Japan-Hong Kong Connection

By Fred F. Yoshino

"Japanese and Hong Kongers make excellent chemistry for business. The Japanese side can provide state of the art technologies and quality-assured products, while we Hong Kong Chinese are born merchants, having the cutting edge in sales and making deals. If combined further with China's vast resources and market potential, we are sure to have the strength of Samson," gushed Mr. Stephen Tai Tak Fung, chairman of Four Seas Mercantile Holdings Ltd. The group is primarily engaged in the importing, marketing and distribution of Japanese snack foods, chocolates, biscuits, and other food items and beverages in Hong Kong, Macau and China. Since its establishment in 1971, the company has developed into the largest importer of Japanese snacks, candies and beverages.

"Twenty-three years ago when I first launched a small operation here in Hong Kong, Japanese food was utterly alien to most people in the territory because only made-in-China goods were available in the local market. To crack such a situation almost seemed like moving a mountain," recalls Mr. Tai paraphrasing an old familiar Chinese hyperbole. The last man to ever give up, he was adamantly convinced however, that sophisticated Japanese food varieties would someday appeal to the taste of Hong Kongers if given the chance to sample them even once. Then, came a rapid turning point. Japanese sweets called Space Candies made a smashing hit in Hong Kong, and the boom brought him a handsome windfall. Since nobody else was importing the brand at that time, he could relish the sweet taste of success for the first time.

In the 1980s, a new consumer trend began with the proliferation of supermarkets and convenience stores. Soon, urbanized colony residents found Japanese delicacies much more palatable than traditional Chinese refreshments that were often packaged clumsily. Price differentials did not matter much as the average income of Hong Kong's bulging middle class was fast increasing. A rush of Japanese department stores into Hong Kong further prompted the diffusion of Japanese food and beverages among the local population. Also responsible for the popularity of Japanese products was the healthy and clean image they carried. Small mom-and-pop neighborhood stores selling China brands were phased out as people here learned to savor higher priced, but more toothsome, imports from Japan. In the late '80s, the market was virtually dominated by major Japanese brands, particularly for snacks, biscuits and ice cream. With time on his side, Mr. Tai's foresight on the prospect of a Japanese food revolution proved just right, and paid off in a big way.

But nothing could be more attributable to his success than the partnership established with Japanese suppliers. "Our long-standing relationships have been founded on ironclad trust, not on short-term economic expediencies," said the chairman. Mr. Tai stresses the importance of such Confucian ethical values as mutual obligations and reciprocity, saying "You can't make it alone."

You would find it almost impossible to name a major Japanese food or beverage brand not handled by Four Seas. The list of Japanese manufacturers for whom the group acts as the exclusive distributor in Hong Kong and Macau reads like a who's who of the industry: Ezaki Glico, Pokka Corp., Meiji Seika, Kabaya Food, Taito Seika, Calbee Foods, Ginbis, Snow Brand Milk Products, etc. Rather than setting up their own marketing operation in Hong Kong, or looking for another non-competing local agent, these Japanese food producing giants all turned to Four Seas for distributing their products in this region. A whopping 80% of total snack food and beverage imports from Japan is handled by Four Seas, and the distributor captures a monopolistic 70% market share in Hong Kong for such popular brands as Ezaki Glico's Pokky, canned coffee by Pokka, Calbee's potato chips and Goumi (silverberry) from Meiji Seika.

Full-service company

Four Seas goes a step beyond importing and distributing, however. Incorporating its own warehouses and delivery service network, the group's logistic system ensures a constant, on-time supply of goods to each different type of outlet, without relying on any external intermediaries. Every purchase from Japanese suppliers is made with 100% commitment, thus guaranteeing that any unsold merchandise will not be returned. This way, Four Seas runs the risk of being saddled with dead stock, but in return, the company's profit margin can be much larger than carrying merchandise on a risk-free consignment basis.

Thanks to expertise and experience, Four Seas is capable of taking calculated risks by reading the market demand accurately. From merchandising to after-sales service, the group's entire functions are streamlined and integrated into a highly efficient, result-oriented task force unit.

Advertising and sales promotion play a key role in marketing the kind of consumer products handled by Four Seas. When it comes to advertising, the group outspends any other firm in Hong Kong, and is known for staging a grand scale campaign whenever a new product is launched. "For market introduction of a new product, you cannot be afraid of spending big money on advertising to jumpstart sales. Skimping is like wishing for a bumper crop without using enough fertilizer," advised Mr. Tai. The group's advertising arm commands the knowledge of product features and thus is able to come up with the kind of creative artwork and media selection that would best fit the needs of whatever Four Seas promotes.

