

GAO

Report to Congressional Requesters

March 1990

**INTERNATIONAL
TRADE**

**Competition for
Japan's High Value
Agricultural Market**





United States
General Accounting Office
Washington, D.C. 20548

National Security and
International Affairs Division

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The Honorable Patrick Leahy, Chairman
Committee on Agriculture, Nutrition, and Forestry
U.S. Senate

The Honorable E (Kika) de la Garza, Chairman
Committee on Agriculture
House of Representatives

In response to your requests, we have reviewed market development activities of the U.S.' major competitors in Japan's high value agricultural market. You were interested in learning how other countries are trying to gain a larger share of this lucrative market.

This report summarizes high value agricultural product market development activities of the nine foreign competitor countries that spend the most resources on such activities in Japan. These competitors include New Zealand, Australia, Canada, France, West Germany, the United Kingdom, the Netherlands, Italy, and Denmark. Agricultural imports from these nine countries plus the United States represented about 63 percent of all agricultural imports to Japan in 1988.

Results in Brief

To succeed in the Japanese market, marketing organizations must be prepared to spend considerable time and money to learn the intricacies of the marketplace and to develop the necessary relationships with importers, wholesalers, and distributors. In addition, their products must meet Japanese consumers' demanding standards for uniqueness, convenience, ingredients, and packaging. Of the many market development activities conducted by foreign marketing organizations in Japan, trade and consumer education are considered particularly useful in developing demand. Alternative importation methods to bypass the expensive and restrictive Japanese distribution system lowers costs and, thus, have proven to be attractive options for some organizations to gain access to the Japanese market.

Background

High value agricultural products include three groups: high value unprocessed foods such as eggs, fresh fruits, and nuts; semiprocessed products such as flour, oilseed products, and meats; and highly processed products such as prepared meats, dairy products, and soups. Trade of these products now accounts for about two-thirds of world

cultivate. One Danish marketing representative indicated his organization spent 7 years in Japan developing relationships before selling any products. His organization established a network of importers, wholesalers, and distributors who were willing to handle its imports. It also developed ties with political and cultural groups, and it educated Japanese consumers about Denmark through the promotion of tourism and cultural events.

Moreover, new products must meet Japanese requirements regarding uniqueness, convenience, ingredients, and packaging. For example, convenience products, such as microwavable dinners, are becoming more popular because the numbers of working women and people living alone in Japan are increasing. Packaging must be attractive and of good quality—many products in Japanese stores are wrapped more thoroughly or arranged more carefully in their packages than comparable products available in the United States. Packages should also be sized to Japanese consumer specifications because the average Japanese consumer shops daily. According to officials we interviewed, Danish and New Zealand producers are very willing to adapt package size for the Japanese market; this result may be due, in part, to their economies' dependence on exports.

Foreign Marketing Organizations' Efforts to Gain Market Share

Foreign marketing organizations provide a broad range of trade and technical assistance to producers in Japan. For example, they conduct market research; match importers with exporters; serve as liaisons between producers and Japan's regulators; participate in trade exhibitions; conduct in-store promotions as well as restaurant promotions; fund trade missions for Japanese importers and journalists; and evaluate the effectiveness of their market development activities.

Representatives of foreign marketing organizations often cited trade and consumer education as particularly worthwhile and effective. In their view, knowledgeable retailers are more likely to stock products, and informed consumers are more likely to buy products. For example, in the relatively undeveloped Japanese wine market, Wine Australia is educating beverage wholesalers and retailers about wine to obtain shelf space for Australian wine. Once the wine is available in stores, the organization plans to target promotions at consumers. The Australian Meat and Live-Stock Corporation sponsors seminars directed at both the trade and consumers. For example, it features lamb dishes and instructions on preparing lamb in family restaurants, and it has invested in a nationwide television advertising campaign.

from an American consulting firm that conducts market research and promotion activities in Japan, the U.S. Meat Export Federation's² Japan/Korea Director, and the U.S. Export Development Office's Japan Director.

Our scope was limited somewhat in that some foreign competitors' nongovernment marketing organizations in Japan would not meet with us. Also, some of the representatives we spoke with would not provide us with data on funds for promotions. However, we have no reason to believe that the omitted information would have significantly altered our findings. We conducted our work from October 1988 to March 1990, in accordance with generally accepted government auditing standards. As requested, we did not obtain agency comments on this report.

We will release this report to other interested parties on the same date it is released to you. Staff members who made major contributions to the report are listed in appendix IV. If you have any questions regarding this report, I can be reached at (202) 275-4812.

Sincerely,



Allan I. Mendelowitz, Director
Trade, Energy, and Finance Issues

²The U.S. Meat Export Federation is a nongovernment marketing organization that promotes U.S. meat products.

**Appendix I
High Value Agricultural Products and the
Japan Market**

Table I.1: Agricultural Imports and Export Promotion Expenditures in Japan for 10 Countries in 1988

Dollars in millions		
Country	Imports into Japan ^a	Export promotion expenditures ^b
United States	\$9,888.00	\$42.7
Australia	2,733.00	7.0
Canada	1,462.00	2.1
Denmark	753.00	0.7
New Zealand	741.00	5.0
France	531.00	1.7
United Kingdom	401.00	1.2
West Germany	337.00	1.3
Netherlands	290.00	0.9
Italy	107.00	0.9

^aSource: Japanese Ministry of Finance, as reported by Japan External Trade Organization. Data are for calendar year 1988.

