

# Sealing Up Japan's Packaging Market

Interview with Bengt Delaryd,  
president of Nihon Tetra Pak K.K.  
by Susan Scully

Tetra Pak entered the Japanese market with its triangular milk carton 22 years ago. Since then the liquid food packaging company's operations have expanded to include eight branch offices, a technical center and two plants producing packaging materials. Tetra Pak's now familiar package is also used for juice, soy milk, sake and coffee, and a total of 5.5 billion containers are expected to be produced this year. The firm's liquid food packaging system includes filling machines and various distribution equipment.

Sales of ¥48 billion (\$200 million) in 1983 and a more-than-40% market share make Nihon Tetra Pak the leader in the field.

Established in Sweden in 1951, Tetra Pak sells its packaging systems in 89 countries. Nevertheless, Japan remains one of the company's most important markets. In the following interview, Bengt Delaryd, president of Nihon Tetra Pak K.K., details the firm's establishment in Japan and how it manages to stay ahead of the competition. A 17-year resident of Japan, Delaryd also reveals his formula for doing business in this country.

**Question:** *What actually motivated Tetra Pak to set up business in Japan in the early 1960s?*

**DELARYD:** To answer that, I think I should first give you a brief background about Tetra Pak itself. Already in 1930, a packaging company had been established in Sweden by Dr. Ruben Rausing. He had been in the United States in the 1920s and studied at Columbia University. He found that America was far ahead of Europe in packaging of goods in general and of food products in particular. So he went back to Sweden and, as a young man, set up a company. In the 40s, he began to



Bengt Delaryd, president of Nihon Tetra Pak K.K.

work on the Tetra Pak idea, which is based on the tetrahedron. So that's how it started and that's how it got its name.

Now, Rausing felt that packaging is basically part of the distribution system. It is a way to get your product from the producer to the consumer—if it's milk, for example, from the cow to the end user. Therefore, and we're talking about food products here, the package should protect the product, make it arrive at the end user as unchanged as possible. He believed in this idea so much that he actually sold off his share in the original company and bought the Tetra Pak division within it in order to specialize. This was in 1951.

At the same time, he realized that, in order for his idea to reach a market of a proper size, it would have to be exploited internationally. The Swedish market alone was way too small. So in 1951, Tetra Pak was established and had, from the beginning, this international aspect.

In the middle of the 1950s, Rausing was already sending people all around the world to look into which markets would be the ones to start in and what should be done and in which way the companies should be started.

The man to look at Japan came here around 1955 and saw that Japan was a very great potential market. At the time, Tetra Pak was relatively small and capital was limited. So they decided to select a good agent, and the first machine was placed in Japan in 1957—only five years after the first machine was started in Sweden. This is rather unique I think.

This may have been a bit early because the market here was not used to this type of packaging at all. It was a glass bottle type of thing. There was also another handicap and that was that milk consumption in Japan at that time was and still is very low as compared with the United States or any country in Europe.

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After some years of very low profile in Japan, they decided to set up Tetra Pak's own company in Japan. The basic problem was that, while there is nothing wrong with the agent concept, when it comes to market presentation of the product you have, it's impossible for an agent to do it the same way you would yourself.

The initial idea on the part of Tetra Pak was to start a joint venture. But the company soon found out that nobody with whom *they* wanted to set up a joint venture—and these were very well-known companies—wanted Tetra Pak. They weren't interested at all. The concept of packaging liquid foods in paper cartons was very new. Tetra Pak was also very new, and I think the priorities in many Japanese companies at that time were different from this sort of thing.

So after some contemplation, they decided to do it themselves, 100%. And you could do it at that time. In fact, you could do just about anything as long as you

