

Rheon: A Taste of Success

By Yumiko Matsudaira

Rheon Automatic Machinery Co. may not be a household word in Japan, but there are few Japanese who have not had a chance to sample food made with the unique machinery produced by this fast-growing company. Through its success in making machines for wrapping *an* (sweet bean paste) in dough made of *mochi* (rice cake) and flour, and equipment for churning out butter and flour dough for croissants and pies, Rheon has achieved a dominant position in the highly competitive food-processing machinery industry. Consumers in other countries can thank Rheon for pie crusts and even their coffee-break doughnuts.

Besides being highly profitable, Rheon is one of the top firms in the Japanese food industry. In the business year ended June 1988, sales reached ¥13,200 million (about \$98 million at the rate of ¥135), with operating profits running an impressive ¥2,800 million, or 21.2% of sales. Rheon's machines are exported to 73 countries, including the United States and many nations in Western and Eastern Europe. With foreign sales accounting for 43% of Japan's total exports of food-processing machinery for confectionery, bread and pastry, Rheon has become one of the nation's representative world enterprises.

Rheon is an unusual firm that owes much of its success to the drive and dedication of its president, Torahiko Hayashi, an unusual man in the often monolithic world of Japanese business. Hayashi was born in Taiwan and raised for a while by native Taiwanese. His experiences left him with a lasting commitment to preserving ethnic culture, a commitment reflected in his business motto: promote peaceful exchange through ethnic cuisine.

Indeed, personal experience has played a large part in charting Hayashi's unique career. Recalling how he entered the business, Hayashi says, "I had a craving for sweets during the food shortage in



Food tasting at Orange Bakery, the Rheon subsidiary in California

the immediate postwar years." So strong was that craving that when he returned to Japan from Taiwan after the war he decided he wanted to make Japanese pastries. But kneading the *an* paste and wrapping it in *mochi* was a laborious process that all had to be done manually.

Thinking that a mechanical device could do the job with little or no human labor, Hayashi began his studies of rheology, that branch of science which deals with matter in the fluid state. In time he succeeded in developing a machine for wrapping *an* paste, and acknowledged his debt to science by naming his company after the word "rheology."

Traditional cuisine

Hayashi's machine proved a hit in the bakery and confectionery industries. But he was not content with this domestic feat. He wanted to export his machine as a way of achieving his cherished dream of helping preserve the world's traditional cuisines. Hayashi is not only an engineer turned businessman; he is also a philosopher in his own right. Rheon is managed under his philosophy that cuisine is an essential heritage of all mankind and an integral part of ethnic culture.

Rheon began exporting only five years after its founding. Its early debut on world markets was prompted by the president's

strong interest in ethnic cuisine and by his knowledge that bread and pastry around the globe were still prepared mostly by hand. Although it was originally developed for makers of Japanese-style confectionery, Hayashi thought his *an* wrapping machine could be used also for many kinds of ethnic food simply by changing the *an-mochi* combination to, for example, minced meat and dough or curry and dough.

In 1970, Rheon set up representative offices and experimental facilities in the United States and West Germany. Four years later, the offices were upgraded to wholly owned subsidiaries to establish a direct marketing system. Rather than going through trading companies, Rheon chooses to build close maker-user relations. This can be seen in the most salient feature of its sales strategy, its "consulting sales," designed to provide not only after-sales service for its machines but also carefully thought-out suggestions on merchandise development. Rheon's proposals are based on detailed analytical studies of food produced at plants it has helped set up, rates of growth in consumption and other market factors.

Haruyasu Imadate, former vice president and Hayashi's right-hand man, explains Rheon's marketing philosophy as follows: "Users buy machines to maximize profit with minimum investment.



Part of the Rheon process of making dough for croissants, called the "MM Line"

Their ultimate aim is to increase their own profit. If a product's price goes up, demand for it will usually drop. But that's not the case with capital goods like food-processing machines. Users will buy machines, no matter how expensive they are, so long as they're sure they can make a profit using them. In fact, Rheon's exports have continued to expand in spite of the rise in the value of the yen." The point is that machines sell so long as users are assured of a better return on investment. Price is not the decisive factor.