^bSource: U.S. Department of Agriculture estimates. U.S. expenditure is for fiscal year 1988; other expenditure data are for calendar year 1988.

In 1987, seafood accounted for 31 percent of Japan's total agricultural imports, followed by meat (14 percent); maize, wheat, and other grains (12 percent); processed foods (12 percent); other foods (11 percent); vegetable oils, fats, and oilseeds (11 percent); and fruits and vegetables (9 percent).

Changing lifestyles and dietary patterns in Japan are also creating opportunities for increased HVP sales. The numbers of working women and people living alone in Japan are expanding demand for convenience foods, and Japanese consumers are acquiring tastes for Western-style foods. Japan's tradition of lavish expense account entertaining continues to support demand for upscale foods and wines, and the large gift market also offers potential for expanding sales of upscale food products.

Japan—A Difficult Export Market

Japan's HVP market is considered a difficult market for foreign companies to enter. Several factors contribute to this difficulty, including (1) the highly competitive nature of the HVP market itself and the resultant battle among new products for shelf space in supermarkets, (2) the complexity of Japan's product distribution system and the personal contacts needed to use it effectively, (3) quotas and tariffs that either restrict product trade or make products more expensive and therefore less competitive, and (4) the need to adapt product size, packaging, or

that his organization spent 7 years developing those relationships before making any sales. In addition to developing a network of importers, wholesalers, and distributors willing to carry Danish products, the Danish organization also developed ties with political and cultural groups in Japan. The marketing organization also promoted Denmark's image to Japanese consumers by promoting tourism to Denmark and participating in cultural events. According to one marketing consultant, large companies should expect to spend between \$2.0 million and \$2.5 million for the first 1 or 2 years to develop the market for their product(s) and about \$1.0 million for follow-up surveys, additional market research, and evaluation.

Trade-Limiting Quotas and Tariffs

Trade barriers, such as quotas and tariffs, also make Japan a difficult market to enter. Although the Japanese government has agreed to end or reduce tariff barriers on nine processed food categories and to end imported beef quotas by April 1991 under the U.S.-Japan Beef and Citrus Agreement, it nevertheless maintains quotas and tariffs on many food items. For example, according to a French marketing organization report, two-thirds of the cost of French wine in Japan is accounted for by taxes and duties. In addition, several foreign officials noted that the government strictly enforces rules on food ingredients and inspection. As a result, producers may have to alter their usual production lines in order to enter the Japanese market. This factor increases producers' costs and may discourage exporting.

Importance of Product Packaging

Numerous officials told us that appearance, packaging, and sizing are extremely important for product success in the Japanese marketplace. The average Japanese consumer's standards for product freshness, appearance, and quality tend to be high. For example, many consumers check the production dates of everything they buy—even canned goods—making older products difficult to sell. Displays, packaging, and arrangements in Japanese supermarkets appear to receive more emphasis than they do in U.S. supermarkets. Also, Japanese consumers tend to prefer smaller-sized packages because they value freshness and have limited kitchen storage space for leftovers.

Foreign Marketing Organizations' Efforts to Gain Market Share

Foreign marketing organizations use a variety of resources and marketing activities to gain market share in the Japanese market. Budgets and staff vary, reflecting the different marketing objectives of the foreign marketing organizations in our review. The marketing activities conducted include market research, trade and technical assistance, and several kinds of promotions.

The foreign marketing organizations in Japan maintain staffs that vary widely in size and are generally composed of both home-country and Japanese personnel. Promotional budgets also vary widely among marketing organizations, due to the types of market promotion activities employed and the availability of resources.

Marketing organization staffs vary in size from 2 to 52 people, and they always include some Japanese personnel—generally more Japanese than home-country personnel. For example, the New Zealand Dairy Board employs 2 New Zealand managers and 50 Japanese staff. Similarly, the Australian Trade Commission has 9 Australian and 27 Japanese staff. At the other extreme, the Flower Council of Holland and the International Flowerbulb Centre Holland each employ one Dutch manager and share one Japanese staff member.

Promotional budgets for marketing organizations vary widely. Of the organizations that provided data on their funds for promotional activities, the International Flowerbulb Centre Holland and the Australian Trade Commission spent the least. The International Flowerbulb Centre Holland spent about \$20,000 in 1988, and the 1989 budget for the Australian Trade Commission was approximately \$140,000. The Flowerbulb Centre's Area Manager said that his organization's market promotion budget is relatively small because the flowerbulb importing community in Japan is small; therefore, his promotional efforts have consisted of visiting flower shops rather than employing more costly mass media campaigns aimed directly at consumers. Similarly, the Australian Trade Commission's market promotion activities are limited in scope. The Commission's budget does not include funds for promotion of beef, an important Australian export, and the Commission does not fund any mass media advertising. According to the Trade Commissioner, the majority of the market promotion funds this past year were for participation in Foodex, the annual international food show in Japan, with lesser amounts allocated for promoting cut flowers and sponsoring a processed foods mission to Japan.

