United Distillers Japan: Growing Share of Liquor Market

By Nagami Kishi

The bursting of the "bubble" economy has been affecting Japanese society in many ways. One significant change in urban society is fewer customers at the bars and clubs of the neon-flooded amusement quarters at night, thus inhibiting the 1991 sales performance of the whiskey industry from achieving the same level as in the previous year. In this unfavorable business climate, however, United Distillers Japan (UDJ), a subsidiary company of United Distillers, a member of the Guinness Group in Britain, alone recorded a 20% year-to-year increase in sales.

In discussing the present state of the Japanese economy, the conventional approach in which observations are made for each industry as a whole is often no longer applicable. In some industries, especially the liquor industry, consumers tend to rush for a few trendy brands, while completely ignoring the others.

Referring to the industry's negative growth in 1991, Shunji Noritomi, president of UDJ, gives the increased strength of beer products as a major factor. He says, "In the Japanese alcoholic drink industry today, there is a 'bubble war' going on among four giant beer brewers. They are competing through heavy advertising in the mass media, as well as in the development of new products that will attract younger generations who tend to be lighter-taste-oriented. In addition, people have come to maintain their homes warmer in winter; as a result, they do not drop their habit of drinking beer, even in the coldest season of the year, as they used to in the past, supporting the steady sales growth of this product line."

Suntory, the largest whiskey distiller in Japan, suffered from a sudden slump in sales. The Nikka Whisky Distilling Co., Ltd. experienced going to the minimum level of profitability; the president assumed the responsibility for this miserable performance and resigned from his office. All the more surprising in terms of these harsh realities faced by its competitors, UDJ's sharp growth is outstanding.

"We have I.W.Harper, bourbon whiskey, and Gordon's gin, in addition to a series of Scotch whisky, including Old Parr, White Horse, Johnnie Walker, Bell's and Haig. The greater breadth of our product line is probably allowing us to closely cope with the many changes in the business environment," says Noritomi, modestly, in analyzing his company's success.

The wide assortment that UDJ offers, of course, is not the only factor for its great success. Another factor, probably the more important, is the tenacious efforts that UDJ management, led by Noritomi, has made.

Tough negotiations

As implied by its name, United Distillers was not originally a single company, but was formed as a result of repeated mergers among a number of significant distillers having their own brands and eventual integration under the control of Guinness. This explains the wide variety of product lines handled by UDJ.

This converging move in the British liquor industry was triggered and spurred by two major trends: a leveling off of the overall consumption of liquors and cigarettes as increasing numbers of consumers stopped buying these luxuries out of concern for their health; and the export-increase policies promoted by the former Thatcher administration. These trends, together with some people's wish to reinforce business fundamentals for Scotch whisky that the British are so proud of, encouraged the distillers to become one.

As soon as United Distillers was formed, it started reviewing the traditional global strategies taken by its individual units. In this process, the new company unified the former distribution and other operating systems, which differed from one unit to another, and worked out new systems and strategies under a new concept that is consistent throughout the various units. The new strategy included

Shunji Noritomi, president of UDJ: There is great potential for growth in the market for liquor in Japan and other Asian countries.

the establishment of a wholly owned subsidiary, UDJ, in Japan in 1988.

Before the establishment of UDJ, UD's products were handled by over 30 different companies acting as distributors, depending on the product lines. For example, Old Parr was sold by Old Parr Japan, the sole agent; Johnnie Walker by Caldbeck Dodwell; and I.W. Harper, Haig and some others by Suntory.

Noritomi opened a small office at Kioicho, Chiyoda-ku, Tokyo, in 1987 and began preparatory work by himself for incorporation of the Japanese subsidiary; he didn't even have a secretary. His first tasks were to find good office space for UDJ and to reorganize the existing distributors into limited numbers. Each distributor was confident that it had fostered the respective brand image through many years of handling.

Noritomi, however, looked at the matter differently. Although Johnnie Walker, for example, had long been one of the top brands in the world, it was losing its high-grade image due to the distributor's inability to maintain the strength of the brand and also due to the increasing availability of less expensive Johnnie Walker imported by parallel importers. Other distributors had similar problems.

Noritomi thus set into motion a procedure for terminating the sole-agent contracts with most of the distributors one after another. He naturally faced strong resistance from them, but canceled their contracts anyway; he did not even exclude Old Parr Japan, whose president had been a chairman of the Japan-Scotland Association and saw himself as being one of the most influential figures in the Japanese liquor industry. The distributors strongly opposed the cancellation of their contracts on the grounds that the prestige and high awareness among consumers of each brand were due to their efforts. When they learned that Noritomi would not withdraw the proposed termination, some filed claims for compensation. Noritomi rejected their demands.

