

Need to Create New Products Urgent

Although domestic demand for food in 1998 will likely be affected by lower rises in personal income and a worsening employment situation, these effects may be offset somewhat by a decrease in people's reluctance to spend money due to the increased public burden resulting from the raise in the consumption tax and in medical expenses, and bring about a slight recovery. There are structural causes for this, such as the lagging population growth rate and the sufficiency of calories per person, but since food is a daily necessity, food expenditures can be expected to remain fairly stable.

Since domestic demand cannot be expected to expand significantly, the food industry must determine how to provide high value-added products that reflect consumers' needs, and must

emphasize new product development and planning. A company's ability to remain sensitive to changes in the food culture and to develop products that create consumer demand will determine its ranking within the industry.

For example, the effects of the introduction of alcoholic sparkling beverages fermented from malt and other starchy materials, which met demand for low price, may become quite significant. Demands for safety are also expected to become increasingly important, and the HACCP* system will be implemented first for dairy products and processed meat products, and then across the food processing industry as a whole. It is also likely that organically grown vegetables and other consumer health-oriented products will play a large role.

The food industry market is maturing, and is undergoing a transition toward low growth (Table 1). While deregulation and the GATT Uruguay Round agreements are likely to yield an influx of imported goods and market participation by foreign companies, it will also be important for the mature Japanese market to export goods abroad. Due to both external and internal changes, the Japanese food industry is about to embark on an era in which it will be closely tied to overseas markets in terms of product development, the procurement of raw materials, and sales.

The food industry today is becoming less profitable due to sagging domestic demand, severe price competition at the retail level,

and investments for complying with HACCP regulations. Most companies,

with the exception of a few industry leaders, are in the process of decreasing personnel, making facilities more efficient, and restructuring their production bases. They are urgently trying to increase profitability, efficiency and dynamism by upgrading their production and distribution systems and by implementing low-cost operations. Large companies are thus rethinking their business strategies to preserve an adequate profit ratio and to maintain and expand their share of the market by creating alliances with other companies. The effects of these changes in the industrial structure, like the increasing market dominance of major brands, are already evident. Such changes will likely build momentum, increasing the likelihood that companies that do not undertake restructuring efforts will gradually be pushed out of the market.

In this environment, a company's strength within the food industry will be closely tied to how well its brands meet consumers' needs (for convenient, healthy, safe and handmade goods). Sectors currently reflecting these needs and supporting the industry are frozen prepared foods, soft drinks, beer, fermented milk, noodles (including instant noodles) and side dishes. However, since stiff competition is likely to develop in these sectors as well, continuous efforts must be made to develop products that not only fulfill current needs, but create new demand.

*HACCP, or the Hazard Analysis Critical Control Point

This technique was developed in the U.S. to control the process of manufacturing food for use in space, and stipulates safety and quality control through every step from procurement of ingredients to the final product.

(Osawa Hiroshi, senior economist)



Shift to HACCP system: wrapping sliced ham in the bio-clean room

Photo: Snow Brand Foods Co., Ltd.

Change in Average Annual Growth Rates of Shipment Amounts in the Food Processing Industry

	(1975-84)	(1985-94)	(1991-95)
Food products total	7.7	2.5	0.1
Farmstock products	8.7	1.4	-0.4
Meat products	11.2	1.6	-2.2
Dairy products	6.9	1.2	1.2
Alcoholic beverages	7.3	1.8	0.1
Beer	9.7	3.9	0.3
Cake and confectioneries	7.1	2.1	-0.4
Seafood products	8.2	1.9	-1.4
Soft drinks	7.9	7.4	3.1
Seasonings	7.3	2.5	2.5
Soy sauce	3.0	0.6	0.2
Flour/Cereal products	9.3	1.1	-0.6
Flour	11.2	-0.5	-0.7
Bread	7.9	2.2	0.8
Noodles	7.3	3.1	2.0
Agricultural products	7.8	2.5	-0.2
Animal feed, etc.	3.6	-4.8	-6.3
Frozen prepared foods	13.6	7.6	2.0
Animal and vegetable oils/ Processed oil products	5.3	-3.8	-0.1
Sugars	2.3	-2.4	-3.5
Side dishes	-	7.9	2.3

Note 1: Agricultural products refers to canned fruits and vegetables, preserved agricultural products; Animal feed refers to animal feed and organic fertilizers.

Note 2: "Farmstock products" do not include "other farmstock products" categorized in MITI's "Census of Manufactures"; "Bread" and "Cake and confectioneries" do not include "other breads and confectioneries" categorized in the above census.

Note 3: Soy sauce includes edible amino acid.

Note 4: Figures for Side dishes are from 1986.

Note 5: Rates of increase are in nominal terms.

Source: Prepared by the Industrial Research Department of the Industrial Bank of Japan from "Census of Manufactures" Report