

ARA: Competing in the Services Mart

By Jocelyn Ford

Claude Feninger, president of ARA International, headquartered in Philadelphia, United States, is responsible for overseeing operations of subsidiaries and affiliated companies in Japan, Europe and Canada. Before joining ARA International in 1980, Feninger, a graduate of the Hotel Management School in Lausanne, Switzerland, gained extensive experience in Japan as president of Sheraton International and before that as director of project development for Hilton International.

Q: *What are the main lines of business your parent company, ARA Services, is involved in?*

A: ARA Services is a diversified services company that was established in the United States in 1959 as a food and vending services company and has since expanded to include health and family care, uniform rental, periodical distribution, laundry equipment, maintenance and transportation services. ARA Services now operates in all 50 states in the United States and is the world's premier provider of diversified services. We provide a full range of services for about 99% of the Fortune 500 companies.

Q: *Could you describe the organization and operations of your sector, ARA International?*

A: ARA International is made up of six separate companies. In Tokyo, we have a joint venture called AIM Services Co., Ltd. In Europe, wholly owned subsidiaries are headquartered in England, France, West Germany, Belgium and Spain. VS Services, an ARA affiliate, is the leading food service company in Canada. Our work force of 17,500 international employees provides food and restaurant services for governments, businesses and institutions. We also provide more than 20,000 offices worldwide with coffee and refreshment services.



Claude Feninger, president of ARA International

Q: *How much of ARA's total business is in the international market?*

A: ARA International comprises about 10% of ARA's total business.

Q: *What kinds of services do you offer in Japan?*

A: In Japan, we established a joint venture with Mitsui & Co.—called AIM Services—10 years ago. ARA International owns 35%. AIM offers food service and coffee systems to companies, educational institutions, factories and hospitals.

Q: *Has the Japanese market met your expectations?*

A: Our business has increased more than 20% compounded per year since we started. That is tremendous growth compared to any other business worldwide. Of course, we started from scratch, from nothing, so it is easier to compound. Our total sales last year were ¥11.6 billion.

Q: *What percent of sales from your international operations is made in Japan?*

A: Japan comprises about 15% of our international business. The Canadian subsidiary is the largest, making up about 50% of our business.

Q: *I understand you currently serve about 127 institutions in Japan. Could you tell me what types of institutions make up the bulk of your clientele? Which area is the fastest growing?*

A: Around 80% of our clients are institutions such as businesses and universities. The remaining 20% are hospitals, which also happen to be the fastest growing sector. We also provide coffee service to about 10,000 customers, mostly small businesses.

Q: *Could you give some examples of your clients?*

A: We provide food service for businesses such as IBM Japan, Sony Corp., Toshiba Corp., Nomura Securities, Mitsui Bank, Itoham Foods, to name a few. We serve educational institutions like Meijigakuin High School and Jissen Women's College and hospitals like Junendo University's Urayasu Hospital.

Penetrating the market

Q: *Is there a lot of competition from domestic firms?*

A: Yes, we do have a lot of competition. It is not a virgin market. We have Japanese local competition in every phase of the business.

Q: *How about competition from other international companies?*

A: I don't know that we have a lot of competition from international companies yet, but it's starting. We hear a lot of U.S. companies are interested. They've heard the success story of ARA and are trying to do the same thing. But we haven't met them in the marketplace yet.

Q: *What is the key to your success?*

A: We offer systems and a great deal of knowledge in the field. We offer the quality of our service. When you serve a meal

to 1,000 people every day, you have to make it attractive, but you also have to make a profit. To combine the two is not always very easy. You have to have a system that allows you to produce meals consistently well and at the same time stay within the price offering. Of course, we have purchasing power—we buy in big quantities so we can offer a better price. The larger you become, the better you can purchase and the more competitive you can be. But when we started, we were small, so we just had to be good by being good.

Q: *Is the system you use here different from the one in the United States?*

A: Basically, our system is the same worldwide, but we tailor it to fit local customs and tastes. Every time we develop something new, we try to implement it here.

Q: *Isn't it particularly difficult in the services industry to be successful in countries with markedly different social customs and lifestyles?*

A: We try to follow the local mores wherever we go. Especially in Japan we have to do that. Everybody complains that it is difficult to work in Japan. I don't find it so. We understood the market and we understood the people. We came in, we gave our technical assistance, our know-how, and with the help of a very good group of people, we found it was very easy to do that.

