

Cargill: Trying New Approaches To Sell to Japanese Farmers

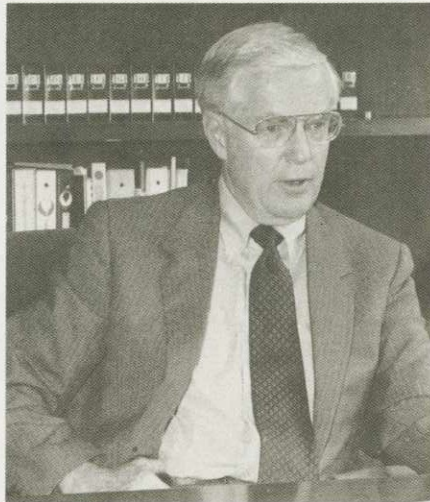
By Takashi Suetsune

When William Wallace Cargill bought a small grain elevator in Iowa in 1865, Commodore Matthew Perry had already succeeded in inducing Japan to open its ports to U.S. merchant vessels. Americans as well as Europeans wanted to trade with Japan, perhaps more profitably than they do today. But it is unlikely that Cargill had ever thought about Japan as his market. Although his grain elevator formed the basis of what was to become a giant international conglomerate, undoubtedly his interest lay in trade within the boundaries of North America.

Japan was an agricultural country with a rice-eating population which was only about a quarter of that of today. It took Japan 100 years to become an economic giant. Cargill may well have grown at a faster pace than Japan.

When Commodore Perry brought his black ships, the menacing symbol of advanced Western technology, to Tokyo Bay, the Japanese had no habit of eating beef. They did not need feed grains. As they absorbed Western technology and learned the Western way of life, they also changed their dietary habits. People in high society in Japan began to eat bread and sip coffee or black tea for their breakfast. The bread they were eating was made of *meriken-ko*. *Meriken* is a corruption of the word "American" and *ko* is the Japanese word for powder. Hence, *meriken-ko* means wheat flour from America. The Japanese began to eat food made with American flour, and in fact it may even have saved many of them from starvation.

Japanese over the age of 50 may well remember those days after World War II when they had virtually nothing to eat and then they began to get *meriken-ko* and their hunger was assuaged by big chunks of white bread. That *meriken-ko* may well have been threshed from the wheat and feed grains pumped out of Cargill elevators. The same poor Japanese well remember that they had only



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corn bread to eat seven days a week, and they were told that in the United States the corn was usually used not for humans but for feeding cattle.

The Japanese, nevertheless, were grateful to those who were supplying food to them, whether the supplier was Cargill or the U.S. government. Those Japanese who were lucky enough to have a chance to visit America in those days shortly after the war were amazed at the vastness and abundance of farms which extended far beyond the horizon. On returning home they reported that only a madman would dare to wage war against such a country. And they thought that America could choke them by cutting the supply of food to Japan if it wanted to.

Fear of shortages

The nightmare nearly became a reality when the Nixon administration announced in 1973 an embargo on the export of soybeans on the grounds that they were in short supply on the domestic market. At that time 90% of soybeans imported to Japan were from the U.S. It is ironic that today the U.S. is pressing Ja-

pan for full liberalization of imports of American agricultural products. One argument on the Japanese side against such liberalization comes from the fear that in case of emergency—whether it is famine, war or epidemic—a stoppage or shortage of supplies of food from abroad would mean they would starve.

And today, the Japanese know fairly well that the market for agricultural products in America is substantially controlled by a few major grain companies of which Cargill is the strongest, although very few Japanese are familiar with the names of those companies. But Cargill has had offices in Japan for more than 30 years. Its main office is located in Marunouchi, Tokyo's business center, where international businesses are flourishing side by side. Cargill North Asia is the headquarters for marketing strategy and operations in the North Asian region including Japan. The company's president, Evan B. Williams, arrived in Japan only last autumn, after serving 12 years as the president of the salt division of Cargill's headquarters in Minneapolis, Minnesota. He had often visited Japan before, but to sell salt, not grain, he said with a smile.

