National Coalition of Associations of 7-Eleven Franchisees

Fiscal Report Proves Seven & i Relies Heavily on Franchised US Stores for Financial Success

The headline in a recent Nikkei Asian Review article says it all – "Seven & i performance hits record on US store performance." The numbers don't lie. Nearly 20 percent of Seven & i's operating profit comes from US and North American franchised stores. As Seven & i's profits continue to grow, many of us are watching our bottom lines shrink. The future doesn't look promising as the new Franchise Agreement will take a bigger chunk of our profits.

The recently released summary of the second quarter for fiscal year 2019 delves into the numbers and shows what we have known for some time now. Our business is critical for Seven & i's continued stability and growth.

A main source of Seven & i's operational revenue is derived from the US market. According to their projections:

- $23.95 billion (USD) is the forecasted revenue for this fiscal year from US stores.
- Japanese 7-Eleven stores will bring in approximately $8.7 billion (USD) this fiscal year.
- Seven & i's operating income for the 2nd Quarter of 2019 rose 2.7 percent from the same period in 2018—only the second time it's ever been that high.
- 7-Eleven's US operating income rose 18.5 percent for the 2nd Quarter – going from $350 million to $415 million. Much of that is attributed to higher fuel sales.
- Store gross margin dropped from 34.8 percent in 2016 to 34.3 percent in 2017. That's the lowest it's been in a decade.

These numbers prove that US franchises are bringing in more than two and a half times the amount of revenue that the stores in Japan bring in.

Another concern for US franchisees: gas sales. Gas sales are on the rise across the country, but it is likely one of the reasons the number of sales happening inside 7-Eleven stores has dropped. Keep in mind that franchisees only see a penny and half in profit per gallon sold, and that amount doesn't begin to cover the maintenance associated with the upkeep of the gasoline sales area.

- Last year pump transactions were up 4.1 percent - or about 427 more transactions than in 2016.
- Fuel prices rose 12.8 percent in 2017.
- Profit on gas per gallon went from $20.05 in 2016 to $23.01 in 2017.
- In store transaction count is down one-half a percentage point—equating to about 204 fewer transactions at the insider counter than in 2016.

When customers are spending more at the pump, they have less discretionary money to spend inside at our counters. This is just another example of how SEI and Seven & i take advantage of franchisees without compensating them properly.

It is time that US franchisees are granted the proper respect for their hard work and commitment. The National Coalition has repeatedly asked SEI chief Joe DePinto to revise the 2019 Franchise Agreement to make it fair and equitable.

Despite ignoring our requests, DePinto recently bragged about the value of the system's franchisees in an interview with *Convenience Store Decisions*. "With entrepreneurial spirit and innovations coming from our Store Support Center, a strong franchisee community and dedicated supplier partners, I have no doubt 7-Eleven will reach its corporate goal of having 20,000 stores in North America by 2027."

That may prove to be tough for him to accomplish, considering the unusually high number of franchises for sale across the country. For example, California is home to 1700 7-Eleven franchises. As of mid-October 10 percent of them, or 170 stores, were up for sale. According to NCASEF Treasurer Jas Dhillon, who has been an LA franchisee for more than 20 years, "These numbers are unheard of here in California. We typically have a handful of stores for sale. This clearly points to the unrest and uncertainty franchisees across the country are feeling."

We feel the unrest and we know they are talking about it at SEI's offices in Dallas. At a time when many franchisees are feeling pressure to sign the new agreement, we should all remember how vital we are to the success of this system. We love this brand and want to see continued success, but not at our expense.

*****The numbers and percentages in this article are from SEVEN & i's forecasted report for the fiscal year ending February 28, 2019 as well as NACS State of the Industry data.*****