

Uniqlo Moves into the Fast Lane with Convenience Store Pick-Up in Korea



- 1) Uniqlo announced that customers in South Korea will be able to pick up their online purchases at 7-Eleven stores across the country. Uniqlo has already launched similar initiatives in Japan and Taiwan, and unveiled a new uniqlo.com site in March 2017.
- 2) For retailers, the key advantages of convenience store pick-up include lower last-mile delivery cost, a more integrated omnichannel offering and higher customer satisfaction. From the customers' standpoint, online shopping will now become even more convenient.
- 3) In this report, we also look at the future growth prospects of the convenience retailing industry. We are positive on the industry's future growth, driven by its diversified service offering and alignment with consumers' preference for convenience.
- 4) Looking ahead, we believe private label collaboration between brands and convenience stores represents a huge opportunity, and gives brands exposure to the strong distribution capabilities and strong growth momentum of convenience-store chains.

Uniqlo Launches 7-Eleven Pick-Up in South Korea

Starting in July 2017, online purchases from Japanese fashion brand Uniqlo can be picked up at 7-Eleven stores across South Korea. Once a purchase is made on the company's official website, the customer can opt to pick up the order at the nearest 7-Eleven store; a text message will be sent informing the customer where to pay and pick up the product.

Korea is the latest market in which Uniqlo has launched this convenience store pick-up service, following launches in Japan and Taiwan.

- **Japan:** Uniqlo first launched the convenience store collection service in Japan in February 2016; online purchases can be collected at 5,700 7-Eleven stores across Japan. In 1Q17, the company extended the service to include other convenience stores, FamilyMart and Lawson, bringing the pick-up network to approximately 43,000 stores.



Source: uniqlo.com/jp/delivery



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- **Taiwan:** In March 2017, Uniqlo launched the pick-up service at 7-Eleven stores in Taiwan, where there are over 5,000 7-Eleven stores.

We view this initiative as positive for Uniqlo, its customers and the convenience stores it is cooperating with.

- **Benefit for Uniqlo—aligns with company’s online strategy:** Uniqlo has a positive view of online shopping. The convenience store pick-up service should help to effectively reduce delivery costs for Uniqlo.
- **Benefit for customers—makes it even more convenient to shop online:** Customers will be able to place an order online then pick up their order at the nearest convenience store—any time, any day and free of charge—eliminating missed deliveries when they are at work.
- **Benefit for convenience stores—increases foot traffic:** Cooperating with Uniqlo and adding this pick-up service helps to further diversify their services and, ultimately, help increase traffic to their stores.

Uniqlo’s Online Strategy: Comprehensive, Enjoyable, Convenient

Online sales, which comprise over 20% of revenue from the US and over 10% from China, are critical to Uniqlo’s strategy. In order to increase the proportion of online sales in Japan from just 6.2% (as of first half of fiscal 2017), the company has been aggressive in enhancing the online customer experience and delivery services.

In March 2017, Uniqlo announced that it had upgraded its uniqlo.com online store for Japanese customers, with the aim of streamlining the online shopping experience by making it more comprehensive, enjoyable and convenient:

- **Comprehensive:** The new online site has a wider product selection than any of its physical stores. There are over 22,000 items in sizes from XS to 4XL and exclusive designs that are not available in stores in Japan.
- **Enjoyable:** The site adopts an intuitive and thumb-based user interface which provides an enjoyable and convenient shopping experience. The site offers additional features, such as Shop by Look for easy mixing-and-matching of items, and image search for finding similar designs/looks found in magazines, etc.
- **Convenience:** Customers can opt for home delivery or pick-up from a Uniqlo store or convenience store.

Retailing—the Bigger Picture

We believe Uniqlo’s convenience store pick-up service is part of a broader trend whereby retailers are gravitating to greater channel integration in order to appeal to their customers.

In response to structural changes in consumer demographics—an aging population and consumers’ desire for more convenience and on-demand services—retailers have gravitated to smaller-store formats in urban areas, stepped up integration across multiple channels and offered expedited last-mile delivery services.

US

- **Amazon** has been testing brick-and-mortar concepts with a cashier-less convenience store and grocery pick-up stores. AmazonFresh Pickup, launched in March 2017, lets customers place orders on the Amazon app, and pick up at drive-in stores.

- **Walmart** announced a plan in April 2017 to provide discounts for customers who purchase online and pick up their goods in store.
- **Seven & I** acquired 1,110 convenience stores under the trade names APlus and Stripes from Sunoco. The operator of 7-Eleven stores has been aggressive in expanding in the US.

Asia

- **JD.com**, China’s second-largest B2C platform announced that it will open more than 1 million convenience stores in China over the next five years. Customers who purchase on JD.com will be able to pick up their purchases at these stores. Prior to the announcement, JD.com had been expanding its physical presence in China with a physical network of franchised stores called Jingdong Bang.
- **CU**, the largest convenience store brand in Korea operated by BGF Retail, with over 10,000 stores, defines a convenience store as a ‘daily life platform’ and uses big data to analyze consumption trends. The chain opened the first karaoke convenience store with a CU store on the ground floor and has disco balls installed with K-pop music. Over the past five years, the number of convenience stores in Korea has more than doubled to reach 32,000 in 2016, according to the Korea Association of Convenience Store Industry.
- **Lawson** and **7-Eleven** in Japan have launched food delivery services to target seniors.
- Fashion e-tailer **Zalora** cooperates with convenience stores in Hong Kong to provide pick up and return services, while **ASOS** lets consumers return merchandise at convenience stores.

Figure 1. CU Karaoke Convenience Store



Source: Inside Retail

Private Label a Significant Growth Opportunity

Convenience stores and consumer goods manufacturers could collaborate to create a wide variety of products for their consumers. Brands can leverage their marketing efforts through convenience stores’ vast distributional channels, and convenience stores can leverage on the brands’ existing franchises.

- **7-Eleven** derives 50% of its net sales from private-label products, according to the Association for Convenience & Fuel Retailing.
- **E-mart**, one South Korea' leading convenience store chains, together with SM Entertainment, one of Korea's most influential showbiz agencies, has launched private-label products such as K-pop artists' branded instant noodles, snacks and soda.
- **CU's** private-label products comprise roughly 25% of all products sold at its stores.

Figure 2. E-mart: Private-label collaboration with SM Entertainment



Source: Allkpop

Implications to Retailers

We see the following trends playing out in the convenience retailing and broader retail industry in the near term:

- Retailers will increasingly shift from big store to convenience retail formats in urban areas.
- Retail will continue to be a multi-functional platform collaborating with other industries.
- The strength of convenience retailing will continue, given their extensive distribution channels.
- Convenience retailing in China will enter a rapid growth phase, primarily driven by changes in consumption patterns in urban areas and expansion plans of convenience store chains such as 7-Eleven and Lawson. The ratio of convenience store to supermarkets is 8:92 in China, below 54:46 in Japan, according to ebrun, an e-commerce media site in China.
- The distributional capabilities of convenience stores differ across Asian markets, with Japan, Korea and Taiwan outperforming China. Despite the rapid growth of convenience retailing in China, the distribution of the country's convenience stores is fragmented. Brands will have difficulty finding a suitable partner to implement convenience store pick-up services, due to the absence of a convenience-store chain with a close-knit nationwide store footprint.



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