

Ask 7-Eleven Inc. CEO Joseph DePinto what the future of convenience retailing looks like and he'll reach into his pocket and pull out his smartphone.

"Click-and-collect, on-demand delivery, frictionless payment, the now factor. Our opportunity is to connect the digital to the physical store locations," he said. "The KPI [key performance indicator] for today's consumers is how quickly can it be at my door. People call it 'the last mile.' I call it 'the last block.'"

felt there was a lot of power in the individual operator, the entrepreneur," DePinto said.

Back in 2005, 7-Eleven also had had success and became set in its ways. "We forgot who we were, and that is an organization that supports our stores and our franchisees," he noted.

Applying his experience from the military, including his education at the U.S. Military Academy at West Point, DePinto instituted a companywide cultural change called "servant leadership." This remains the foundation at 7-Eleven and is the guiding principle in

OPERATION: VISIONARY

7-Eleven CEO Joseph DePinto is in command of convenience retailing's future

By Linda Lisanti & Don Longo

As the largest convenience store retailer in the nation with 5,400 7-Eleven stores in the United States currently and an acquisition in the works that will increase that figure to 10,000 stores next year, Irving, Texas-based 7-Eleven is uniquely positioned to unite the brick-and-mortar world to the digital world, as DePinto sees it.

"I'm very excited and bullish for the future," this year's *Convenience Store News* Hall of Fame retailer inductee said. "Consumers are changing as fast as I've ever seen them change. They want now, simple, easy. They're completely redefining what 'convenience' is."

Change is something DePinto knows a lot about. When he was appointed chief executive of 7-Eleven in 2005, "bullish" is not a word he would have used to describe the business. Back then, the company had a lot of debt and because of that, it couldn't be flexible, he recalled.

The decision was made to franchise 7-Eleven and use those funds to pay down the debt. At the time, the company was 50 percent corporate-operated and 50 percent franchise-operated. Today, the balance is 80 percent franchise and 20 percent corporate. "I always

how DePinto leads.

"Everyone thinks the military is all about top down, but the military is really built around support. The leaders support everybody else," he explained. "My job is to support our franchisees and those who support them."

Today, 12 years later, DePinto says 7-Eleven has cleaned up its balance sheet and is "on great financial footing." He characterizes the business as "very strong," and he's proud of the servant leadership culture that's been instilled. "While it's never perfect, I look back now and say, 'Man, we've made substantial change,'" he told *CSNews* in an exclusive interview.

TEAM PLAYER

DePinto, who came to 7-Eleven after stints at GameStop Corp., PepsiCo Inc. and Thornton Oil Co., is the fourth 7-Eleven executive to be inducted into the *CSNews* Hall of Fame. His predecessor, former CEO James Keyes, was inducted in 2005, and 7-Eleven founders John and Jere Thompson were inducted in 1991.

"Honored and humbled" is how DePinto describes

Convenience Store
HALL of FAME



his initial reaction when he learned of his Hall of Fame selection. And in true servant leadership style, he quickly begins to talk about his team and how this honor is really a reflection of their efforts.

“I’m most happy for our team. It’s our franchisees and the 7-Eleven Inc. team that supports them that do a great job. My job is to be there for them, to serve them,” he said.

If someone were to ask his employees about his leadership style, DePinto believes they would say he’s a supportive leader, always asking them what they need to get the job done.

“I also think they would say I tend to be pretty aggressive to get stuff done and have a can-do attitude,” he added. “We may be a large organization, but that doesn’t mean we have to act like one. We



Convenience Store News Editorial Director Don Longo (center) and incoming Coca-Cola North America President Jim Dinkins (right) presented DePinto with his Hall of Fame award.

can be nimble and quick.”

Jesus Delgado-Jenkins, 7-Eleven’s executive vice president and chief merchandising officer, has known DePinto since age 20 when they were classmates at

‘A Healthy Tension’ With Franchisees

Being a predominantly franchised business has its challenges, 7-Eleven Inc. CEO Joseph DePinto acknowledges. When asked what he thinks 7-Eleven’s franchisees would say about him as a leader, his response is candid: “Depends on which franchisee you ask.”