Keen consultant

It is precisely for this reason that Rheon is so keen to be a consultant to its customers. A case in point is Orange Bakery, Rheon's wholly owned subsidiary in Irvine, California. Orange Bakery has an experimental plant with molding machines for dough for croissants and Danish pastries. The frozen dough it turns out is sold commercially, and the plant provides jobs for about 100 employees, including five from the parent company in Japan. This operation is in addition to Rheon's machinery sales company, Rheon USA, with seven Rheon representatives.

Orange Bakery brings together the best of Rheon's plant engineering skills. The well-equipped facility can collect technical data on the functionality, product quality and other essential aspects of its machines. It is also doubles as a perfect showroom where Rheon's high-quality, high-performance equipment can be observed at firsthand by visitors from food companies around the world. Rheon USA has already concluded more than 150 contracts through negotiations following such observation tours.

To sell its machines, however, Rheon must also convince potential users that their businesses will succeed. To prove its commercial viability, Orange Bakery sells frozen dough for pies and croissants to Alpha Beta, a major supermarket chain, and to Dunkin' Donuts, a fast-food chain.

This strategy has paid off handsomely. Orange Bakery's sales have continued to expand since it started out with capital of \$1.7 million (supplied entirely by Rheon)

in 1979. In September 1987, capitalization was increased to \$10.7 million, and a second plant is under construction in Charlotte, North Carolina to sell Rheon products on the East Coast.

Orange Bakery registered \$8.64 million in sales in 1987, with pretax current profits coming to a hefty 13.2% of sales. Not bad for a company that took its first bite out of the U.S. market with croissants. Baking these French pastries is a cumbersome, time-consuming process that involves folding and refolding a thin layer of dough. Croissants, it was long thought, were not fit for mass production, and French-Americans in the United States comprised about the only customers. Rheon's development of a machine especially designed for croissant production, a machine based on the same principles as the *an* wrapping machine, changed all that overnight. Unit shipment price was slashed to 7 cents, from 21 cents before. Profit was ensured.

What is perhaps most surprising is that croissants made by Rheon's machine are in no way inferior to those made by hand. Hayashi calls traditional U.S. mass-production systems "systems in an age of want." The Rheon system, he maintains, is a "system in an age of affluence," and incorporates the cultural and emotional characteristics of the food produced.

Food database

The mass production of food often requires changing ingredients and simplifying the molding process. Rheon's system, however, takes a different tack. The key principle behind the firm's development is to leave the hard work to the machine while retaining the essential quality of the product intact. Hayashi believes that replacing manual labor by a machine is meaningless if the original taste is lost in the process.

Rheon has a unique data system called ARCOS, which supports its consulting sales strategy. The system files information on food at home and abroad gathered by Rheon sales staff. The extensive database includes data on ethnic food, from flavoring and cooking methods to raw ingredients.

ARCOS also maintains files on some 50,000 domestic and 5,000 foreign companies, and has technical data on hundreds of thousands, perhaps millions, of food processes. All this data has been accumulated since the company was founded in 1963, under the president's business philosophy that food must be sold first if food-processing machines are to be sold, and that indigenous cultures must be understood and appreciated in order to sell foods. A computer system was introduced in 1974.

The ARCOS database also contains detailed information on distribution channels, raw materials, and the machinery owned by users and their client traders. Imadate said, "With the database helping him to draw up a detailed business plan, even a novice can open a fast-food store or a restaurant."

Rheon's success in food production through Orange Bakery and its ability to advise U.S. users on management matters has all been made possible by the ARCOS database. Many of the products created with ARCOS input have been hits. These include "mochi ice cream" (ice cream wrapped in *mochi*) and buns with meat or *an* fillings. Croissant sandwiches in the United States are based on a Rheon suggestion.

Leveraging off its database, Rheon now plans to set up an international network of Orange Bakeries by creating new subsidiaries in Dusseldorf in West Germany, Tours in France and Milan in Italy. Yet Hayashi says his company has no intention of expanding into the restaurant industry or getting directly involved in food production. He maintains that Rheon should not compete directly with companies using its machines. Rheon is, however, considering charging for its consultant services on food development.

As it stands poised to expand its operations globally, Rheon is well positioned to profit from both the "hardware" of machinery production, and the "software" of consulting and services.

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