For the year ending March 31, 1993,

the group's turnover increased 46% over the previous financial year, broken down 36% by snack food, 23% by chocolates and candies, 21% by beverages and 13% by biscuits. The turnover growth was due primarily to significant increases in snack food sales, approximately 55% and in chocolates and candies of about 73%. In addition, the group's after tax profit has grown from HK$8.5 million to about HK$16.3 million during the past three fiscal years, representing a 53% growth. Most of the products imported by the group are currently distributed to supermarkets, convenience stores, Japanese and other department stores, drug store chains and confectionery wholesalers in Hong Kong, and to confectionery wholesalers in Macau. In China, Four Seas also sells directly to duty free shops and department stores as well as indirectly through Hong Kong based trading houses to wholesalers.

For fiscal 1993, the market breakdown of the group's turnover was 79.9% in Hong Kong, 18.5% in China and 1.8% in Macau. In the Hong Kong market alone, sales to supermarkets, convenience stores and drug store chains accounted for 64.8%, while sales to wholesalers and department stores represented 10% and 4.9% respectively. Over the years, Four Seas has established an extensive distribution network in Hong Kong, China and Macau. At present, the group supplies to approximately 385 customers in Hong Kong, 293 customers for distribution in China and 11 customers in Macau. In Hong Kong, Four Seas services some 1,100 outlets of supermarkets, convenience stores, drug store chains, wholesalers and department stores.

Last May, the group's headquarters in Sai Kung on the Kowloon side was completed. The four-story all purpose complex with a total floor space of approximately 100,000 sq. ft. serves as the group's center, comprising the administrative office, warehouse and distribution post in Hong Kong. The centralized warehouse with refrigeration facilities enables the company to manage its stock and to facilitate efficient delivery. Together with the group's fleet of 30 delivery trucks, its distribution capabilities and services are further strengthened.

Four Seas Mercantile's impressive performance over the years has been hinged upon the group's long-standing and mutually supportive relationships with well-known Japanese manufactures of snacks, confectionery and beverage products. Many of the group's suppliers are renowned successful Japanese conglomerates. For example, Ezaki Glico Co. is one of the largest confectionery manufactures in Japan while Meiji Seika is also regarded as a leader in the industry. Pokka Corporation is the largest manufacturer of canned beverages and third largest manufacturer of canned coffee drinks in Japan. Calbee Foods is at present one of the largest snack food manufacturers in Japan. Four Seas' excellent rapport with Japanese suppliers reflects the group's marketing and distribution strength in Hong Kong, Macau and China which has led to more business development opportunities.

Four Seas has entered into joint venture agreements with Pokka Corporation, Meiji Seika and Yamauchi Seika to undertake a number of new products in Hong Kong and China, including the operation of coffee shops and restaurants and bakery shops, as well as the production, marketing and distribution of snacks, candies and cakes. The group's turnover has been growing over the past three years. In fiscal 1993, turnover in China increased by over 80%, compared with the corresponding figure in fiscal 1991.

Photo: Kyodo News Service

Nathan Road, Hong Kong — Japanese companies' signs catch the eye in this business district.

The China card

On August 25, 1993, Four Seas Mercantile was successfully listed on the booming Hong Kong Stock Exchange with its first public offering subscribed at a staggering 562 times to the tune of HK$37.9 billion, the highest record ever marked in Hong Kong. With such massive additional capitalization through stock issues, the group is now better positioned to play the big game in China. From the market of 6 million people here to that of 1.2 billion in China, Four Seas is actively embarking on a new challenge for business expansion across the border. But Mr. Tai is against making a hasty, all-out move into the mainland, for China is too large to cover in a matter of weeks or months. His strategy is to go step-by-step, implanting the success-proven method of Four Seas in one area at a time.

The first target location picked out by Mr. Tai is neighboring Guangdong Province where half of the population monitors TV programs aired from Hong Kong, and probably watches Four Seas commercials on the screen. An honorary citizen of Guangzhou, capital city of the province, Mr. Tai assumes the post of a congressional member of the city. Setting up branch offices in the city's strategic locations, Four Seas Mercantile has already put ads in local newspapers to attract the attention of local consumers. Joint venture factories with Meiji Seika, Pokka and Yamauchi Seika have just begun operation, while other new projects are also on the drawing board.