In October, the National Coalition of Associations of 7-Eleven Franchisees (NCASEF) filed a lawsuit against its parent company, claiming that 7-Eleven Inc. has not fulfilled its promise of treating the franchises as independent contractors and business owners. NCASEF represents the owners of nearly 7,000 franchised locations in the United States.

The suit, filed in U.S. District Court for the Central District of California, challenges certain provisions of the 7-Eleven Franchise Agreement and seeks monetary damages, attorney’s fees and costs, and other relief for claims relating to unpaid overtime wages and unreimbursed expenses. According to the suit, franchisees have long complained that their parent company has been chipping away at their profits, increasing their costs, and exercising more control

over what is supposed to be an independent operation. Examples they cite include directing franchisees to sell any good or service for less than the cost of acquiring and selling the same, and imposing a regressive royalty structure that penalizes franchisees for increasing sales.

About a month later, on Nov. 10, it was announced that during a NCASEF board meeting, the presidents of all 43 Franchise Owners Associations (FOAs) voted unanimously to not attend the 7-Eleven Experience, the parent company’s annual tradeshow for its franchisees.

During a recent interview with *Convenience Store News*, DePinto spoke about the relationship between the parent company and the franchisees, calling it “a healthy tension.”

The chief executive said he hosts a CEO Roundtable and meets with franchisees formally three to four times a year. He also spends as much time as possible out in the field.

“I was in a store in Cicero [Illinois] yesterday that had just been remodeled. This franchisee is doing well, but I saw some

more opportunity to draw more traffic to his store with signage. So, we’re going to get him more signage,” DePinto said.

Sharing information is a crucial piece of the parent-franchisee partnership, according to the CEO. Because 20 percent of 7-Eleven’s stores are corporate-operated, DePinto noted that the retailer is able to test ideas and then share the results with the franchisees.

“We explain the reasons why we’re doing something; we share the facts with them. Most of them will come along, but there will those who dig in their heels,” he said.

Because all of 7-Eleven’s franchisees bought into a system that offers support and branding to them, DePinto encourages them to take advantage of that system. He also pointed out that some of the retailer’s best ideas have come from its franchisee community.

“We’ve made a lot of progress,” he said. “We’re a large business. When a franchisee has an issue, it may not be a big deal in the grand scheme, but to that franchisee, it’s a huge deal. We have to always remember that.”

West Point. He has a great deal of respect and admiration for DePinto's leadership and his ability to be "an inspirational visionary."

"Joe is very genuine and authentic. He wants to serve — serve the customer, serve our franchisees, and serve our own employees. At the same time, he's also a very driven leader even as he remains humble, genuine and authentic," Delgado-Jenkins explained.

He points to his friend's passion for innovation as one of his greatest contributions to both 7-Eleven and the convenience store industry as a whole. From 2005 through 2010, DePinto jumpstarted the company's ability to introduce new products, especially in private label and fresh food, which remain key focuses today, according to Delgado-Jenkins.



DePinto's Six Consumer Trends to Watch

1. Consumers are connected 24/7.
2. They're on the go.
3. They're time starved.
4. They're eating differently.
5. They're more diverse.
6. They're more urbanized.

"We continue to innovate with fresh food. We start with the customer — What's the right taste? How do they want to eat it? How do we deliver it? We've improved the quality for indulgent products, as well as healthier products. We've grown foodservice sales by mid-single digits for the last four years by improving the quality, taste and packaging from the customer's point-of-view," he shared. "In private label, we've had double-digit same-store sales growth for the past four years, and I believe we can do even better."

Jim Dinkins, incoming president of Coca-Cola North America and current president of the Minute Maid business unit, echoes that DePinto led the charge to fresh food. "He saw that consumer preferences were changing, that people were becoming more time-starved and that convenience was the sweet spot to meet those changing preferences," Dinkins said. "He leveraged the strength and breadth of 7-Eleven's geographic footprint to meet consumers' needs."

Dinkins, who started working with DePinto seven

Competitively Speaking



There's a lot of talk in retail lately about the need for constant innovation, especially with Amazon going after the consumer packaged goods business and opening brick-and-mortar stores, but 7-Eleven Inc. CEO Joseph DePinto doesn't see Amazon as competition.

