Consumer Goods Imports On the Rise

By Ryoichi Higurashi

One of the most urgent tasks facing Japan today is to expand its domestic demand as a way of correcting its large trade imbalance. Of course, Japan is not solely responsible for the enormous surplus. But the argument persists that at least part of it is attributable to the fact that Japan is more oriented toward exports than imports.

The rapid appreciation of the yen since the fateful G-5 meeting at New York's Plaza Hotel in September 1985 has inevitably resulted in lower prices and expanded imports of manufactured goods. This trend has been strengthened by expectations that the yen will stay at its present high level.

According to a survey of price trends for 30 consumer goods published by the Ministry of International Trade and Industry (MITI) at the end of February, only perfumes and colognes still showed little or no change in price between August 1985 and January 1987. However, those were the exceptions that proved the rule. The yen may have appreciated almost 40% against the U.S. dollar since September 1985, but it actually depreciated against the West German mark and the Swiss franc between September 1984–August 1985 and in January 1987. Moreover, it appreciated only 8% against the Italian lira and 5.7% against the French franc, according to a survey by MITI's Price Policy Division. That explains why the prices of perfumes and colognes, most of which are imported from Italy and France, have not dropped significantly.

But for items that did experience price reductions, import volume clearly expanded as import costs went down. According to the MITI consumer goods survey, imports of socks, umbrellas, golf clubs, passenger cars, tires, handbags, neckties and household aluminum products all recorded volume increases of 30% or more over a year before. The strong yen has had great effect in expanding imports through lower prices.

Direct import boom

Even with consumer goods traded in European currencies, for which price declines have been modest at best, import volume is on the rise thanks to direct imports by individuals and firms other than the traditional sole agents. For instance, Ryuji Hayashi, president of Kyoto import agency Top Mast, led a 30-member group to West Germany in February to buy used cars. Top Mast was established two and a half years ago to import everything from lipstick to cars for individual customers.

Consider, for example, the case of a new car imported from West Germany. The dealer price in Japan of the newest Mercedes-Benz was ¥17 million as of this January, excluding taxes and other miscellaneous expenses. The price can be reduced to ¥13.5 million, however, if an individual imports the car himself. German car makers raised domestic car prices and at the same time cut car prices on the Japanese market to counter direct imports. The streamlining of distribution channels has done more to reduce prices than any such direct action on the part of producers.

Direct imports by individuals are booming these days as consumers see the clear price advantages of buying foreign goods this way. Let us take an actual example. The managing director of an industry association purchased a Burberry coat, a blend of cotton and polyester, directly from Britain in late 1986 for ¥56,186. The local shipment price was £204.35 and the air freight £14. A check for this total, which he purchased at a bank, amounted to ¥50,286 at the prevailing exchange rate of ¥230.30 to the pound. In addition, he paid a bank fee of ¥2,500, a customs duty of ¥3,200 and a customs fee of ¥200. The same coat costs ¥60,800 produced domestically under license, and ¥155,000 imported, according to the Burberry Division of Sanyo Shokai.

Advice on individual import procedures is available from the nonprofit Manufactured Imports Promotion Organization (MIPRO). In the three months after initiating the service in October 1986, MIPRO received some 5,000 inquiries about everything from Swedish wood stoves to a Uruguayan classic car.

"Develop and import" schemes

The distribution industry, of course, is taking advantage of the strong yen to expand imports. A case in point is the "develop and import" schemes promoted by supermarket chains and major distributors. According to another MITI survey, between June and October 1986 the number of items imported directly from producing countries under this formula increased from 570 to 1,400. The number of items whose prices dropped under the so-called "Plan to Utilize the Appreciation of the Yen" likewise increased, from 1,650 to 8,300.

Imports by major supermarket chains have expanded substantially in value. Daiei is estimated to have imported ¥55 billion worth of goods in the year ended February 1987, up from ¥52 billion the previous year. Jusco estimates its imports rose from ¥19 billion to ¥27 billion in the same period. Seiyu is projecting an increase from ¥30 billion to ¥50 billion.

One reason behind the trend toward

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Diversified import routes triggered by the yen's appreciation give Japanese consumers wider choices of products.

direct imports is, of course, the price-reducing effect of the yen's appreciation. Another reason, however, is the increasing sophistication of consumer needs in a time of unprecedented material affluence in Japan. One way to meet these needs is to develop materials and process them into finished goods in their countries of origin. This ability to develop and import new products has been dubbed "international assembling power" in Japan's industrial circles.

International assembling power involves combining various factors to select the best possible import route. This can be done on the basis of a matrix of six factors related to overseas production—namely, labor cost, quality and quantity of materials, technological level in the producing country, production efficiency, advantages in product delivery and country risk.

Supermarket chains and department stores differ fundamentally in their approaches to develop and import schemes. A supermarket chain has bargaining power in the sense that it can distribute large quantities of merchandise through its domestic chain stores. In short, it can gain materially from economies of scale. A department store, on the other hand, seeks higher product value rather than higher sales volume. The six factors in the matrix mentioned above reflect the supermarket rationale of reducing production costs. Department stores must devise their own develop and import plans in order to sell products with higher value added.

The steps taken by individual companies speak tellingly of how develop and import schemes for consumer goods are actually being promoted. In the business year ending February 1987, the total value of Daiei's direct and indirect imports reached an estimated ¥127 billion. The clothing imported included jackets, sweaters and underwear. Among imported food items were meat, fish, fruit and vegetables, while imports of "hard" goods included feather bedding, rattan furniture and handicrafts. Taiwan was the largest exporting country, accounting for 33.5% of the total import value, followed by South Korea at 26.5%, the United States at 18.3% and China at 5.4%.