Asked what advice he can give to Japanese companies seeking to enter the China market, Mr. Tai had this to say, "The most difficult hurdle to overcome in China is finding a truly reliable partner. You may easily come across many Chinese who are overzealous about doing business together. They often say 'no problem' to your concerns, but don't take them at their word." He went on to say, "Japanese food and beverage products are quite popular with local consumers, probably because of the palate we share in common as Asians. To top it off, Japanese imports are of high quality and superior design. You can never be negative about such a wonderful thing. When I started the company 23 years ago, I thought it would be my mission to introduce Japanese delicacies to the people of Hong Kong. Today, it appears China stands exactly where Hong Kong was back then."

Mr. Stephen Tai is not the only one in the Hong Kong-Japan connection camp. A maverick rising star in the fiercely competitive business community of Hong Kong, Mr. Johnny Lau, 44, chairman of Tomei International, employs over 26,000 people in Southern China at its 13 plants, including joint venture operations with such first-line Japanese electronics manufacturers as Panasonic, Aiwa, Sony, JVC and Sharp. At his headquarters in Hong Kong with a staff of 350, Mr. Lau blushed a little shyly,"I named my company Tomei in Japanese because I was so infatuated with Japan when I first visited the country in the early 1970s, particularly I liked to drive on the Tomei Expressway. Traffic was so smooth in those days, I really enjoyed it."

Born in Guangzhou, China, as a young boy he left to live with an uncle in the Portuguese colony of Macau, and from there ventured into selling Japanese-made electronics in Singapore, Malaysia and Hong Kong. He was infused with all kinds of nice stories about Japan through a Japanese acquaintance, and decided on going there to study electrical engineering. "I received a degree from a university, but I hate to tell you which school. It's just a third-rate one, but that matters little because I'm basically a self-made man. I learned a lot more off campus about why Japan is so efficient and quality conscious by working part-time to pay my tuition and living expenses," said Mr. Lau.

Starting business in Hong Kong was always at the back of his mind, and he wasted no time contacting as many potential suppliers as possible while in Japan. In 1975 he returned to Hong Kong and set up a one-man operation to act as a local agent for Japanese manufacturers of electronic components. Specializing in audio components, he carried his samples around in a small paper bag. But only a couple of years later, Mr. Lau opened a small factory in a smokestack industrial complex, and started producing audio equipment components on an original equipment manufacturing (OEM) contract basis for Japanese manufactures.

Mr. Lau might have remained just another small businessman had he not recognized the potential of China. In 1981, well before others sensed what was ahead, he established a small plant to assemble inexpensive sound equipment in the Pearl River delta town of Zhongshan. "There was nothing," Mr. Lau recalls. "There was no electricity, and the people there knew nothing about business." Today, Zhongshan is a resounding success and so is Tomei. With annual sales of about HK$3 billion, it supplies high quality audio gear to Sony, Philips, RCA, Aiwa, etc.

Tomei's other business activities include component sales and recently expanding investment banking. Investment banking was started to supplement meager profit margins arising from OEM, where margins are 2% to 3%, and components making where margins are a more respectable 8%. Mr. Lau provides venture capital, taking stakes in a number of small- to medium-sized electronic firms to help them get listed on the stock exchange or later sell down at profit.

One such case relating to Japanese firms is the acquisition of Sansui, a high-quality audio equipment maker, through buying into Semi-Tech, Sansui's parent company in Hong Kong. For the foreseeable future, however, it is expected that Tomei's main line will remain the production of portable and compact disc players, along with their component parts and accessories. Tomei is now seeking franchises from Aiwa and Sony to distribute a wide range of products in China, helping the firm to diversity further.

Still, an interesting development is underway between Tomei International and small Japanese firms with advanced technological prowess. Mr. Lau helps those Japanese enterprises transfer their production basis to China. For example, Hasegawa Seisakusho, now renamed High Sound Co. under the joint venture agreement with Tomei, is producing 1.6 million headphones in China, a quantum leap from the previous capacity of 6,000. Hasegawa Seisakusho is no longer flagging under the constant pressure of the rising yen and labor costs back home. "Tomei pulled us out of the quag," said Mr. Hasegawa, owner of the former small factory. This episode may point to a future path for smaller Japanese manufacturers to take: relocating to China with the help of a Hong Kong firm like Tomei International. JJTI

Fred F. Yoshino is a free-lance analyst based in Hong Kong He specializes in international politics and economics, especially concerning China and other Asian countries.