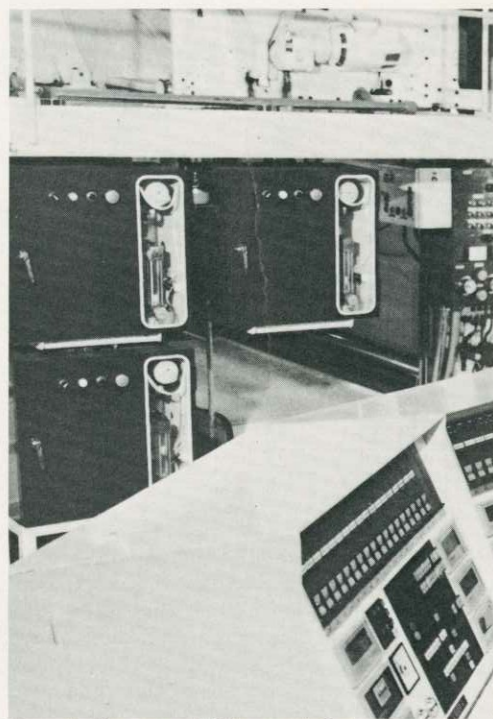
agreed to have it as a yen-based company, which meant that you would not take the profits out of Japan, but plough them back into the market here. So we were actually established here on October 26, 1962. And, to answer your question, finally, the motivation was market potential.

**Q:** Have you had any major problems in doing business here?

**DELARYD:** The beginning was hard, as it was and is for all foreign companies. And, of course, the major problem is to find good staff. If you are a small company with unknown products and an unknown name, it is difficult to find people who want to stake their whole life in such an unknown venture. But, if you are successful and gradually build up, it becomes easier. So today, we don't have any problems in this regard. We follow the Japanese employment system completely. We have relations with professors at technical schools and commercial schools and other schools. And every April, we get our share of the new crop coming up. And then, of course, we train them. So that was one obstacle in the beginning.



Tetra Pak has captured a large share of the packaging market.



The production process is fully computerized.

Otherwise, there was also the unfamiliarity of the market with the product. But in that respect, Japan is a positive market to approach because people are so eager to try something new. This is because the customers we have are in a very competitive situation. So they are always on the lookout for something different to put on the shelves.

Finally, in speaking of real obstacles, I would say we found that growth in the beginning was slower than expected. In that regard, though, I should say that our policy, not only in Japan, but worldwide, has been long-term planning. So the first 10, maybe 12, years here were difficult. It was difficult to get the proper turnover, the proper cash flow in order to support the growth.

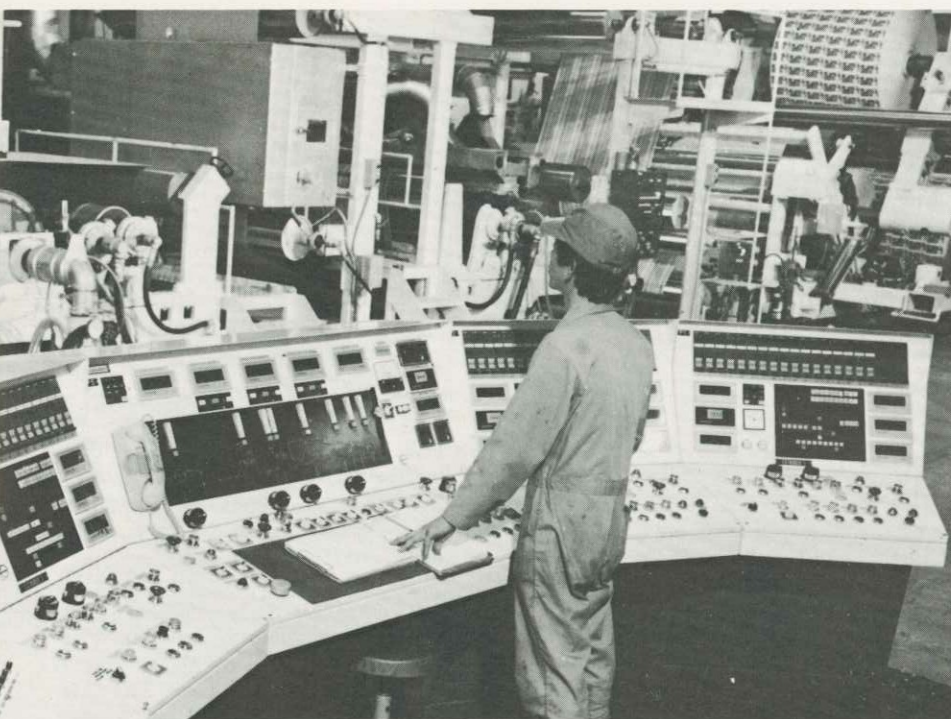
And, of course, we have competition in Japan—tremendous competition from many, many companies. We're not alone at all.