The Agricultural Counsellor stated that his office does not have the resources to undertake in-depth research activities. The staff members in Japan of two Dutch marketing boards, the Flower Council of Holland and the International Flowerbulb Centre Holland, research their markets through their contacts with industry representatives. The Flower Council's Director for Japan performed initial research into the cut flower market several years ago. At that time, he was working within the Japanese flower distribution system as a European Community management trainee. Similarly, the International Flowerbulb Centre Holland's Manager initially researched the Japanese bulb market about 5 years ago, when he was a university student in Tokyo. Both continue researching their markets through their daily contact with members of the flower distribution network.

New Zealand Embassy staff stated that they perform market research only at exporters' request and charge the clients by the hour for the services. For example, a recent 57-page report on the market for kiwifruit wine was requested by the industry, which paid for it. In addition, the New Zealand Meat Producers Board and the New Zealand Dairy Board have commercial operations that perform some market research for the meat and dairy industries.

Trade and Technical Assistance

The marketing organizations we reviewed offer several types of trade and technical assistance to exporters. These include matching exporters and importers, acting as liaison between exporters and the Japanese government concerning compliance with import regulations, negotiating with the Japanese government to change or modify regulations affecting imports into Japan, and disseminating market and trade information to producers and exporters.

Matching Importers and Exporters

Most marketing organizations we reviewed match potential exporters and importers, most often at the request of an exporter who thinks a product might be saleable in Japan. In some cases, however, the importers solicit the business, having recognized demand for a particular product. For example, when Japanese domestic fish supplies decreased, Japanese importers inquired through the British Embassy Commercial Section about possibilities of importing fish and fish products from Scotland, and the Embassy consequently contacted potential exporters.

The marketing organization generally supplies the would-be exporter with a list of industry contacts for the exporter to contact to establish

**Dissemination of Market
Information**

Foreign organizations disseminate information to producers in various ways. They pass information to producers through official government channels and through periodic publications and reports; they answer direct requests from producers; and they keep and make available general marketing information in their Japanese offices.

Some organizations distribute marketing information to producers through official government channels. For example, Canadian Embassy officials told us that the government's Department of Industry, Science, and Technology distributed through its provincial offices the market profile for bottled water. The profile had been prepared by Embassy staff. Similarly, the British Embassy's Commercial Section provides market information through official channels such as the Department of Trade and Industry's Export Intelligence Service.

Another method of dissemination is through periodic publications or reports distributed to producers in their home countries. For example, the Australian Meat and Live-Stock Corporation distributes to producers newsletters that inform them of market trends in Japan and other countries. Similarly, the German marketing organization reports marketing information to producers through its central office in West Germany.

Foreign organizations also provide marketing information in response to requests from producers to determine whether a potential market exists for exporting their products to Japan. For example, the Italian Trade Commission sends market information to potential exporters upon request and suggests possible links with Japanese importers. Similarly, the Danish Agricultural Counsellor said that he spends the majority of his time advising exporters on whether or not a market exists for their products.

Several organizations keep general marketing information in their offices that is available to exporters. Exporters may obtain the information either by contacting or by visiting the offices. For example, the British Embassy's Commercial Section distributes general information pamphlets to assist potential exporters; the German marketing organization provides general information to producers on arranging in-store promotion displays; and the Canadian Embassy distributes market sector information to requesters.

assess the programs' effectiveness. The French marketing organization's Director in Japan noted that, while he does not always hear exporters' opinions on campaign effectiveness, he believes the exporters would not continue to participate in special campaigns if the exporters did not believe they were effective. Finally, some representatives believe that their experience, knowledge of the market, and close contact with the various participants in the trade gives them a fair idea of their programs' effectiveness.

Evaluation of promotional efforts has led some organizations to alter their activities. For example, the Canadian Embassy no longer offers monetary incentives to supermarkets for sponsoring Canadian food fairs because the staff accurately perceived that the supermarkets would host the fairs anyway. The Canadians are also planning to build a hall for exhibiting Canadian products as an alternative to participating in Foodex. Embassy officials believe larger exhibitions probably overshadow the Canadian exhibitions during Foodex, and a smaller exhibit of only Canadian products may be more effective. Similarly, the Australian Trade Commission previously advertised Australian products but discontinued the practice about 12 years ago, after concluding that advertising produced little reaction.

The marketing organizations' representatives generally seemed confident that their evaluation efforts are appropriate, given their products' market situations and the organizations' limited resources. Some stated, however, that they would like to evaluate their activities' effectiveness more systematically to better direct future efforts, but do not have the resources to do this.

Promotion Activities

Trade Exhibitions

Most of the marketing organizations we reviewed arrange or help to arrange exporters' exhibits at large, international food shows such as Foodex. Foodex is an annual exhibition in Tokyo that features food products from all over the world. The event lets Japanese food trade representatives see exporters' products and establish business links. For several marketing organizations, funding Foodex activities is an important promotional activity. For example, a Canadian Embassy official said about 60 percent of the Embassy's agricultural market promotion budget is allocated to its Foodex participation.

