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Kirin, Suntory Negotiating Integration

Food Industry Shakeup for Overseas Expansion

By Hiroshi OKABE

Japan's largest and second largest food business groups, Kirin Holdings Co. and Suntory Holdings Co., are negotiating a management integration. As domestic market growth has been capped by the falling birthrate and aging population, they are seeking to expand aggressively into overseas markets in a strategic move to counter Western food giants such as Nestle S.A. News of the top two firms' integration talks sent a shock wave through Japan's food industry crowded with small and medium-sized companies, raising the prospect of prompting others to accelerate realignment moves with an eye on overseas expansion.

Combined consolidated sales of Kirin and Suntory total 3.82 trillion yen. Their integration may create one of the world's largest liquor and soft drink manufacturers, accounting for nearly 50% of Japan's beer market and replacing the Coca Cola group as the nation's largest soft drink seller.

The global beer industry has seen dramatic developments. Belgium-based InBev, the world's second largest brewer, has acquired Anheuser-Busch, the third largest known for its Budweiser brand. In the Japanese beer market, four major players – Kirin, Suntory, Asahi Breweries Ltd. and Sapporo Holdings Ltd. – have long continued a race to expand their slices of the pie. In Japan's food and beverage market estimated at 30 trillion yen, companies with sales topping 1 trillion yen are limited to a few, including Ajinomoto Co. and Nippon Meat Packers Inc. in addition to Kirin and Suntory. The domestic beer industry alone has seen no integration between major players for the past century.

Recently, however, the domestic beer market has been shrinking in the wake of a population decline and young people's shift away from beer. In consideration of the shrinking Japanese market, Kirin has expanded into the Asia-Pacific market by acquiring major Australian brewer Lion Nathan Ltd. and Philippine brewer San Miguel Brewery Inc. Suntory for its part has purchased New Zealand soft drink maker Frucor Beverages Group Ltd. in an accelerated move for regional mergers and acquisitions. Behind the Kirin-Suntory integration deal is the intention to enhance their financial base in preparation for promoting strategic moves outside Japan.

But they have some hurdles to clear for their integration. The first is an agreement on the stock-swapping ratio for a merger between the two holding companies. As each holding company is to exchange its stock for an integrated firm's stock, they are working out the stock swap ratio in accordance with each firm's capitalization and growth potential. The market capitalization of Kirin, a publicly traded company, is estimated at some 1.36 trillion yen, based on its present stock price. The problem is how to estimate market capitalization of Suntory, which is a privately held company. The estimation may be based on its capital base as well as its sales, which are equivalent to two-thirds of Kirin's. Stock market experts believe that Suntory's market capitalization may fall short of the Kirin level. Nevertheless, Suntory is seeking to integrate on an equal footing with Kirin. Any rise in Suntory's market capitalization will depend on its growth potential. But whether Kirin will eventually accept fifty-fifty treatment is still uncertain.

An agreement on the name of an integrated holding company will also be important since both Kirin and Suntory have long traditions and excellent brand strategies. Suntory President Nobutada Saji has called for the name of Suntory to be left for the integrated firm. Kirin has made no specific response, noting that negotiations are still in the initial stage. Since the integrated company is estimated to account for nearly 50% of Japan's beer market, the Japan Fair Trade Commission is poised to cautiously screen the integration in respect to the Antimonopoly Law.

Foreign beverage and food giants are also keeping a close watch for the emergence of a huge competitor in Japan.

Photos: Kirin *Photos: Suntory*

Beer brands from Kirin (left three) & Suntory (right three)

High Hopes on Chinese Visitors

Japan Lifts Ban on "Individual Tourist Visa"

Japan lifted a ban on "individual tourist visas" for Chinese nationals in July, ending the practice that had required them to visit Japan only in groups accompanied by tour guides. The individual visa system is available to wealthy Chinese people with confirmed annual income exceeding a specified level. Japan's tourism industry expects wealthy tourists to spend more than double the amount of money that group travelers do because they can freely choose restaurants and places to visit. Local travel vendors and other quarters concerned hope expenditures by individual Chinese tourists will jump-start growth in personal consumption, still sluggish in the aftermath of the global monetary and economic crisis.

In the past, visas for Chinese tourists had been limited to group travelers to prevent them from overstaying for illegal work. In 2008, Japan set up a "family tourist visa" scheme for rich Chinese families. The latest individual tourist visa system will give them opportunities for free travel all over the country.

The Japan Tourism Agency (JTA), a government arm, says about 450,000 Chinese tourists visited Japan in 2008, up 12% from 2007. Many Chinese group tourists were seen at brand-name shops in Tokyo's posh Ginza district and local hot-spring resorts. According to a survey by Mitsubishi UFJ Merrill Lynch PB Securities Co., China ranked third in wealthy population, following the United States and Japan. JTA officials hope to attract as many tourists as possible from China, a huge pool of potential overseas travelers.

Department store chain Takashimaya's Shinjuku outlet frequented by foreign tourists

In tune with the situation, travel agency JTB Corp. made the CUP (China UnionPay) debit card available for Chinese visitors to pay for optional tours. Department store chain Takashimaya plans to win them over to its own side through direct negotiations with China's tour agencies. Some Japanese travel agencies are moving to sell "cancer checkup" package tours taking advantage of Japan's high-level medical exam/therapy.

However, Japan has set some conditions for the individual visa system to forestall illegal stays, including annual income of 250,000 yuan or more. For this reason, "no explosive increase is expected" in the number of Chinese visitors to Japan, as a travel agent in Shanghai has put it.

Staffing Service Growing as Hiring Source

Job Seekers Turning to Farming, Nursing Care

With the employment situation still bleak, staffing business in such areas as agriculture, nursing care and child-raising support is growing. The overall ratio of job offers to job seekers in May marked the lowest reading on record, a seasonally adjusted 0.44, meaning there were only 44 jobs available for every 100 applicants. It is just a matter of time before Japan's unemployment rate tops its post-World War II high of 5.5%. As the manufacturing industry that has supported employment in Japan is hastily cutting jobs along with reorganization of domestic production bases, agriculture, nursing care and other conventionally low-profile job areas have caught attention as new employment opportunities.

Major staffing service company Pasona Group Inc. has started an agricultural "business school" for people who want to take up work on the farm. At the Agri-MBA Agriculture Business School, professional farmers teach basic knowledge and management know-how. The school not only provides classroom lectures but also instructs trainees about cultivation techniques and management at a plot of leased farmland on Awaji Island, Hyogo Prefecture, in western Japan. "Agriculture has a broad array of related areas embracing production, processing and distribution, with the general public having deep interest," a Pasona official says. "There are business chances in agriculture in terms of staff recruiting."

Staff Service Holdings Co., another major staffing agency in Japan, holds job fairs for people without experience in nursing care so they may have full understanding of the realities of work in the area. The company then seeks to confirm their willingness to work for a long time in an effort to ensure smooth employment. Staff Service not only introduces nursing-care agencies for applicants but also bears the tuition for a crash course required to qualify as care attendants. "I worked as an office worker for a long time but have failed to find a clerical job," said an unemployed woman attending a job fair. "Nursing care is attractive because there are many job offers and I will be able to work comfortably as I get older."

Still, the emerging new job markets, including agriculture and nursing care, face such problems as relative low income and difficulties in securing large numbers of jobs as new employment sources for a great many jobless people. It has become important for the government to seriously consider how it will assist in nurturing such sectors from the viewpoint of promoting domestic demand-led economic growth as well as stabilizing employment.

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