Daiei's basic policy is to procure high-quality goods at low cost and sell them cheaply. International product development is essential to this approach. In Daiei's case, the company is both developing and importing products from some of the best sources around the world, and collaborating with overseas distributors. As a first step, the firm opened an office in Hong Kong in 1971, followed by nine more in Manila, Seoul, Los Angeles, Taipei, Beijing, London, Singapore, New York and Seattle.

When a product is to be purchased under the develop and import formula, an order is first placed giving its required specifications. This is intended to avoid any mismatch in demand. Nonetheless, miscalculations do occur. For example, Daiei once ordered large refrigerators from the U.S. at a time when Japanese makers were producing only small and medium-sized units. As it turned out, the U.S.-made products found few buyers. For one thing, Japan's "rabbit hutch" homes did not have the space for such large refrigerators. Moreover, the motors were too noisy by Japanese standards.

Agricultural examples

Through trial and error, however, a number of effective develop and import schemes have been found. One is to import foodstuffs during their off seasons in Japan. A good example is the Kyoho grapes imported from Taiwan. This variety was grown in Taiwan under Japanese technical guidance to develop a color and form acceptable to Japanese consumers. The product is imported between August–September and again in November–December, avoiding the September–October Japanese growing season. As a result, consumers in Japan can now buy Kyoho grapes from August through December.

The same is true of asparagus, imported year-round except for May–July. The production site shifts from North America to New Zealand to Taiwan to keep the vegetable coming through. As a result, fresh asparagus is now available in Japan all year round. It is not, however, the thick, forked variety found in the United States, but a more slender kind preferred by Japanese consumers—again grown under Japanese technical guidance.

Other fruit and vegetables are produced abroad for import into Japan, including kiwi fruit, oranges, grapefruit, cherries, onions, *edamame* (green soybeans), *matsutake* mushrooms and broccoli. In addition, red salmon and boiled crabs are imported from Alaska, frozen beef and chicken legs from the United States, live cattle and frozen lamb from Australia, processed squid from South Korea and eels from Taiwan. At an eel culture facility in Taiwan, water tanks for young eels are lined up side by side, each maintained by different Japanese supermarket chains. The adult eels are shipped to Japan already boned and ready for broiling.

Another way to develop import products is to purchase raw materials in one country and process them in another. A typical example of this approach, aimed at reducing production costs, is *senbei* (rice crackers). The raw material, rice, is imported from Thailand into Taiwan, where it is processed into semi-finished form. Japanese rice, costing nearly six times the average international price, is too expensive to be used in crackers. The semi-finished product is then shipped to Japan, where it is flavored with Japanese soy sauce. California rice is also used for rice crackers, and consumption of foreign rice in the form of rice crackers, at least, has increased rapidly in recent years.

A similar tactic is used for apparel, and especially products made of high-grade animal fur such as cashmere sweaters, jumpers, jackets and pullovers. The raw materials are purchased overseas for processing in third countries, at lower cost, and the finishing touches are added in Japan. The strong yen gives fresh stimulus to these moves by pushing raw material prices even lower.

Retail chains join in

In the past such foreign-processed goods were sold mainly by department stores because of their quality and high value added. Now, however, even supermarket chains are handling such items in growing quantities as costs go down. In these efforts, of course, the supermarkets are making full use of their proven capacity for international product development.

Seiyu and Jusco are two examples. Seiyu imports goods from 20 countries, most of them bordering on the Pacific basin, made to its own specifications. The company is even introducing home appliances under the develop and import formula. These products, bearing the "N-10" brandname, are marketed with the experience gained through years of selling domestic products under the Sears, Roebuck brandname. N-10 appliances are produced in Asian NICs, such as South Korea, which have excellent production technologies.

Jusco, for its part, is promoting its own develop and import program while expanding imports through a joint purchasing company. Feather bedding, a hit product in late 1986, was just one of the items produced under this program. White goose feathers were imported from Hungary through a trading company and processed into finished products in Japan. Sales expanded because of the very low prices, made possible in part by the appreciation of the yen. A single piece, originally priced at ¥158,000, sold for as little as ¥55,300, while the price for a double piece was slashed from ¥198,000 to ¥69,000.

Another highly popular item among Japanese consumers was video cassette recorders from South Korea. The machines, imported by Jusco directly from that country, sold for a mere ¥39,800. Designed only for playback, these VCRs were marketed as a second unit for families that already had a normal VCR. Though it still has a long way to go before it catches up with Japan, South Korea is emerging as a technologically developed country, and imports of South Korean home appliances—such as black-and-white TV sets and fans—that Japanese companies no longer produce because they are unprofitable are likely to increase at an ever-quickening pace.

Department stores are also stepping up efforts to expand imports. In the past their main foreign goods were Western brandname products—apparel, perfumes and jewelry. Now they import virtually every brandname product available, says a purchasing agent for a major department store. Department stores are also importing foodstuffs from around the world for "gourmet fairs."

To promote these direct imports, department stores are pushing their own develop and import plans. The concept is different from that of the supermarket chains: Send specifications to exporters and have them procure high-quality materials and process them into products that satisfy demanding customers. However, they put more emphasis on quality than do the supermarkets. Seibu Department Store, for example, opened an import agent office for individual customers in March at its Takarazuka store. It is also trying to develop other import channels.

Behind all these moves to expand imports is the growing maturity of the Japanese consumer. This is evidenced, for example, by the rapid increase in imports of West German and North European cars. There is no longer an absolute shortage of goods in Japan, and the consumer market is no longer dominated by uniform products. The key word now is diversification. Today's consumers are seeking products that will enhance their individuality and stimulate their sensibilities. The strong yen may have accelerated the trend, but the real reason behind the expansion of manufactured imports is to be found in this market transformation. Japan's demand for imported consumer goods should continue to grow in the years to come. ●