Consumer and Retailer Education Several officials told us that educating consumers and retailers is an important part of market promotion. They believe that informed consumers are more likely to buy products, and knowledgeable retailers are more likely to stock products. For example, Wine Australia, an organization that promotes Australian wines in Japan, has funded wine tastings for wine traders and conducted seminars aimed at educating retailers on all aspects of wine.

Case Studies— Different Approaches to Marketing Beef and Wine

The markets for two high value agricultural products, beef and wine, provide examples of how marketing organizations promote HVPS in Japan.

Marketing Beef

According to officials from several marketing organizations, Japan offers significant export potential for foreign beef producers. They believe there is a latent demand for beef that, when combined with Japan's high level of personal income and relatively low per capita consumption of beef, will result in greatly increased sales as beef restrictions are phased out. A principal beef exporter to Japan, Australia is investing considerable market promotion efforts, with the goal of increasing its share of the beef market once quotas are lifted.

The Australian Meat and Live-Stock Corporation funds numerous promotional activities. For example, during 1988 it participated in trade exhibitions such as Foodex, in-store promotions, and restaurant promotions. The corporation also promotes through advertising. It has chosen to invest in a costly nationwide television campaign, and its Director in Japan stated that the television campaign goals are to promote Australia's image along with the product and to reach as many people as possible. Although the cost is high, the Director believes television is the best way to reach the largest number of people.

Other activities sponsored by the Australian Meat and Live-stock Corporation to promote beef include cooking competitions, a butcher exchange program, and trade missions consisting of journalists, Japanese government officials, and Japanese food industry officials.

Appendix II
Foreign Marketing Organizations' Efforts to
Gain Market Share

Because Australian wine is comparatively unknown in Japan, Wine Australia has concentrated on linking Australian wine exporters with Japanese importers which, it hopes, will build business contacts through long-term, calculated planning and activities. Wine Australia's promotional efforts are directed toward basic education to the wine trade on all aspects of wine (because the wine market is still relatively undeveloped) and specifically on Australian wine as a viable competitor with the better-known French, German, Californian, and Italian wines. Overall, Wine Australia is trying to create an image of Australian wine as a good wine value and of Australia as the "Wine Paradise in the Southern Hemisphere." Wine Australia plans to aim promotional efforts at Japanese consumers only after establishing a solid business relationship with the wine trade.

Joint Ventures—The New Zealand Dairy Board Approach

Similar to the New Zealand Meat Producers Board, the New Zealand Dairy Board began commercial operations to unify New Zealand's previously fragmented dairy export efforts. According to the Dairy Board's representative in Japan, in the early 1980s the Board's Directorate believed its position in the Japanese market was strong enough that it could lessen its dependence on the large Japanese trading companies. It planned to lessen its dependence by entering into joint ventures and distributing its products through the Japanese trading companies.

In 1981, the Dairy Board formed New Zealand Milk Products in a 50-50 joint venture with a Japanese firm, Nosawa and Company. In 1983, the Dairy Board purchased an additional 25 percent and now holds 75 percent of the joint venture. Similarly, in 1982, the Board formed Nippon Proteins in a 50-50 joint venture with Nissei Kyokei Company for the marketing of various high technology milk-derived protein products.

The Dairy Board's Japan representative said the move to joint ventures has improved its members' positions in the Japanese market by lessening their dependence on the large trading companies. However, the representative noted that the joint ventures' success is due to two factors. First, the joint ventures were undertaken with the Japanese companies with which they had previously established relationships. The Dairy Board hired the existing employees and administered the joint ventures as normal Japanese companies, following local procedures for financing, credit, insurance, and personnel matters. In addition, the Dairy Board invested considerable effort in maintaining good relationships with buyers who were accustomed to working with the local companies. In this sense, the Dairy Board did not make as independent a break as did the Meat Producers Board, which formed completely new companies. Second, and perhaps most importantly, the Dairy Board acted from a strong market position because it possessed both products and technology that the Japanese companies wanted and could not otherwise obtain. The Dairy Board made it clear to the Japanese companies that if they did not agree to joint ventures, they risked losing opportunities for distributing those products.

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Japanese Companies' Nontraditional Importing Methods

Some Japanese retailers and wholesalers are using "nontraditional" methods in order to import HVPS more cheaply. They are engaging in direct or parallel importing and offshore production.

Direct Importing

Some Japanese retailers are importing directly from producers as an alternative to working through the usual distribution system. For instance, The Daiei, Inc., a large Japanese chain store, employs this method for about 30 percent of its imported food. Company officials told us they prefer direct importing because The Daiei can obtain products more tailored to the company's specifications. Also, by eliminating various middlemen involved in the traditional distribution system, the company is able to offer products at lower prices and, therefore, be more competitive.

Parallel Importing

To cut costs, some Japanese companies are "parallel importing" HVPS from sources outside of Japan rather than buying the identical, but more expensive, products that are produced locally. The identical products, which are also produced under license in Japan, may be cheaper when exported either because of the relative strength of the yen or because input costs are lower outside of Japan. For example, an official from Mitsui and Company, Ltd., one of Japan's leading trading companies, told us that Mitsui can import Coke bottled in the United States or Singapore and resell it more cheaply than they can sell the same item produced locally.