The sole-agent contract with each distributor was to be updated every two years, which allowed United Distillers to terminate it by giving the other party 90 days notice. Since the contract had been automatically updated for several decades, the notice of termination was a bolt from the blue for the distributors. To some distributors who took a firm attitude against the termination, Noritomi demonstrated how they had been failing to materialize the full potential profits from their business for many years, thereby talking them into accepting termination. Each negotiation with the distributors was a long, painful task, but he managed to work out solutions one by one with advice from his lawyers.

Selecting distributors

The most effective ground of his arguments during the negotiations was the extensive research work on the image, brand strength, sales performance and other elements for each UD product, which Noritomi commissioned to his old acquaintance, Shigetada Wakasugi, the president of a research company.

Wakasugi says, "Although the image of Johnnie Walker was being seriously damaged mainly because of parallel imports, the distributor did not even run any ads." Facing such data, these distributors finally gave up their contracts.

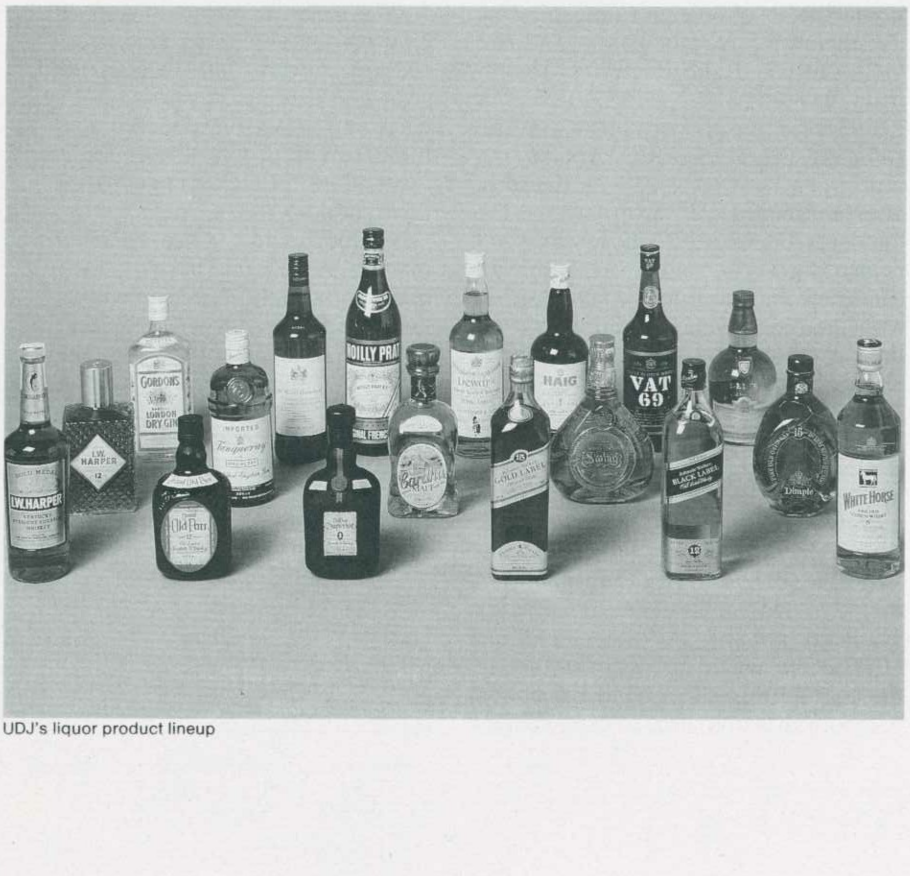
This research work served as useful criteria for narrowing down the number of distributors. It also helped Noritomi to determine on which UD products out of the 120 emphasis should be placed during UDJ's initial sales activities. This was especially important for UDJ, since, during the earliest stage of operation, it had to avoid distributing its yet insufficient resources among many brands for their ad campaigns and other sales activities, thus eventually making all these activities meaningless.

As a result of the narrowing-down procedure, Noritomi decided to have only three distributors. Jardine Wine & Spirits (JWS), which would handle I.W. Harper, White Horse and Gordon's gin, was newly established by three companies–the UD group, Moet Hennessy and Jardine Matheson.

Second was Nihon Shurui Hanbai, which had been a sole agent of Bell's. In addition to this product, Noritomi asked this company to take over the handling of both Haig and Vat 69, which had been sold by Suntory and Kyowa Hakko Kogyo Co., Ltd., respectively. Noritomi designated Black & White Japan, a wholly owned subsidiary of Kanematsu Corp., a sole agent of this product, as the third distributor.