Q: *So you didn't find many trade barriers?*

A: We are not an importer, so we don't have to follow so-called rules. Basically, we are a local company since the majority of shares are held by our Japanese partner, so we did not find the usual difficulties that foreigners have. I think that is the secret of our success.

Q: *Are you saying that without a local partner service companies like yourself will have a very difficult time penetrating the market here?*

A: I would say so. We never would have attempted to come to Japan on our own. You need local presence, you need the help of people who know about Japan. Japan is not a very easy market to penetrate, but other countries are no different.

Q: *Do you use any special technologies?*

A: We use a computerized system called the Focus system that enables operators to not only accurately estimate the number of meals that will be consumed but also to estimate how many of each kind of meal will be eaten so we can avoid unnecessary waste. It's not a difficult job, it just has to be done systematically. In Japan, we've also combined our expertise with local technical know-how.

Some of our clients now use a credit card meal service system. Employees have credit cards they use in the cafeteria that automatically record their purchases and deduct the cost from their paychecks. This system has helped to speed up the meal service and makes it easier for employees to keep track of their on-the-job expenses.

Selling new services

Q: *How would you describe the level of sophistication in the Japanese market?*

A: AIM was delighted to have our technical assistance. If the industry had been very advanced in Japan, they wouldn't have needed us. The answer is, the state of the art is developing in Japan.

Q: *How developed is the market?*

A: There are a tremendous number of self-operators in Japan. I don't believe that institutionalized food service operators like ourselves have scratched the surface yet. The market is there. It might not be growing, but the segment of the market that we are in has great potential.

Q: *How do you plan to win over these self-operators?*

A: When they realize we can do the job better and cheaper and still turn a profit, they will say, Why not give it to someone else? We find worldwide many companies have a very high labor rate because when they do their own food services, they pay the same for labor as in the industry.

Q: *Is it difficult to convince potential clients who are unfamiliar with your system of the merit of contracting out to a firm like yours?*

A: Japan has one great advantage, namely, you seldom lose an account. It's difficult to get an account, but when you have it, you have it for life. In other countries, every two or three years you go out to tender. Somebody makes an offer cheaper than yours and you lose. This doesn't happen in Japan because of the loyalty to people working with the organization. We try to earn that loyalty by providing service. The thing to do is to get inside a company at the very beginning. You don't really take away business from competitors.

Q: *But doesn't that loyalty to employees and the lifetime employment system make it extremely difficult to convince prospective clients with their own food services to switch over? What happens to their employees?*

A: Actually, this is one of the difficulties in taking over self-operators. But, obviously, there are other ways, such as transfers, retirement and retraining. We can in most cases make some employees

more productive and efficient since food production is our priority business. We have the system and the know-how to train them.

Q: *Does the loyalty mean that competition to push down prices is less harsh than in other countries?*

A: Today, yes. But in the future, prices will certainly be a consideration.

Q: *Do you plan to diversify?*

A: We intend to diversify into uniform rental and laundry, either within AIM Services or through a separate joint venture with Mitsui. This is a very successful business in the United States, and we're trying to develop it here.

Q: *Do Japanese factories understand the value of this type of service?*

A: In Japan, either the employee owns the uniform or washes it at home, so the factory doesn't have to worry. But we can convince them that there is a better way with constant upgrading to the latest style. If you think about it, for the sake of labor peace, if one factory starts using our service, the workers and managers elsewhere will eventually demand the same service.

Q: *I understand you are a pioneer in providing catering services to hospitals. Is the service catching on?*

A: When we first started, it was very difficult to penetrate the market because basically there was no such thing as hospital food service. If you had a relative in the hospital, you brought him or her the food. We had to convince hospital authorities that we could do the job and make sure patients are served the right diet for their illness.

Q: *Are other companies following your lead?*

A: I'm sure they are. You can't do something that is right and not get a following. The idea is simple. Why should patients who have a heart condition eat the same food they usually eat at home and which probably has a lot of soy or salt that may be bad for their health? Doctors might order a salt-free diet, but it is our responsibility to see that the doctor's orders are followed. We provide pre-selected meals for the type of disease the patient has.

Q: *Have you had any problems recruiting experienced personnel?*

A: We basically adhere to the Japanese system of hiring young people straight out of school and putting them through a training program. Our Japanese training program is one of the most advanced that we have. I found out that Japanese have more pride in doing things like making a computer than in doing a service, so we have to instill that in them.