Offshore Production

To offset high production costs in Japan and to take advantage of the strong yen, some Japanese manufacturers are developing production facilities overseas, where the costs of materials and labor are significantly lower than in Japan. For example, the Mitsui officials told us they are importing canned tuna that is being produced in a Japanese-run facility in Thailand. According to the officials, Mitsui provides technical assistance to ensure that the product meets Japanese specifications. Although the label specifies that the item is made in Thailand, the product is the same as the one produced in Japan. The officials estimate the product can be produced for 20-30 percent less in Thailand than in Japan and can, therefore, be sold more cheaply to Japanese consumers.

Nontraditional Importation Methods Can Facilitate Market Penetration

In an effort to be more competitive in the Japanese HVP market, importers are increasingly using innovative, or “nontraditional,” methods to import and distribute their products. The rationale for these methods is to circumvent the traditional steps, or middlemen, that control product distribution and add to product cost. By gaining more control over the products and by cutting costs, the innovative exporters and importers hope to make their products more competitive and successful in Japan. Specifically, among the exporters, two foreign marketing organizations distribute their products through private companies or joint ventures they established rather than through traditional Japanese distribution channels. Among the importers, some Japanese retailers and wholesalers are using nontraditional means to import items more cheaply, as the following examples illustrate.

Independent Commercial Operations—The New Zealand Meat Producers Board Approach

In 1984, the New Zealand Meat Producers Board established its own commercial operations to market sheep meat in Japan. Previously, 38 New Zealand producers exported sheep meat independently. According to the Board’s Asia Director, the individual export efforts were inefficient and fragmented and, as a consequence, the large Japanese trading companies were able to keep prices down and limit exporters’ access to markets. The Meat Board’s Directorate believed that producers needed a unified effort to build up their markets in Japan. Consequently, they established three companies—one each for importing, processing, and distributing—to work together to sell New Zealand meat in Japan. Janmark, the company marketing lamb, is in the early stages of a major marketing development program with the goal of establishing a solid, medium-sized market for New Zealand lamb.

The Meat Board’s Asia Director said that there had been resistance among Japanese importers and traders to the Board’s independent approach. However, the Meat Board’s Asia Director stated that the Meat Board had hired outstanding local people and, through them, is patiently developing contacts throughout the industry. He believes the approach has been successful so far in gaining a larger share of the sheep meat market. The Meat Board’s Director in Japan suggested that some U.S. companies are large and powerful enough to establish independent commercial operations effectively.

Independent Beef Distribution Once Quotas Are Lifted

Australian and New Zealand marketing organization officials believe the upcoming lifting of beef import quotas may lead to the formation of additional, independent commercial distributors in Japan. At present, beef importation and distribution in Japan are strictly controlled through quotas and restrictions imposed by the Japanese government. Representatives from several organizations believe the latent demand for beef is large, and they expect beef consumption to rise considerably when the quotas are lifted—offering profitable opportunities for foreign beef producers. The Director of the New Zealand Meat Producers Board believes some U.S. meat companies are large and powerful enough to establish independent commercial operations in Japan. In so doing, they could circumvent the traditional distribution system, saving middleman costs and expanding as much as the market will allow—similar to what the New Zealand Meat Producers Board did in the sheep meat market. The Director noted that establishing independent operations may be difficult due to resistance from Japanese traders and importers, especially because of the potentially large market—and profits—involved.

Marketing Wine

The Société pour l'Expansion des Ventes des Produits Agricoles et Alimentaires (SOPEXA), the French marketing organization, and Wine Australia are two marketing organizations taking different approaches to promoting wine in the Japanese market. France is the top wine exporter to Japan, followed by West Germany, the United States, Italy, and Australia. According to SOPEXA, Japanese wine consumption is low—about one liter of French wine per person per year, compared with 80 liters per person in Italy. Both SOPEXA and Wine Australia recognize Japan as a promising market for wine and are, therefore, gearing their promotional efforts toward increasing sales to Japan.

According to the SOPEXA representative, SOPEXA is developing a campaign to make French wines more available to the Japanese consumer. While French wine enjoys a good reputation and is well known in Japan, in the past most French wine sold there was the more expensive, premium wine sold through only a few channels such as hotels, restaurants, and department stores. It was not stocked in the smaller liquor shops that sell moderately priced wine and, therefore, was not available to a large portion of the Japanese public. SOPEXA's current campaign emphasizes moderately priced wines and entails promoting them through the smaller liquor shops in order to capture the consumer market.

Marketing organizations also participate in smaller, regional food exhibitions. For example, the Netherlands Embassy participated in the Nishi Nippon fair in Kitakyushu and in other fairs in Sapporo and Osaka.

In-Store Promotions

Japanese supermarket officials and foreign marketing officials believe in-store promotions are an effective way to introduce products to consumers. They noted that Japan's supermarket business is extremely competitive, and most consumers shop daily. A typical in-store promotion will include free samples, possibly a special sale of a particular product, and some promotional literature. We observed several in-store promotions occurring simultaneously in the food section of Mitsukoshi, a leading Japanese department store. Products featured included German sausage, U.S. beef, and Danish cheese.

