

Yoshikawa Oil & Fat: Race To Become Market Leader

By Takayuki Azuma

Ethiopian track star Bikila Abebe may not have known it, but his marathon victory in the 1964 Tokyo Olympics turned a small Japanese oil company into the world leader in the market for lanolin, the raw material of cosmetics and pharmaceuticals.

Watching the African runner's instant leap from obscurity to world stardom, Shiro Yoshikawa was struck by how a single event in the Olympics could mean so much. Suddenly he felt resolved to win the race in his own trade and become No. 1 in his market, no matter how small it might be. It was at that moment that he decided to change his company's line of business, and Yoshikawa Oil & Fat has never been the same since.

Today the company has gone from a marketer of chicken feed to the world's top maker of lanolin and its derivatives with annual sales of ¥3.67 billion (\$28.2 million at the rate of ¥130/\$). Yoshikawa's products are sold in 73 countries around the world.

It's a surprising position for Yoshikawa Oil & Fat to be in. Established in 1897 in Osaka by Yoshikawa's grandfather, the company started out manufacturing oils for cotton spinning and weaving and surface active agents for industrial use. It had a smooth start and was doing quite well, that is, until it was decimated by an air raid in World War II.

After the war, Yoshikawa Oil & Fat was resuscitated to manufacture and market leather fatliquoring agents, and to sell chicken feed produced by another firm. Yoshikawa, then managing director and now the company's president, was worried about staking more than 50% of his company's sales on chicken feed. Abebe's symbolic victory convinced him to go for broke. In 1964, Yoshikawa Oil & Fat withdrew from the chicken feed business and started marketing its own oil and fat additives for animal feed.

It's easy enough to get out of a business, but it's extremely difficult to make up for lost revenues with a totally new

product. Yoshikawa was confident that his new additives were good, a confidence based on five years of R&D. Yet growth in sales of the new product did not match the contraction in revenues from the old. Yoshikawa Oil & Fat paid no dividends for two successive years, until sales finally got back on track.

That was when Yoshikawa began searching for a third line of business. He felt a company should have at least three products in different industrial fields to ensure stability even if one line should slide into recession. He had leather-working agents and feed additives. He needed number three.

Qualities needed

As the search began, Yoshikawa set nine conditions for developing the new product: it should be (1) an international commodity with international competitiveness; (2) a high value-added product with a high unit price; (3) a high-technology product not easily imitated by others; (4) a product relatively immune to economic fluctuations; (5) a product with a small market; (6) a product with no domestic competition; (7) a product whose raw material could be procured domestically; (8) a product whose receivables could be collected quickly; and (9) a product that could be manufactured with the company's existing technology.

In those days, Japan, heavily protected by trade barriers, was in the midst of its high growth era. But Yoshikawa was convinced that, in time, the Japanese market was sure to be liberalized. Recalling those days, he observes, "We wouldn't have to worry about market liberalization if we manufactured a product which was highly competitive overseas."

In 1968, Yoshikawa received a letter which again affected the fate of his company. It was an invitation to the general meeting of an international cosmetics engineers' association, where cosmetics chemists reported on their research re-



Shiro Yoshikawa: his move into the lanolin market was a gamble that paid off.

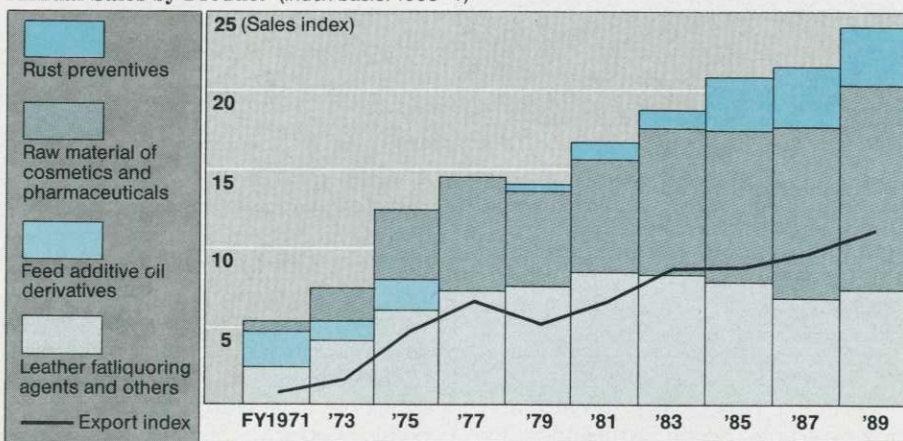
sults. Yoshikawa attended the meeting out of sheer interest. And there he had his first encounter with lanolin.

Lanolin is made from wool grease—an unctuous secretion of the sebaceous glands of sheep which is deposited on wool fibers—by refining, saponification and separation processes. Hardly an alluring-sounding product, yet lanolin is a natural wonder. It stills functions like an ointment even when mixed with water. Because it is easily absorbed by human skin and adheres to the mucous membrane, it has become the base of countless cosmetics and pharmaceuticals. And it has hundreds of derivatives, used for everything from waterproof cement agents to rust prevention.

