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The Pacific Rim Juice Trade

Raymond A. Jussaume Jr.

Introduction

The title of my talk today, "The Pacific Rim Juice Trade," is not as precise a title as I would like. Although I have a very strong interest in the Pacific Rim as a single market, most of my research on the juice industry has been focused on Japan. Therefore, I can only offer you specific information on the market for juice products in Japan, although I do believe that insights gained from a study of Japan can be used to construct intelligent questions concerning the Pacific Rim market.

Before describing some of the specifics of the Japanese juice market, I would like to review some of the recent trends in the Japanese economy, in order to set the context for what is to follow. There are two major macro events that are having profound impacts on all types of economic relationships with Japan. The first is that economic growth in Japan remains very weak and consumer spending continues to be sluggish. Year to year sales at department stores and supermarkets remain flat. "Combined sales of the top 500 retailers for fiscal 1993 grew a meager 0.1 percent year on year" (*The Nikkei Weekly* 1994a). Convenience stores are faring a little better, but even that industry's era of rapid expansion appears to be coming to an end. For example, total sales at existing convenience stores in 1993 grew by only 1.7 percent (*The Nikkei Weekly* 1994b).

The second major macro event affecting trade with Japan is the continued rise in the value of the yen. In spite of the recession, the yen continues to grow stronger. The exchange rate is now less than 100 yen to the dollar. The strengthening yen, combined with the continued weakness in the domestic economy, is pressuring retailers into increased price competition. Consumers are developing an expectation that prices should be coming down, which offers an advantage to those retailers who can discount prices on some of their items.

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As a consequence, retailers in Japan, particularly national retail chains, have become engaged in more aggressive price discounting and making direct purchases from producers, including overseas producers, than they have in the past. One example of the changes taking place is the recent announcement by Ito-Yokado, arguably the most profitable of the Japanese supermarket chains and the owners of Seven-Eleven Japan, that it will begin to import directly from Wal-Mart (*The Nikkei Weekly* 1994c). Another example is how Daiei supermarkets, the chain with the most stores in Japan, has begun importing cola from the United States that is sold under its own brand for half the price of major Japanese brands of cola (*The Asia Foundation* 1994).

Juice in Japan

These trends can be observed in the marketing and distribution of juice products. This is particularly true for large size (one liter and over) bottles and packages of 100 percent "natural" juice products, as these products are more amenable to discounting than vending machine sales. Supermarkets, in particular, have been using orange juice import liberalization, which was well publicized in Japan, to help encourage consumer flow through their stores. This is made possible by a unique aspect of the juice industry in Japan, the common practice of distributors contracting with bottlers, especially agricultural cooperatives, to produce branded juice products.

One example of how this can work is the case of Daiei supermarkets. Daiei's sales and profits were down in 1992, while those of its nearest competitor, Ito-Yokado, grew (*Nihon Shokuryou Shinbun* 1993). As one response to these sagging sales and the need to bolster its image as a chain whose principal marketing strategy is low prices, Daiei began selling one liter packages of Daiei-brand orange juice, processed from imported concentrate, first for ¥198, and then for ¥188. This was a much lower price than other orange juice brands that were selling in the ¥220-¥250 range (*Asahi Evening News* 1993). It was reported that

through this strategy, Daiei was able to sell ¥3 billion in orange juice in one year, as well as earn a fair amount of free publicity. Nonetheless, Daiei is still not the major purveyor of orange juice in Japan (Jussaume 1994). The best selling "natural" juice products in Japan are produced and distributed by the Agricultural Cooperatives, Glico and Snow.

Despite liberalization of the juice imports and increased price competition, consumer demand for juice products has not risen considerably in Japan, at least until 1993. In particular, production of the various types of fruit juice based soft drinks (10% to 50% juice content) has declined substantially since 1990. The percentage of all soft drinks that were produced in Japan from fruit juice and syrups declined from 24.3 to 18.9 percent between 1990 and 1992. This loss has been made up for in part by increased consumption of "natural" 100 percent juice beverage products, particularly in the home. For example, the percentage of all household expenditures, as well as of household food expenditures, spent on fruit juice climbed considerably in the 1980s, much faster than that for milk or carbonated beverages (Shokuhin Sangyou Center 1992). While part of that rise can be attributed to the more rapid rise in prices for fruit juice products, consumer prices for juice products rose only slightly faster than that for colas, household expenditures for the former increased while those for carbonated beverages decreased.

However, the overall demand for fruit juice and juice-based drinks has not risen significantly as a result of the liberalization and selected cases of price discounting. The case of apple juice is instructive of this. Figure 1 shows changes in fruit juice consumption in Japan between 1987 and 1991 by amount of fruit juice concentrate used to produce the wide variety of juice drinks consumed in Japan. In interpreting this graph, the reader should note that 1990 was the first year of apple juice import liberalization. Between 1989 and 1991, total consumption of apple juice concentrate declined in Japan (Figure 1).

Shortly after apple juice concentrate imports had been liberalized, I wrote that the amount of apple juice concentrate being shipped into Japan was surprising. Domestic statistics for demand of juice products did not justify the high level of imports that were being recorded in that first year of liberalization. It is possible that importers were aggressively expanding imports in the hope that demand would grow as well as in order to ensure themselves of overseas supplies and to stake out an expanded share of the domestic market. Regardless of what the explanation might have been, Japanese demand for apple juice products could not sustain such a surge in imports. In 1990, the first year after liberalization, 42 million liters of

apple juice concentrate were imported into Japan. By 1992, the level of imports had fallen to 31 million liters (Jussaume 1994).