DePinto prefers to think of Amazon as "co-opetition," a term he created. "We can cooperate with them. We have something they want — great distribution points in our stores," he said.

The chief executive recently visited an Amazon distribution center and saw for himself what all the buzz is about. "They have robots everywhere," he noted.

Even though he sees Amazon as more of an opportunity than a threat, DePinto does not advise his fellow convenience store retailers to take their sights off Amazon because if there's a consumer need not being met, Amazon is going to solve for it.

"We can't be asleep at the wheel," he said.

7-Eleven's chief also believes the convenience store industry must keep its sights on direct competitors such as drugstores, dollar stores and quick-service restaurants.

"Millennials want an on-the-go, one-stop shop, and small boxes like dollar and drug can offer more items than we can," DePinto said, pointing out that 7-Eleven is protecting its business by implementing an "expanded assortment strategy" at its stores.

One disadvantage these competitors have vs. convenience stores is bigger lots that make it less convenient to quickly get in and out, according to DePinto. Another strength he says c-stores have going in their favor is that they are deeply embedded in neighborhoods.

"Community is built into the fabric of the convenience store industry," he said. "We've been there for them for a long time and they've come to count on us. We're trusted, while being close and convenient."

Convenience store disadvantages, DePinto believes, are an inefficient supply chain — the channel is still a direct-store-delivery driven business — and pricing disparities vs. competitors.

"Pricing between channels is still unfair. Across many categories, the convenience channel faces higher costs than grocery and mass. The idea that convenience can demand a premium is no longer valid. Consumers won't accept that anymore," he said.

Going forward, DePinto expects competition to keep increasing, particularly from new "small boxes," although he acknowledges it's not an easy transition for many retailers. "They're failing because they're doing business the same way just in a smaller box. Big box vs. small box is a whole different competency," he said, but acknowledged that companies like Aldi and Lidl have "figured out how to do it well."

years ago as 7-Eleven's team-lead on the Coca-Cola business, also praises his colleague and friend as a skilled strategic thinker.

"He has a very strong understanding of the operational aspects of this business, so he can translate the strategy into concepts that can be successfully implemented in the stores," he added. "And he has great leadership skills — going back to the type of person he is, and his military background as a West Point graduate. ... He has the ability to connect on a personal level all across the spectrum. He is able to identify with people and get the best out of them."

DePinto agrees that 7-Eleven has made great strides in the areas of fresh food and private label over the past several years, and he says millennials are the driving force behind both. Half of the retailer's customer base today is millennials. 7-Eleven also over-indexes with Hispanics.

"People are eating differently — snacking, more on the go, more healthy options. I've started to see customers in our stores pick up a product and turn it



DePinto celebrated his Hall of Fame induction with his family. His wife, three sons, daughter-in-law, and parents were all in attendance.

around to read the label," said DePinto. "Cut fruit, salads, hard-boiled eggs, protein packs, vegetable crisps. We carry all that stuff. We will be a destination for food, and we will have healthy options. I just wish it had happened faster."

As for 7-Eleven's industry-leading private label business, branded 7Select, DePinto happily reports that it will be a \$1-billion business within the next year. 7Select got its start in 2010, after the Great Recession of 2009 made consumers ultra price conscious. During that time, 7-Eleven also saw manufacturers pull back

Where Does the \$3.3B Sunoco Acquisition Fit Into 7-Eleven's Vision?



7-Eleven Inc.'s current 5,400-store footprint in the United States is poised to expand by 20 percent with the retailer's pending \$3.3-billion deal to acquire approximately 1,100 convenience stores in 18 states from Sunoco LP. The acquisition was announced in April.

At the time of the announcement, 7-Eleven Inc. CEO Joseph DePinto said the transaction supports the company's growth strategy in key geographic areas, including Florida, the Mid-Atlantic states, Northeast states, and Central Texas. The purchase will also give 7-Eleven entry

into Houston, the fourth-largest U.S. city, and a strong presence in Corpus Christi and across South Texas.