Yoshikawa started investigating. He found that there were seven lanolin makers in the U.S. and one in each of the major European countries. Even the largest American maker, Malmstrom Chemical, had a very small market with sales of only between ¥1 billion and ¥1.5 billion. He concluded that lanolin offered a small market better suited to small and medium-sized firms than to giant corporations.

Extrapolating from the scale of his own company, Yoshikawa wisely decided that it would be difficult to get into all aspects of lanolin production. Instead, he narrowed his focus to "liquid lanolin" and "cholesterol," then the monopoly of a single company.

Annual Sales by Product (Index basis: 1958=1)



Yoshikawa's idea to branch out into lanolin production was strongly opposed by his bankers. "Even if you win the technology race," they told him, "who's going to buy from a late starter and the least-known company in the market?" Yoshikawa countered that the product would sell itself. "We'll be able to do business with our arms crossed," he declared.

Generally speaking, a company has to be extremely competitive to monopolize a market. Yet success can weaken it as well, since a company with a monopoly often neglects technical innovation and R&D. The lack of competition also often leads to poor service to customers. Yoshikawa figured that consumers would welcome a new supplier offering good quality and lower prices. He was fired by the thought that his company could finally become the world leader in its chosen market.

Yoshikawa Oil & Fat had enough related technologies by then to easily develop its own liquid lanolin. In 1976, it completed the world's largest lanolin plant on a 3,500 square-meter site in Kakogawa City, Hyogo Prefecture, and just as he had predicted, orders came flooding in from lanolin users around the world.

Not everything went smoothly, of course. The cholesterol manufactured from the raw material lanolin used up only 10% of the total ingredients used, leaving the rest as waste. Yoshikawa could see his company winning the quality race, only to fall far behind in cost thanks to its heavy plant and equipment investment. Then he had an idea. Why not make the waste itself his company's principal product, and turn out cholesterol as a by-product?

Pressure to succeed

Yoshikawa figured three years would be long enough to come up with the new product. In the meantime, drums of lanolin waste could be piled up in the empty corners of the factory compounds.

Yoshikawa knew that failure could mean bankruptcy. Yet he was confident that, if driven into a corner, his development staff would devote themselves to

finding uses for lanolin waste. "Epoch-making products can only be developed when a company is in critical condition," he thought.

In fact it was not until six and a half years later that a lanolin waste-based rust-preventive agent for undercoating cars was finally perfected. It was just in time. By then the drum cans were spilling out of his plant site. But while it was a tight squeeze, the gamble had paid off.

A little more than 10 years after getting into lanolin, Yoshikawa Oil & Fat began catching up with and overtaking lanolin makers around the world. Eventually even industry leader Malmstrom retreated from lanolin production. Yoshikawa Oil & Fat aggressively began supplying lanolin to the lanolin makers themselves under OEM agreements. Yoshikawa said, "We don't want to take their brand names away."

In order to avoid foreign exchange risks, Yoshikawa built its most advanced plant in Singapore in 1989, able by itself to fill most of the world demand for lanolin. The president found that being No. 1 really did pay off. The consul of Singapore kept visiting him for a year to persuade him to set up in the city-state, and finally he was won over by the consul's enthusiasm. "Even though our total market is small, Singapore still enthusiastically solicited us," he recalls with satisfaction, "most probably because our company is the top lanolin maker in the world."

The secret of Yoshikawa Oil & Fat's strength lies in its technological expertise. After graduating from the Chemistry Department of Osaka University, Yoshikawa joined his grandfather's company in 1957 at the age of 25. He was already convinced that a company's fate depends on the new products it develops, and

promptly established a research division. Subsequently, he hired university graduates in science and engineering every other year. When big enterprises were hesitating to hire new graduates during the economic recession in the mid-1970s, Yoshikawa overrode the opposition of his own staff to order a large-scale hiring. "Now is the time for a small company to get the best personnel," he thought.

Today, R&D expenditure comes to about 5% of total sales, compared with a ratio of 2 to 3% for big chemical makers. While technically a chemical company, it began hiring biochemistry majors fresh out of university in 1960, and is starting to get results in biotechnology research.

Now that it's No. 1, Yoshikawa Oil & Fat has itself become the target of aggressive new makers. Says foreman Toshio Kanno of the Kakogawa Plant, "Our employees know what's best for the company. In order to satisfy our customers' needs, our development staff does work that can't possibly be completed during regular working hours. With that kind of commitment there's no fear of our being overtaken by other makers."

Yoshikawa Oil & Fat has come a long way on its own. True to the company's slogan, "Let's challenge the unknown and impossible," first printed in a company brochure a good 30 years ago, Yoshikawa Oil & Fat continues to push its limits. By its centennial seven years hence, it plans to increase annual sales to a heady ¥10 billion. No one knows better than Yoshikawa that to win the marathon, you have to stay in the race.

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