

Sweeping Change

The food industry ranks third among manufacturing industries in terms of shipment value, next only to the electrical appliance and transport machinery industries; its share of total manufacturing industry shipments is a high 11.7%. Yet at the same time, it is hard to think of food as a single industry.

In some of its numerous fields, food industry production is concentrated in the hands of big businesses which enjoy a classic state of oligopoly. This tendency is especially pronounced in equipment-intensive businesses, such as beer breweries. Yet because so many fields do not require massive plant and equipment, the food industry also has a very high proportion of small and medium-sized enterprises, with their shipments accounting for as much as 83.8% of the industry total in value terms in 1985. This gives an indication of the structural complexity of this important industry.

Moreover, the food market is a clear example of a mature market, and has experienced a marked slowdown in growth since 1985. Nutritional needs are being more than adequately met, and Engel's coefficient (the ratio of food expenditures to total household expenditures) has been declining constantly. The only increases in food expenditures in the household economy have been a marginal increase in spending on processed foods and a rise in outlays for dining out.

Deregulation is the buzzword in many fields today. Yet in the food industry, gov-



An American-style restaurant in Tokyo. More of the household budget is going toward dining out.

ernment restrictions remain in force to ensure a stable supply of the foods essential to people's lives. Beginning with the wide-ranging Foodstuff Control Law, these restrictions range from laws to stabilize prices for livestock products, agricultural produce and sugar, to the Food Sanitation Law on additives. Many people are urging that these laws be revised amid the general trend calling for the deregulation and the liberalization of agricultural imports.

The Japanese food industry depends on imports for 43.5% of its raw materials. As the strong yen has lowered prices of imported foodstuffs, the relative prices of domestically produced supplies has risen, encouraging increased imports of processed foods. Even in areas where imports are still restricted, such as rice, imports of semifinished products not covered by the statutes are increasing.

Meanwhile, the food market itself is changing. As real income has risen, consumers have turned increasingly to high-class and gourmet foods rather than increasing their absolute caloric intake. At the same time, social change is having a major impact on the industry. Rising numbers of career women, singles and nuclear families have spurred the popularity of processed and precooked food. Food packed in small containers has begun to rival family-sized packages, while health foods have grown into a significant market.

The future holds many changes for the food industry. Japanese food producers have been leaders in relocating production overseas. The "deindustrialization" of the domestic food industry will pose a serious problem in the future as such moves continue and as imports increase. With the eventual complete liberalization of agricultural imports now on the political agenda, food makers are already beginning to branch out into other fields of the food industry with an eye to becoming general food makers.

In this time of flux and change, a mistake in marketing strategy could very well result in drastic shifts in market share. To cope with this, the industry urgently needs to build up systems that can enable it to quickly grasp and react to nascent shifts in consumer needs. Information networks like the POS systems already spreading throughout the distribution industry may be one answer. At the same time, the growing need to develop numerous new products meeting diversifying consumer needs and to react flexibly to the liberalization of agricultural imports have led many food makers into biotechnology and industrial agricultural production, or agribusiness.

The years ahead will not be easy. But these and other efforts will serve to solidify the managerial base of Japan's vital food industry.

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Value of Shipments from Food Industry