In addition to the convenience stores, the transaction includes the associated trademarks and intellectual property of Sunoco's Laredo Taco Co. and Stripes brands. Sunoco itself acquired these brands through the acquisition of Susser Holdings Corp. and Stripes in July 2015.

In a recent interview with *Convenience Store News*, DePinto said he views the Sunoco acquisition more as two separate entities: the first one being the Susser Holdings

business in South Texas, and the other being the Sunoco stores in the Northeast and Florida.

"Susser built an incredible business and we are really excited about that part of the business," DePinto told *CSNews*. "The South Texas customer is heavily Mexican-American, so we can learn a lot about how to cater to that consumer."

As for the stores in the Northeast and Florida, DePinto said they are more traditional convenience stores, so 7-Eleven will be looking to bring its best practices to them, including private label. It's also expected that these stores will be put into its franchise system.

on quality of product and packaging to cut costs. “We decided that manufacturers weren’t hearing what we were saying and we would have to go it alone,” DePinto recalled. “With 7Select, we strive for high quality at a fair value. It’s resonated with consumers, and we will continue to build this business. We offer a lot of differentiated items across all categories. We’re adding 280 new SKUs this year alone. Millennials love private label.”

THE CONVENIENCE EXPERIENCE OF THE FUTURE

Industry leaders also praise DePinto for his embrace of cutting-edge technology and services that are redefining convenience. The list includes: drone delivery, partnerships with third-party delivery companies like Postmates and Tapingo, click-and-collect, Amazon Lockers, UPS Lockers, KeyMe self-service locksmith kiosks, Amazon Cash and PayPal Cash. There’s also the 7-Eleven mobile app and 7Rewards loyalty program, which has 9 million members.

Still, DePinto tells *CSNews*, “We’ve only scratched the surface.”

“We seek to understand the customer and where they’re going, understand consumer trends, and then change our products and infrastructure to deliver on that.”



“In our delivery business and click-and-collect tests, we see the transaction size is actually larger than the in-store transaction. Our delivery ticket is three times our in-store ticket,” he said.

7-Eleven is ramping up its digital team to be able to innovate faster. The retailer recently hired a new chief digital officer, Gurmeet Singh, who previously led digital transformations at Capital One; FedEx; and Intuit, the maker of TurboTax and QuickBooks.

“Joe is a visionary and that helps us as a company chart the path for the future while preserving our existing strengths,” said Singh, who joined 7-Eleven in September 2016.

He was drawn to 7-Eleven because with 5,400



In his acceptance speech, DePinto thanked his parents for teaching him the importance of integrity, working hard and always doing the right thing.

stores in the U.S. and 64,000 stores globally, there’s an existing physical strength that can be combined with the power of digital. Furthermore, more than 50 percent of the U.S. population is within a mile of a 7-Eleven store

“7-Eleven is already a leader in convenience and has a long history of innovation. My thinking is: How can the digital team at 7-Eleven redefine convenience?” Singh said. “Part of it is that we want to develop the ‘experiences of the future.’ These experiences will be inside the store, but they will be outside the store as well. We want to bring the store to the consumer wherever and whenever they need us.”

DePinto rejects the idea that brick-and-mortar retail is dying. Rather, he says the golden ticket lies in uniting brick-and-mortar with digital. He envisions one convenience experience of the future being: The customer comes into a 7-Eleven store with their phone, picks up three or four items, scans the barcodes, hits pay and walks out.

However, 7-Eleven is not seeking to be a “disruptor.”

“No, we do not seek disruption for disruption’s sake. We seek to understand the customer and where they’re going, understand consumer trends, and then change our products and infrastructure to deliver on that,” DePinto explained.

These days, he sees six consumer trends of importance to 7-Eleven’s evolution:

1. Consumers are connected 24/7;
2. They’re on the go;
3. They’re time starved;
4. They’re eating differently;
5. They’re more diverse; and
6. They’re more urbanized.

“So now, it’s a question of how to deliver on these trends and link the digital to our physical locations,” the newest Hall of Famer said. “Convenience has been the last along this path. It’s coming in a big way.”