As for Old Parr, Johnnie Walker and other products, Noritomi decided to establish a wholly owned subsidiary called UDG Liquor Sales (now UDJ Liquor Sales) to sell them. He invited the people who were in charge of Old Parr and Johnnie Walker at the respective distributors for these products into the new company. Noritomi also narrowed down the products to be handled by UDG to a limited number, which included Old Parr, Johnnie Walker, Deward's, President and George Dickel (Tennessee whiskey). He then set out to characterize each product, based on various measures which he developed to reinforce its image.

For Johnnie Walker brands, whose image had deteriorated, UDG took rather radical measures. It improved both the label and logo, and then launched a series of modernistic ad campaigns for the Black Label using some of the world's top photographers to emphasize the brand's No. 1 status in the world. Also, in May 1990, the company launched a new product in a



UDJ's liquor product lineup

Neon signs of bars in Tokyo. While beer now sells well all year round, sales of whiskey have fallen recently.

higher class than Johnnie Walker Black, i.e. Johnnie Walker Gold Label priced at ¥10,000, exclusively for Japan as a driving force for an upgraded image. One of this new brand's aims is to act as a countermeasure against parallel imports.

Explaining this move, Noritomi says, "We did not have to worry about parallel imports, because Gold Label is a 15-year-old product sold exclusively in Japan. Besides, we produced a brand that suits the Japanese palate. It reduced the smoky taste, which is a characteristic of Johnnie Walker."

While Old Parr had long impressed people with its traditional and authentic taste, it was seen by younger people as rather outmoded. Noritomi, therefore, decided to emphasize the image of a brand being in the van of the era in addition to maintaining both tradition and authenticity. He started a new campaign, for which he used a catchphrase meaning, "The times change but leaders always drink Old Parr," and showed consumers that many historic figures at various times had loved this brand. Also, in 1989, UDJ introduced Old Parr Superior for ¥15,000.

He was active in publicity activities to raise the image of the entire UD group as well, which included holding the Old Parr Scottish Ballet in the autumn of 1990 in Japan.

One major problem for many foreign companies doing business in Japan involves understanding the difference between the main office at home and the Japanese subsidiary. With a view to eliminating this difference, Noritomi had Wakasugi's company compile summaries of 13 well-known books about the Japanese people and their culture, and translate them into English; he then sent these to the main office. He also selected some successful and unsuccessful cases from "Case Studies of Foreign Companies" by this reporter, and some others, and had them translated into English to accompany the summaries.

Reflecting on his early days with the company, Noritomi says, "Around the time when I got involved with the work of establishing UDJ, Japan lowered the liquor tax for imported liquors, which had been a target of fierce reproach by foreign countries. The lower liquor tax, together with the higher value of the yen at the time, considerably reduced the price differences between imported and domestic liquors. Now that the greatest negative factor for imported liquors had been cleared away, consumers naturally chose to buy the products produced in the birthplace of whiskey. The wind was, indeed, favorable then."

A few years ago, Noritomi predicted that the market for domestic whiskey would go into a winter season, and that UDJ would catch up with Suntory in the near future. Although he has voiced such forecasts from time to time, nobody seemed to believe it. Now, the forecast is becoming a reality, at a much faster speed than Noritomi foresaw.

He explains, "There have been four whiskey makers in Japan. One of these, Sanraku Mercian, has decided to specialize in wine, and is busy making the necessary changes in its operations. Kirin Seagram is focusing on imported products. Nikka is suffering from a serious slump. Suntory, therefore, is the only powerful competitor against UDJ."

In addition to being a whiskey maker, Suntory has made large profits through importing. Some foreign whiskey makers exporting to Japan through Suntory, however, have begun to terminate their sales contracts, one example being I.W. Harper. In response, Suntory is engaged in mutual stockholding with Allied Lyons, a large British company, on the basis of shared interests. The odds are not high that this new measure will help Suntory maintain its leading position, because of the recent sharp decline in shipment volumes for super-hit brands like "Old" as consumers' favorite brands and tastes change, as well as the increasing strength of foreign brands.

With a view to maintaining its vitality, UDJ started employing graduates from colleges in April 1991. During the next year, it will bring 20 new college graduates into its organization. Since last autumn, two of them have been sent to the main office in London to get experience there for a year.

Noritomi said, "Since most of the markets in the world in our industry are mature and only slower growth can be expected, the management place their hopes in Japan and other Asian markets where they think there is great potential for growth. There are more opportunities in the Asian markets, because they are still expanding in size. However, the Japanese market is also maturing fast, but UDJ can grow by eating away at the domestic makers' shares of the pie."

Nagami Kishi is a free-lance writer specializing in foreign businesses in Japan.