**Q:** *What was, in those early days, the reaction from potential Japanese customers? I presume it was one of guarded interest?*

**DELARYD:** Yes, I would characterize that as the major reaction. They would have to see some advantages, of course, to going over. And there are many advantages with this. It's a paper package, which is biodegradable. So from the environmental standpoint, it's a very positive package. At the time we got started, that was not a big concern. It is now and it's becoming more and more so. At that time, it was the novelty, I think.

Another thing is that Japan, like all countries, has been facing, is facing and will be facing increased distribution costs.





Freight costs, for example, have gone up tremendously in Japan. So, if you have to transport a glass bottle back every time it's very costly. There is also the expense of washing and inspecting them. So from that standpoint, it saves money. There is also the hygienic aspect.

**Q:** *What is your market share at the moment?*

**DELARYD:** As I have said, the market is extremely competitive. So I hesitate to mention any market figures. But I can say that we have the largest market share of any company in this field in Japan. It's not 50%, but it's more than 40%.

**Q:** *When did you actually start turning a profit?*

**DELARYD:** I would say that the turning point came basically when we built our factory in Gotemba, which was about 10 years after we started in Japan. We have found, more or less worldwide, that, in order to have a good market share, we have to have a factory making the packaging material within the country itself. The reason for this is that the packaging material has to be more or less tailor-made for the product. And this has to be worked out in very close cooperation with the customer.

## **"We offer the customer the total responsibility concept"**

**Q:** *You have mentioned that there are a lot of competitors snapping at your heels. How do you manage to stay one step ahead of them?*

**DELARYD:** Well, the basic philosophy

of the company itself is that we always try to be a leader in technology. And when I say technology, I mean not only the filling machines themselves, but also the packaging material.

Another factor is that we offer to the customer the total responsibility concept. This means that we are responsible for the filling machine, the packaging machine itself. We are responsible for the packaging material supplied to the machine. We are responsible for the distribution equipment that comes after the machine. By that, we mean the machines that put on the drinking straw, that wrap the cartons to go to the wholesaler, and so on. We have an interest in helping our customers to make their filling line as efficient as possible. Then they can produce more and we can furnish them with more packaging materials. It's as simple as that.

A third thing is total service. Our service responsibility is something we take very seriously—so seriously, in fact, that every fifth employee in our company is somehow connected with the service side, which, as you can understand, is an extremely expensive sector.

We also do development in Japan. That's another way we stay ahead of competitors.

Other things—we're never afraid of doing something different. If we find that a customer has ideas, we listen very, very carefully to find out what he needs.

**Q:** *With regard to that last point, have you changed your products in any way to tailor them to the Japanese consumer? Or have you come up with any new products for this market?*

**DELARYD:** Oh, yes. I can give you one very typical example. We have one machine making a 100-milliliter package that was tailor-made for one customer here in Japan who needed a small package. And we developed a complete, new machine system for that type of package.

We have also developed smaller machines for Japan. In Japan, the physical space for a machine can be a problem.

**Q:** *How do you approach potential customers?*

**DELARYD:** We participate every second year in Tokyo Pack, which is a big exhibition in Harumi. We show all our new developments and we always have our equipment running so everybody can see how it works. So that's one way.

And then, with our widespread network of branch offices, it's easy for us to figure out who is doing what and approach the customer that way.

## **"We conduct our business 100% in the Japanese way"**

**Q:** *Are there any notable differences between doing business in Japan and elsewhere?*

**DELARYD:** We are, of course, a foreign-owned company and this we will always be. But as far as business is concerned, we conduct our business 100% in the Japanese way. The key factor is to have extremely close contact with the market. Listen to the market, find out what the market needs and develop and supply it.

**Q:** *From your long years of experience here, what advice would you have to newcomers attempting to break into the Japanese market?*

**DELARYD:** First of all, study the market. That's basic. That you do in any country in the world.

And people who come here should never be afraid of spending a long time for the study. You see people coming here for a week or something like that. It's ridiculous. If you have something you believe in, the first step is to send people over here for long period of stay, maybe to set up a small liaison office or representative office or something like that to study.

Then, when it has been determined what it is you want to do here, I recommend doing it by yourself, 100% owned. Although there are some problems involved with this approach, especially at the beginning, this gives you the greatest freedom.

Lastly, I would advise any newcomer not to be too impatient. Don't expect profits in the second or third year. In order to master the Japanese market, one must have a long-term perspective. ●