Because competition for limited shelf space in supermarkets is keen, some officials stressed the importance of obtaining shelf-space commitments from supermarket managers so as not to lose the effects from in-store promotions. For example, the German marketing organization Director said that he obtains agreements for continued shelf space from supermarket officials prior to participating in a store's promotion.

Restaurant Promotions

Several marketing organizations use restaurant promotions to introduce consumers to particular products. For instance, a promotion that we observed for New Zealand beef was in a restaurant located in a Tokyo office building. A large sign outside the restaurant, and a prominent display on the luncheon menu, pictured the special at what appeared to be a reasonable price (about \$8). The Japan Director of the Australian Meat and Live-Stock Corporation told us that he considers restaurant promotions for lamb important because introducing consumers to a product that is correctly prepared is more likely to result in a positive impression of the product and, therefore, to encourage sales for home consumption. According to the Director, one problem with increasing consumers' acceptance of lamb is that most consumers do not know how to prepare it properly; a restaurant is helpful in promoting overall consumer knowledge of the product. As part of its restaurant promotion program, the corporation sponsors prizes, such as trips to Australia, and consumers also receive information on ordering lamb directly from suppliers. The Director also said that he obtains commitments from the restaurants to maintain some Australian dishes as permanent features of the regular menu.

Trade Missions

Many foreign marketing organizations sponsor Japanese trade missions to their countries for Japanese importers in an effort to encourage agricultural exports. Marketing organization officials told us that these missions can be an effective means of linking exporters and importers. In addition, they hope the missions will generate favorable publicity in Japan on the country's products and familiarize Japanese importers with the range of products available. Some include journalists as mission participants with the expectation that they will write positive articles in Japanese publications from their experiences and, according to the Scotch Whisky representative, this response does occur. In addition, a Danish Embassy official said that he tries to schedule trade missions around large Danish agricultural fairs in order to maximize the mission's exposure to Danish products and exporters.

A Canadian Embassy official said that he devotes considerable time ensuring that trade mission participants receive a favorable impression of Canada on their trip; that all arrangements proceed smoothly; and that the participants meet as many potential exporters as possible.

**Evaluation of Market
Development Activities**

Most of the marketing organizations evaluate the results of their market development and promotion activities either formally or informally, and they sometimes alter activities as a result. Some stated that resources limit the type and extent of evaluation they can perform.

Among the formal evaluation methods some marketing organizations we visited use are consumer surveys, sales reports, and other evaluations following food fairs and in-store promotions. They also conduct follow-up discussions with participants of trade missions and with those who have received trade services. For example, the Australian Meat and Live-Stock Corporation contracts with local firms to conduct consumer awareness surveys before and after advertising campaigns. Also, Canadian Embassy staff talk with importers and exporters after helping to link them, and they require Foodex participants to complete evaluation forms. The German marketing organization requires sales data from store managers following in-store promotions.

Marketing organizations informally evaluate the effectiveness of their efforts in various ways. Several organization representatives stated that they sometimes hear from companies following promotions or after other services, and Italian Trade Commission newsletters even request such feedback. Also, several organizations follow export statistics, market shares, or sales trends of products from their countries as a way to

business relationships. In other cases, however, the marketing organization carries out the matching process to help find the best business combinations. For example, a Canadian Embassy representative stated that he tries to connect exporters with importers that are not already handling a similar product. This matching is done so that importers cannot drive prices down by playing suppliers off against each other. Similarly, the Wine Australia representative explained that he spends considerable time matching exporters with "appropriate" Japanese agents because it is especially important in the wine business that the exporter and agent have compatible marketing strategies.

Liaison Activity

Many of the marketing organizations we reviewed provide assistance to companies regarding compliance with Japanese import regulations. Generally this assistance takes the form of researching or interpreting regulations that limit ingredients. For example, the German marketing organization's Director informed a German company that routinely uses saccharine in its products that Japanese government regulations prohibit saccharine. Also, an Italian Trade Commission official told us he keeps wine industry officials informed of chemical testing requirements. Similarly, Canadian Embassy officials stated that they often help participants in the large annual food show—Foodex—clear their products through Japanese customs.

Trade Negotiations

Foreign embassy officials also negotiate with the Japanese government to modify existing regulations that affect agricultural imports. For example, officials from the Netherlands Embassy negotiated for nearly 5 years with the Japanese government to permit inspection of cut flowers before the flowers leave Holland rather than once they arrive in Japan. According to the Area Manager of the International Flowerbulb Centre Holland, this pre-shipment inspection saves transportation costs¹ and allows the flowers to be delivered faster and fresher—making them more competitive in Japan.

Other officials noted that U.S. efforts in negotiating the modification or removal of various trade barriers, such as those on dairy products, beef, and other processed foods, have benefited the export community in general. The Danish Agricultural Counsellor said he believes that the United States has the power to influence the Japanese government, and this helps smaller, less influential countries that subsequently benefit from the U.S.' efforts to reduce or eliminate trade barriers.

¹Pre-shipment inspections enable Dutch producers to avoid the costs associated with shipping flowers which are rejected by Japanese inspectors.