For an employee, there is much more pride in making a product that has his name on it. The meal is going to be consumed, therefore there isn't the same sense of accomplishment.

Q: *So basically you're running the whole operation here according to the Japanese employment system?*

A: That's right. We don't have one expatriate here. I come from time to time. Sometimes we send an expert for a few weeks for training purposes, or we train Japanese in the United States for a few weeks or months. In Germany, we do not have a single American, though the operation is a completely owned subsidiary.

Q: *Is the Japanese attitude toward working for the services industry different from attitudes in other countries?*

A: No. In the United States too, the hotel or services business was one of the last areas that a young person wanted to go into. A lot of people became cooks or waiters temporarily before doing something else. Now that is changing as the services industry grows. More and more young people are seeing the opportunities for professional growth and advancement into management. In Switzerland, people are very proud of being a waiter. It's a great job, it's a lifetime job.

Q: *How does AIM's profitability compare with subsidiaries in other countries?*

A: We're doing extremely well here. We're doing as well, if not better, in terms of the bottom line.

Tailoring sales strategies to market needs

Q: *Are recent social trends, such as the aging society, opening the way for new business opportunities?*

A: We are looking at the so-called silver market. Obviously, there is a change in familial relationships. Japan used to have three generations living in one house. It is very difficult to do that now simply because of lack of space. Eventually, there is going to be a need for retirement homes where old people can live in comfort. It seems to me this is a ripe market.

Q: *How do you plan to approach the market? It seems to me the needs of elderly people in Japan would be very different from those of senior citizens in the United States or other countries.*

A: We have local study teams because, just as you say, we don't want to merely adapt outside models. We need to know the needs of Japan's aging.

Q: *And what about the increasing number of young women choosing to remain in the work force? Is that trend creating a new market?*

A: In the United States, we operate day-care centers. If there are going to be more women who have small children working, more two-worker families, what happens to the children? That's another area we're talking about.

Q: *Could you describe some of the trials and successes you've experienced in Japan?*

A: We found that Japanese love to drink coffee, so they often go to coffee shops. But if we are able to either give or rent a coffee pot and give supplies to make coffee, it is in everyone's interest. The small companies reduce the length of coffee breaks and keep their employees at work, and the employees have less expensive coffee, or sometimes the company pays for it. We found this to be an interesting possibility.

Q: *Was it easy to sell the idea?*

A: Initially we had great difficulties. First of all, the Japanese sales force was

not used to the cold call—that is, when a sales representative enters an office without an appointment to make a sales pitch. One representative has to make 20 office calls per day, so it is impossible to depend on appointments. Initially, it was very difficult to even get the sales personnel to have the courage to go on a cold call. We had to train them. Now it works well in Tokyo.

Q: *Where else do you operate in Japan?*

A: We started in Tokyo, then went to Osaka and Nagoya, and we just opened an office in Sendai. Now we have clients in the Kanto, Chubu and Hokuriku areas, and one in Sendai.

Q: *Do you plan to expand to other areas in the near future?*

A: At present, our strategy is to grow in the areas where we already have a presence.

Q: *Are the same strategies effective in each location?*

A: When we tried selling coffee in Osaka, we had to relearn how to do it. The coffee they drink in Osaka is different from the coffee they drink in Tokyo. The local people in Osaka didn't quite know how to do the selling, but now it's starting. Again, this demonstrates the need to adapt to local conditions.

Q: *What lessons have you learned that might be relevant to other foreign services businesses interested in the Japanese market?*

A: Patience is important. That's true for the whole Far East. You cannot be an ugly American in Japan.

Q: *Are you saying that part of the reason why Americans have had difficulties in penetrating the market here is that many business executives do not sufficiently understand the local ways?*

A: Definitely. Americans are very impatient. They don't understand the Japanese mentality. I always give the example of the American chief executive officer and the Japanese CEO. American CEOs are capable of making instant decisions. They can decide to sign the contract and in five minutes it is signed. The Japanese CEOs will not do that. They may take two, three or five months to make the same decision. Now, say the two sides have agreed. The American may have a great amount of difficulty implementing the agreement. There may be a lot of subordinates and executives against the idea. So low and behold, nothing happens, while when the Japanese executive has gone through the decision-making process, implementation is natural. The Americans can say yes immediately, but when the Japanese say yes, they have total agreement on implementation. ●