Williams said one of the first lessons he learned about doing business in Japan is the need to be patient, referring to the Japanese way of decision-making and business practices which can irritate those who are not familiar with them. But he is now in the midst of changes concerning the strategy of Cargill's business in Japan. For the past three years Cargill has been changing its strategy in Japan by putting more stress on investment, he said. Cargill has begun acting more as an agent in the import of agricultural products into Japan. But a particular strategic change Cargill has adopted is to consolidate its base in Japan by spending money on plants and facilities.

Shibushi, a port town in Kagoshima Prefecture, features prominently in Cargill's new strategy. Cargill is a major supplier of feed grain to Japan. Some 20-25%

of Japanese imports of feed grain are handled by Cargill. With a plant in Japan which can supply mixed feed, Cargill's profits are larger. Cargill chose Shibushi for a factory site three years ago, and filed an application to the local government for permission to build a factory.

If it had been in America, Cargill could probably have started the construction quickly and without delay. Being in Japan, it had to go through all sorts of problems before obtaining permission. The problems, stemming from objections by local competitors, became matters for the central government and developed into a serious diplomatic issue between Japan and the United States.

In 1974 the local government of Kagoshima decided on a new development plan for the Shibushi area. Shibushi had been a small port town with good farmland behind the port. The new development plan of the local government was to invite agricultural businesses into the area, releasing a part of the land owned by the local government. At the invitation of the local government, 20 companies filed applications to acquire the factory sites. Out of these 20 companies, seven were producers of mixed feed.

Permit refused

Shibushi was the ideal place for Cargill. The port had been enlarged and modernized. Cargill could import its own feed grains directly from America. The livestock and poultry industry was rapidly growing. But when the local government announced the list of companies to which construction permits had been granted, Cargill's name was not among them. The decision of the local government was seen as the result of strong pressure from Japanese competitors. They had argued that Cargill's entry into the area would jeopardize local industries, damaging the stability and order of the local market.

Local livestock industries claimed that Cargill would not stop at producing and selling mixed feed, but would eventually go into the livestock industry and would take over not only local livestock industries but also the entire livestock industry in Japan. Finding it impossible to ignore

this movement, the local authorities in Kagoshima referred the list of companies given permission to build factories to the government in Tokyo. In effect the local government of Kagoshima surrendered its right to decide the matter. However, the Ministry of Agriculture, Forestry and Fisheries, which had been giving advice and instructions on local agricultural policy, did not want to take responsibility and announced that it was a local matter.

The ministry had been pursuing a policy of "scrap and build" with regard to the construction of factories for mixed feed. According to this policy, when a new factory was built, an old one should be scrapped. The policy was designed to maintain a balance between supply and demand. Cargill was a newcomer. If Cargill was allowed to build a factory, an existing plant belonging to another company would have to be scrapped. The ministry announcement ignored this policy and its responsibility for past decisions. In those days the conflict between Japan and the U.S. on agricultural products was already tense.

One of the senior officials of the local agricultural organization, meeting the then minister of agriculture, forestry and fisheries, barked at the minister, "Don't ever yield to American threats and blackmail." During a trade conference between Japan and the U.S. which was held in Tokyo in early March 1986, the American representatives bitterly accused the Japanese side of being unfair to foreign businesses. In that year the annual summit meeting of seven leading industrialized nations was scheduled to be held in Tokyo in May, and the liberalization of trade was expected to be a major topic for the summit.

The Shibushi issue was being debated almost daily in the prefectural assembly of Kagoshima. The opposition to Cargill was overwhelming and the argument was becoming emotional. The issue was now typically that of local interest conflicting with national interest.