At the other end of the spectrum, the Australian Meat and Live-Stock Corporation's budget for promoting Australian meat during the period July 1, 1987, to June 30, 1988, was about \$7.2 million, including a recently launched television advertising campaign for Australian beef. According to the Director, Australian beef producers are willing to invest heavily in promoting beef because they believe that, with the upcoming lifting of the Japanese beef quotas in 1991, Australian beef producers have an opportunity to improve their share of the beef market. Under the Cooperator and Targeted Export Assistance Programs, U.S. 1988 market development expenditures in Japan totaled approximately \$42.7 million (about six times the expenditures of its nearest competitor, Australia).

Types of Market Development and Promotional Services

Foreign marketing organizations in Japan conduct a wide variety of market development activities, including market research, trade and technical assistance, and numerous types of promotional activities.

Market Research

Most organizations we reviewed offer some research services; however, there is a great variety among organizations in initiating and performing the services and in the depth of the services performed. The following examples illustrate research services that three foreign competitor marketing organizations offer in Japan.

Canadian exports receive market research assistance from the Canadian Embassy, which conducts some market research and contracts with local firms for other research. The Embassy staff conduct limited market research projects for exporters, but they generally contract for more in-depth, industrywide surveys or consumer attitude surveys. For example, the Embassy recently contracted for a profile of the Japanese retail food and beverage sector, but it researched the Japanese market for bottled water with its own staff, producing its own report on this potential market. Embassy representatives told us they see market identification as one of their roles, and they follow market trends with that role in mind. They stated that the Embassy staff constitute the only marketing group performing market research on behalf of Canadian exporters in Japan.

Most market research for exports from the Netherlands is performed by product-specific marketing organizations rather than by the Embassy.

Japanese Government's Import Promotion Efforts

In response to perceptions that Japan is a difficult market to enter and to international criticism over increasing trade surpluses with trading partners, Japanese government officials told us that they are working to encourage and to promote imports. According to the Ministry of International Trade and Industry, as of January 1, 1986, the Japanese government had reduced or abolished tariffs on nearly 2,000 items. Additionally, on July 20, 1988, the United States and Japan completed negotiations to end or reduce import restrictions on nine categories of processed foods, such as dairy products and pasta. The Japanese government also agreed to reduce tariffs on other items, including cereals, soups, and prepared or preserved pineapples, and to eliminate imported beef quotas by April 1991.

The Japan External Trade Organization was established more than 30 years ago to promote exports from Japan to other countries. It currently maintains 77 offices in 57 countries, including 9 offices in the United States and Puerto Rico, and employs 600 personnel in Japan, 300 staff overseas, and 300 foreign nationals. This organization is redirecting its efforts toward promoting imports from other countries due to Japan's economic strength.

formulation—thus increasing production costs—to suit the unique preferences of Japanese consumers. As a result, marketing organizations invest considerable time and money while developing the market in Japan.

HVP Competitiveness

Foreign marketing officials and Japanese supermarket representatives noted that because Japan is an affluent and developed country, HVP exporters compete actively in Japan to expand market share. In addition, Japan's numerous medium-sized supermarket chains compete avidly for consumers. Chain officials closely monitor what is succeeding in the marketplace and frequently change stock items in an effort to attract customers. Because supermarkets are relatively small, producers must also compete for limited shelf space. Several foreign officials told us that uncertainty over obtaining commitments of long-term shelf space from supermarket executives may discourage potential exporters.

A Complex Distribution System

Several foreign marketing officials specifically mentioned that the complex, multilayered distribution system can limit a foreign company's growth potential. This distribution system includes large and powerful Japanese trading companies, one or more levels of wholesalers, and many large and small retailers. Several officials told us that the large trading companies' control over the distribution network can limit a foreign company's access to the network. As a result, importers' growth potential is limited, and companies may, therefore, be reluctant to enter the market.

The nature of the distribution system requires the development of personal relationships, which are considered vital in maintaining the links between the system's layers. Relationships between wholesalers and retailers tend to be close in Japan, and retailers have a strong preference for working with their traditional suppliers, whom they know to be dependable. The New Zealand Meat Producers Board Director in Japan, speaking from his experience in developing a market for New Zealand lamb, stressed the difficulty of breaking into the Japanese market quickly—the Japanese emphasize personal contacts and trust, which take time to cultivate.

Several officials told us that companies entering the Japanese marketplace must be prepared to invest considerable time, effort, and money in cultivating the relationships needed to operate in the Japanese distribution system. For example, one Danish marketing representative stated

High Value Agricultural Products and the Japan Market

Agricultural products are commonly classified as either bulk commodities or high value products. Bulk commodities include raw materials such as grains and cotton. High value agricultural products (HVPS) generally include three groups: high value unprocessed foods such as eggs, fresh fruits, and nuts; semiprocessed products such as flour, oilseed products, and meats; and highly processed products such as prepared meats, dairy products, and soups. HVPS have accounted for about two-thirds of world agricultural trade since the 1960s.

Japan is a large and potentially lucrative market for exported HVPS. According to the Foreign Agricultural Service (FAS), average per capita disposable income is higher in Japan than it is in the United States, and the average Japanese consumer spends about 25 percent of disposable income for food, compared to 12 percent for Americans. In 1987, Japanese consumers spent \$398.2 billion on food and drink out of a total personal consumption bill of \$1.4 trillion.

