Twitter Thread by Patrick McKenzie



Patrick McKenzie
@patio11

The payments wars in Japan are heating up and one of the battlegrounds is convenience store coffee.

“Coffee? What does that have to do with payments?” I’m glad you asked.

Convenience stores are low net margin businesses, which sell some high gross margin goods/services but a lot of low ones, and have high fixed costs and a low ticket size. The typical transaction is under 500 yen ($5) and many are about $1.

They need repeat custom.

A few years ago, all of the chains had a good idea for increasing frequency of use: make a minor capital investment in automatic coffee machines. Sell access to them for the price of a cup / ice; customers self-serve with the machine.

The price point is $1 to about $2.

Coffee quickly became one of the most frequently repurchased items at convenience stores, in no small part because it’s the one thing they can sell which is phameceutically habit forming but totally unregulated. (Just telling it like it is.)

But the coffee is not very defensible

The problem, such that it is, is that competing chains are everywhere and *all* of them serve Thoroughly Adequate Coffee at similar prices, so you’re back into the brutal economics of “Who is 3 meters closer to 40 customers at 1 office?”

Enter payment apps.

Payment apps have finally made loyalty points and bulk ticket (■■■) purchases fast enough the convenience stores, which have strict throughout budgets measured in seconds per customer, can offer them across a chain.

And since booze and tobacco can’t meaningfully be used...

Duh duh duh The Coffee Payment War.

Family Mart has a closed loop store value app called Family Pay. It is a barcode based payment and does basically what you expect it to.

It is also a coupon platform, and will sell you an anywhere-in-chain “11 drinks for price of 10.”

SoftBank 4G 19:50 33%

回数券購入一覧

ファミマカフェ回数券
ブレンドS/アイスコーヒーS

11杯分



1杯分おトク!

1,000円(税込)

※回数券は利用期限があります。利用期間は、購入日から91日間です。

「ブレンドM」は沖縄県の店舗では取り扱いございません。

ファミマカフェ回数券
ブレンドM/カフェラテ

11杯分



1杯分おトク!

1,500円(税込)

※回数券は利用期限があります。利用期間は、購入日から91日間です。

ファミマカフェ回数券
アイスコーヒーM/アイスカフェラテ

11杯分



1杯分おトク!

1,800円(税込)

※回数券は利用期限があります。利用期間は、購入日から91日間です。

The UX of actually redeeming them is a little weird; you have to select the ticket out of your book prior to checking out. But it gives you a great reason to use Family Mart for all your coffee, even if you have to walk 2 minutes longer than a 7/11 closer to your home/office/etc.

7/11 comes at it from a different angle; they gamify coupons. If you buy 10 coffee, you get a coupon for one coffee for free (or equivalent discount).

App tracks progress. 6 more to go!

(I cropped the screen to avoid giving you a barcode that would let anyone snatch my coffee.)



A fun payments wrinkle: one reason chains don’t love coupon books/“buy 10 get 11” historically is that it throws off their internal funds flows if they are franchised. You’d think purchases and redemptions are approximately symmetrical but they are often not.

This tends to “drain cash” from the redemption heavy franchisees, who (because they are in a business of picking up pennies) hate this and complain to corporate over trivial money.

Automating all of this and having funds flow go Corp -> franchisee not F>C>F ameliorated problem.

Think of it as a happy bit of efficiency introduced into the world by computers being utterly not bored by the prospect of tracking 40 million coffees a day in Japan individually, which is A Task even by Japanese logistics standards.

There have, of course, been a lot of presentations in Tokyo with the punchline:

“You know what would make this process even better? ... A blockchain.”

(*sigh* Seriously.)

Fun question left as an exercise to the reader: why does Starbucks have an entirely different offering in the US (and Japan, where it is broadly similar) for their closed-loop stored value?