Fears remained among local competitors that Cargill eventually would enter the livestock business. Cargill, meanwhile, to calm the situation, had submitted to the governor of Kagoshima a

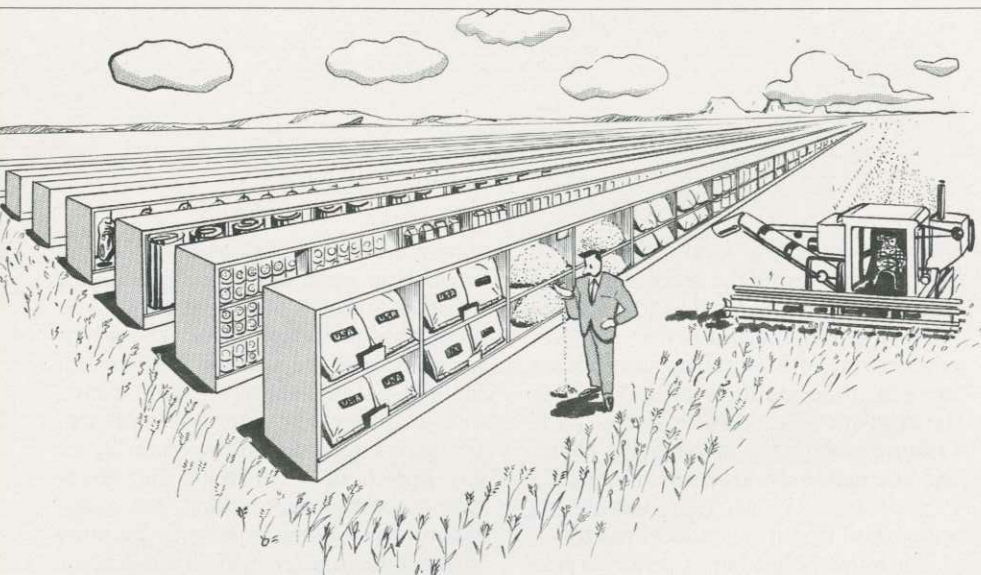
statement to the effect that the company had no intention of going into the livestock business or selling its products at unreasonably low prices. The governor of Kagoshima told the local assembly that a statement of this kind from a foreign business was unusual and that he would take personal responsibility for any breach of trust. With the seven-nation summit approaching, the atmosphere surrounding Japan was for more internationalization and liberalization. The opponents did not withdraw their argument, but reluctantly retreated from the battlefield.

Cargill completed the construction of its factory in January 1988. It may take Cargill months or perhaps years to achieve its goal of selling Japanese farmers more and more mixed feed at a lower price. But the prospects are bright, according to Williams. He says Cargill's achievements in Japan have always been satisfactory, although the distribution system is notoriously hard to penetrate. With its own factory in Japan now, Cargill has a great advantage against Japanese competitors. It can import feed grains directly from its elevators in America with its own large vessels.

Attractive market

The Japanese companies, too, are purchasing these feed grains to formulate them into mixed feed. Cargill, instead of selling these raw materials to the Japanese competitors, can now process them into mixed feed at its own premises. The price may go down, and this may benefit Japanese farmers. Williams says he wants to expand the Shibushi-type business operation in Japan if he can find suitable locations for the construction of more factories. He is convinced that Japan, with its population of 120 million and its ever-expanding economy, despite the smallness of the land area, will continue to be a very promising and attractive market for agricultural products.

Cargill is not only interested in importing, processing and selling feed grains. It wants to sell the grain seeds directly to Japanese farmers. In fact, Cargill has been selling seeds to Japanese farmers for



more than 10 years, but always through Japanese agents. This means that the seeds were not necessarily sold under Cargill's brand. It is possible that farmers were purchasing the seeds believing they had been produced in Japan. Here again Cargill has changed its strategy.