According to the Japan External Trade Organization, in 1988 Japan imported agricultural products valued at about \$27.4 billion, and according to FAS, 51 countries competed with the United States for the Japanese agricultural import market. Agricultural imports from the nine countries in our review (New Zealand, Australia, Canada, France, West Germany, the United Kingdom, the Netherlands, Italy, and Denmark) plus the United States represented about 63 percent of all agricultural imports to Japan in 1988. The United States had the largest share of that market, with about \$9.9 billion, or 36.1 percent, of the total agricultural import market in Japan. According to FAS, HVPS constituted about 56 percent of this total,¹ and bulk commodities represented about 44 percent of all agricultural imports into Japan from the United States. (See table I.1 for total agricultural imports into Japan from the United States and from the nine countries in our review. Also included in the table are their export promotion expenditures in 1988.)

¹Forest products, which are classified as HVPS, represented about 24 percent of all agricultural imports into Japan from the United States.

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Abbreviations

FAS	Foreign Agricultural Service
GAO	General Accounting Office
HVP	High value agricultural product
SOPEXA	Société pour l'Expansion des Ventes des Produits Agricoles et Alimentaires (French food and beverage marketing organization)

Nontraditional Methods Can Facilitate Market Penetration

Foreign and Japanese companies alike are gaining greater access to the Japanese market by using nontraditional methods of importing or distributing goods in Japan, and one foreign marketing representative stated that U.S. companies could use similar techniques to penetrate the Japanese market. For example, two New Zealand organizations formed their own companies in Japan or entered into joint ventures with Japanese firms to import and distribute their products, bypassing the traditional, but expensive and restrictive, distribution system. The New Zealand Dairy Board's representative in Japan stated that the move to joint ventures has improved its market position in Japan by lessening its dependence on large trading companies. The New Zealand Meat Producers Board Director in Japan suggested that some U.S. companies are large and powerful enough to establish independent commercial operations effectively.

Some Japanese companies are also beginning to bypass the traditional distribution system by importing directly from foreign producers and using parallel importing and offshore production techniques to import goods more cheaply. One Japanese trading company told us it imports canned tuna from a Japanese-operated facility in Thailand because the product can be produced from 20 percent to 30 percent cheaper than in Japan.

Scope and Methodology

We interviewed foreign embassy and marketing organization officials of the nine competitors which, according to U.S. Foreign Agricultural Service estimates, spent the most on high value product market promotion in Japan during 1987. Four countries—France, West Germany, Italy, and Canada—each have only one marketing organization conducting market research and promotion activities in Japan, and we spoke with a representative from each. The others—New Zealand, Australia, the United Kingdom, the Netherlands, and Denmark—have both government and nongovernment marketing entities conducting research and promotional activities in Japan. For these, we talked with a representative of each government organization and at least one nongovernment organization.

In addition, we met with Japanese officials from government organizations who are working to promote agricultural imports, Japanese trading company officials, and Japanese wholesalers and retailers who market imported agricultural products. We also visited Japanese supermarkets and department store food sections to observe market promotion activities first hand. In addition, we interviewed representatives

agricultural trade, and Far East markets offer excellent opportunities for exporters of these products.

Japan is a large and potentially lucrative market for exported high value agricultural products. According to the Foreign Agricultural Service, Japanese average per capita disposable income is higher than it is in the United States, and the average Japanese spends about 25 percent of disposable income for food, compared to 12 percent per American. In 1987, Japanese consumers spent \$398.2 billion on food and drink out of a total personal consumption bill of \$1.4 trillion. The value of its market for all agricultural products in 1988 was \$27.4 billion, according to the Japan External Trade Organization.

According to Foreign Agricultural Service estimates, 1988 market development expenditures by foreign governments in the Japanese market ranged from \$900,000 (Italy and the Netherlands) to \$7.0 million (Australia), while the United States spent \$42.6 million under its Targeted Export Assistance and Cooperator market development programs.¹

Japan—A Difficult Export Market

Japan is thought to be a difficult market for companies to penetrate due to the competition for shelf space in supermarkets for HVP products; the complexity of Japan's product distribution system; quotas and tariffs that either restrict trade or make products more expensive and therefore less competitive; and the need to adapt product size, packaging, or formulation to suit the preferences of Japanese consumers.

Foreign companies must be willing to invest considerable time and money to develop markets for their products in Japan. According to one estimate, large companies should allow at least 5 to 7 years for products to become profitable. They should also expect to spend between \$2 million and \$2.5 million for the first 1 or 2 years to develop the market for their product(s) and about \$1 million for follow-up surveys, additional market research, and evaluation.

The New Zealand Meat Producers Board Director in Japan, speaking from his experience in developing a market for New Zealand lamb, stressed the difficulty of breaking into the Japanese market quickly—the Japanese emphasize personal contacts and trust, which take time to

¹For a general discussion of foreign market development for high value agricultural products, see *International Trade: Foreign Market Development for High Value Agricultural Products*, (GAO/NSIAD-90-47, Jan. 17, 1990).

