

Hard Times

The average per-capita caloric intake in Japan in 1988 was 2,630 Kcal. As a result of this rough quantitative sufficiency, demand for foodstuffs is not growing much and the processed food industry has fallen on hard times. Shipments for the food industry as a whole have risen little beyond ¥30 trillion (\$230 billion) since 1985. Yet the value of foodstuff shipments to total industrial shipments has risen to 11.7% (as of 1987), and this continues to be an important industry.

The processed food industry is a broad amalgam including marine products, meat, flour, dairy products, fermented products and a host of other products. It includes companies from small mom-and-pop operations to massive corporations with sales of over ¥1 trillion. While it is thus impossible to generalize about the business: climate or corporate strategies, there are a few basic points that most companies have in common.

The first is that all are feeling the impact of agricultural import liberalization and growing food imports. It used to be that agricultural-support regulations forced Japanese food processors to use local farm products even though they cost more than imports. Yet there has since been considerable liberalization in the agricultural sector, in no small part due to foreign pressure, and it is expected that more and more Japanese processors will be turning to overseas sources for their raw materials.

At the same time, overseas processors are making rapid inroads in the Japanese market, and Japanese producers are moving to overseas production and pro-



Spaghetti sauce made at this Thai plant of Nissin Flour Milling is "reexported" to Japan.

Photo: Nissin Flour Milling Co., Ltd.

cessing (including licenses) in an effort to fend off this threat by gaining access to inexpensive sources, processing things overseas, and importing them to Japan as processed or finished products.

The second thing all of these companies have in common is that they are being buffeted by the diversification and splintering that is taking place in the market—particularly by the increased consumer concern with nutrition and food safety. Retail outlets have recently taken to insisting that all of the products on their shelves must be fresh, and this will place even greater demands on producers as consumers get used to affluent lifestyles. Product shelf lives are shorter than ever before, and there is increasingly fierce competition in the race to develop new products. Not only do companies need to be nimble in developing new products, they need to have a good feel for what the market wants—which is pushing all of the major companies to beef up



Sales of health and fitness products continue to grow, reflecting greater awareness among consumers.

Photo: Kyodo News Service

their sales forces and to emphasize distribution control.

The computerized point-of-sales systems and value-added networks are both manifestations of this trend and strong forces arguing for an industry shakeout. If the smaller companies are to survive, they will have to concentrate even more on niche marketing, identifying their segmentation strengths and formulating strategies to capture and consolidate their niche positions.

The third theme characterizing the food industry, and one that is derivative from the first theme of import liberalization, is the need to enhance their international competitiveness. Imports are forcing Japanese food processors to rely more on inexpensive overseas sourcing and to strengthen their technical cooperation and other international footholds. Companies that used to be content with having a secure place in the Japanese market are now starting to realize that there is no clear delineation between the Japanese and international markets and that they have to be strong globally if they want the freedom to act locally.

All of these things will cost money. Companies with shallow pockets will find themselves unable to cope with globalization and market up-scaling and will probably not survive the industry shakeout. Like the products they deal in, many of Japan's smaller companies are also going to be processed and packaged in the years ahead.

(Hiroshi Tabei, economist)

Agricultural Import Liberalization Schedule

Category	Current restrictions	Liberalization schedule
Beef (non-processed)	Import quotas	To be liberalized in April 1991
Processed meat	Some import quotas	Liberalized in April 1990
Oranges	Import quotas	To be liberalized in April 1991
Orange juice	Import quotas	To be liberalized in April 1992
Grape and pineapple juice	Import quotas	Liberalized in April 1990