For some years now Cargill has been trying to sell its seeds directly to Japanese farmers under its own brand. Seeds are very delicate. Those which can yield a good harvest in one place could be unsuitable somewhere else. But seeds look alike, making it difficult to tell good ones from bad ones. The supplier of seeds, therefore, needs to build up a good relationship of mutual trust with farmers before it can sell. The market is a hard one to penetrate for a newcomer. Cargill is challenging this barrier with an innovative, creative approach such as programs to develop new crop hybrids with improved yield and profit potential.

In Date City in Hokkaido, the northernmost of Japan's four main islands, an agricultural center has been developing. Various types of agricultural experiments are conducted there. The experiment on hybrid wheat developed by Cargill is one of them. Some varieties of wheat seeds have been planted there to see how they perform on foreign soil. Williams says the experiment has been relatively successful for assessing whether any particular hybrid best meets the needs of the Japanese market.

Besides hybrid wheat, hybrid corn, sorghum and sunflowers developed by Cargill are also planted and experimented on there. According to Williams, the experiments are not a large part of Cargill's businesses in Japan, but seeds are more profitable than feed grains. The experi-

ment in Hokkaido seems to be the first step of Cargill's new marketing strategy to sell its seeds in Japan with a good profit margin. Whether it is in the marketing of seeds or mixed feed, what Cargill has in mind is to sell a greater volume at a lower price. Cargill is not content any longer with being only an exporter or agent for Japanese firms. Williams says without hesitation that if he finds another good location like Shibushi, he would like to construct a plant there.

In addition to the much-heralded mixed feed plant in Shibushi, Cargill has constructed a chemical fertilizer plant in Omuta City, Fukuoka Prefecture. The chemical fertilizer industry had long been suffering from a slump in the area. The slump had even brought about an unemployment problem. With this background, the Japanese firms operating there launched a major campaign against the newcomer, as was expected. But today the Cargill plant is already supplying its chemical fertilizer to the Japanese farmers in the area. Nobody can resist to the lure of lower cost, it seems. To sell its products directly to the users seems to be the core of Cargill's business strategy in Japan.

Changing the system

For foreign businesses in Japan, the distribution system is notoriously complicated and hard to break into. What Cargill is trying to do now in the Japanese market amounts to a challenge which may result in a change in the system. Cargill is not handling only mixed feed and fertilizer. Its operation in and around Japan is like that of the so-called *sogo-shosha*, general trading companies. It

handles wheat, feed grain, soybeans, oil seed, and commodities like orange juice, sugar and honey. It is also a little-known fact that salt is a major Cargill export to Japan. Williams says that as president of the salt department of Cargill, he often used to travel between the U.S., Japan and Australia, which has been a major supplier of industrial salt to Japan.

Cargill has some surprises for those who know the company only through the agricultural products which it handles. Ferrous and nonferrous products, natural rubber, petroleum and ocean transportation are listed among the items Cargill is handling, as well as meat and livestock, of course.

Cargill's beef and poultry operations are located in major producing areas of the U.S. It is no wonder if Cargill is interested in the Japanese market for beef and poultry. Cargill's statement at Shibushi that it would not go into the livestock industry in Japan still holds good today, Williams says. But anything is subject to change, if it is a change for the better. The liberalization which is now being debated so much would have been out of the question not so many years ago. Connoisseurs of *shochu*, a Japanese alcoholic beverage, may not know that their favorite liquor is made mostly of wheat imported from America by Japanese agents through Cargill.

Today, only authorized Japanese agents can import wheat under the quota system controlled by the Japanese government. Cargill can operate only as an agent for Japanese importers. Williams stresses that Cargill North Asia Ltd. is a Japanese firm under Japanese law. In fact, more than 90% of its 130 employees are Japanese. Williams says he is happy with his Japanese staff and asserts that Cargill's main strengths are its people, a worldwide information-gathering network and its communication system stretching all over the globe. Perhaps the day will come when Cargill will be feeding its own cattle in Japan. ■

Takashi Suetsune is a senior correspondent with the Japan Broadcasting Corporation (NHK).