a crisis in its loss of management control, FamilyMart China set two strategic goals in late 2012. They first aimed to generate a profit from each store, while the second goal involved an increase in the number of franchise stores. Six actions were used to reach these goals: (1) The store development strategy was revised by closing unprofitable stores, establishing higher profit goals for the new stores developed, and introducing eat-in corners in their stores. The firm found these steps to be crucial in increasing sales. (2) Ready-to-eat food categories were reinforced. The CEO of FamilyMart China, who is from the local partner, is highly committed to discovering local gourmet foods suitable for in-store sales. (3) The ratio of franchise stores was increased by encouraging employees' ownership of franchise store(s). With the exception of strategies initiated in the aforementioned late-entry stage, the entrepreneurship of individuals from rural areas powered the firm's franchise business. (4) The company introduced new member's cards and designed new promotional methods for the Chinese market to improve its relationship with local customers. The new member's card is common to Ting Hsin Group's retail and restaurant businesses. This card also has an app version; members can make purchases online with discount prices through a special website. (5) The company cooperated with other companies to improve services, simultaneously reinforcing their networks. For instance, customers could click and collect products from Tmall, which is a subsidiary of, the Alibaba Group. (6) The company extended its business and gradually established subsidiaries in other cities.

The CBM transfer primarily focuses on the 'front system' in the growth and development stage. The firms created value for their customers and links to profit and growth after 2014 through this territorial embeddedness.

The challenges for FamilyMart China could remain issues in deepening their embeddedness. As Hess (2004, p.177) notes, 'Economic actors become embedded there in the sense that they absorb, and in some cases become constrained by, the economic activities and social dynamics that already exist in those places.' For instance, the firm must have a socially responsible culture to deepen the societal embeddedness. This is also another key factor for c-stores' recent growth in Japan.

## CONCLUSION

This paper demonstrated how FamilyMart China embedded itself in the Chinese market in two stages. This was achieved through a combination of societal, network and territorial embeddedness. We discovered that FamilyMart China transferred the basic CBM concept to its Chinese subsidiary during the entry stage, and focused on its background system by entering into joint ventures. This embeddedness was primarily network-related.

In FamilyMart China's growth and development stage, the focus shifted to the CBM 'front system' to create value for their customers, and its embeddedness was primarily territorial. Innovation and business transformation in late 2012 resulted in the firm generating an annual profit from 2014 onwards. Thus, we can conclude that gradual but continuous progress in its embeddedness makes FamilyMart China boost its growth in a changing Chinese market.

This paper has the following academic implications. First, this paper proposes and illustrates both the temporal and spatial aspects of the concept of embeddedness. Despite embeddedness being a spatiotemporal concept in Hess (2004), the current literature on retail internationalization focuses mainly on Hess' (2004) 'spatial' angle. Second, this paper demonstrated how FamilyMart China embedded itself in the Chinese market in two stages, as well as the connection between the embedding strategy and the CBS model. This paper has implications for companies aiming at sustainable growth overseas as it suggests that companies should introduce internal and external embeddedness during different stages of their internationalization.

Further research is required to examine the impact of FamilyMart's overseas subsidiaries on its central office in Japan. How retail embeddedness influences the retail industry formation in different countries also needs to be investigated.

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