Why is juice consumption remaining flat despite import liberalization, increased competition, and decreasing pressure on prices? Part of the explanation could be environmental. Sales of all categories of soft drinks in 1992 and 1993 were very weak in Japan, due to the very cold summers of those two years. An examination of data from 1994, once it is compiled and reported, will give us a much better indication of the short-term future of soft drink sales in Japan as this summer was the hottest on record for nearly 50 years. Stagnant demand for soft drinks could also be attributable in part to the recession and the subsequent weakening in consumer demand for a wide variety of products. However, I also believe that there is another important factor that can be used to explain the absence of any significant jump in juice consumption in Japan. There are many soft drink products that compete for consumer attention in that country, not the least of which is canned teas.

Japan, like most of East Asia, is a tea drinking culture. Tea shrubs were first introduced into Japan in the 6th century A.D. (Seligman 1994). Consumption of various tea drinks, including oolong tea from China, green tea, barley tea, and others (Figure II), is nearly six times what it is in the United States (144.5 to 26.1 liters per year). This is opposite to the situation in carbonated beverages, where Americans consume an average of 185.1 liters per year as opposed to 20.5 liters in Japan. Americans also consume more milk, coffee, mineral water, and fruit drinks than Japanese. Overall, Americans drink an average 690 liters of fluid a year, as opposed to 533 liters in Japan.

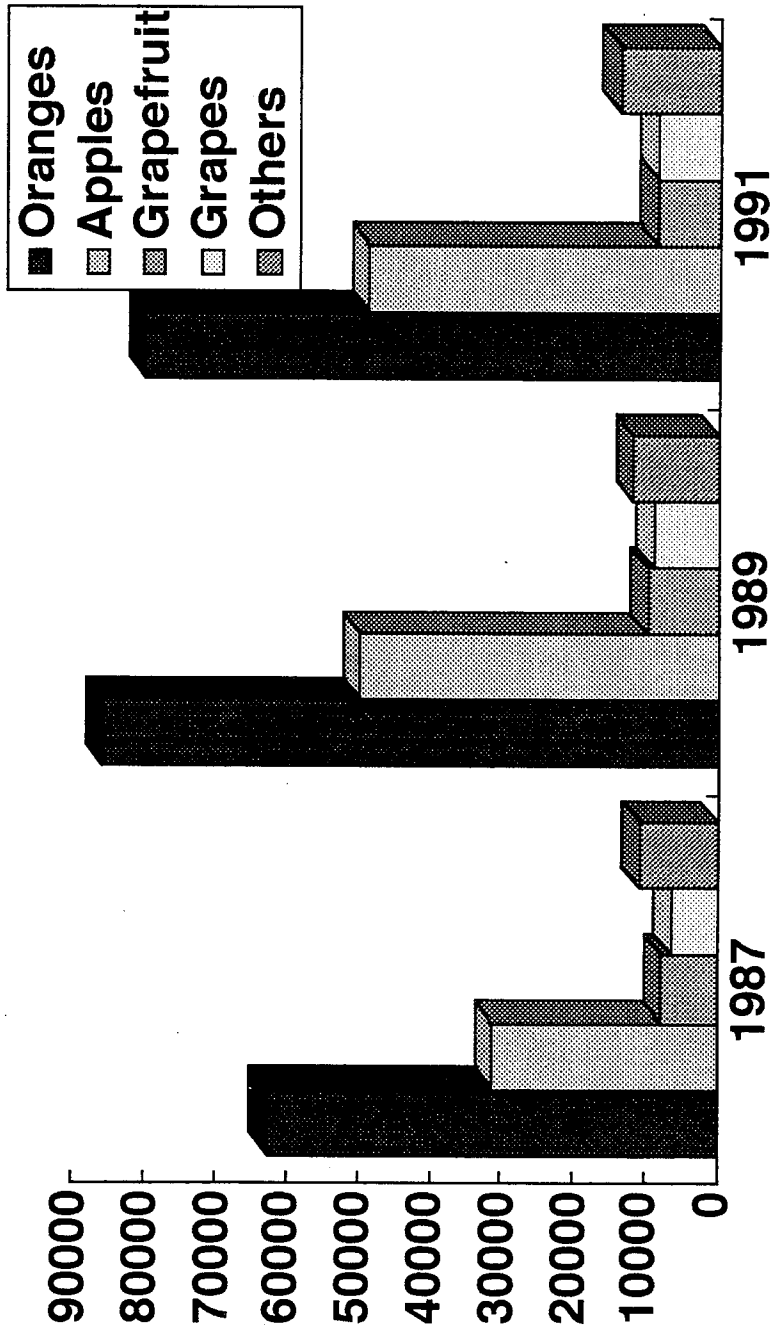
One of the reasons give for the popularity of tea in Japan is that many tea drinks do not contain caffeine and are generally sugar free. Needless to say, advertisers are promoting these "healthy" aspects of tea in their attempts to sell more product to increasingly health conscious consumers. The soft drink industry is also promoting canned and bottled tea consumption much more than they are juice consumption because the volume of tea, traditionally brewed and consumed at home, is still quite large. This means there is great market potential for the soft drink industry, which has hopes of selling more canned and bottled teas to replace some of that which is brewed in the home.

The argument here is not to suggest that Japanese consumers do not consume or enjoy fruit juices. Clearly they do. However, the role of fruit juice consumption in that country, and thus the nature of the marketing and distribution system for juice products, has its own unique dimensions. This is perhaps best

FIGURE I

Consumption of Fruit Juice Concentrate by Fruit Type

(in tons of concentrate: 1/5)

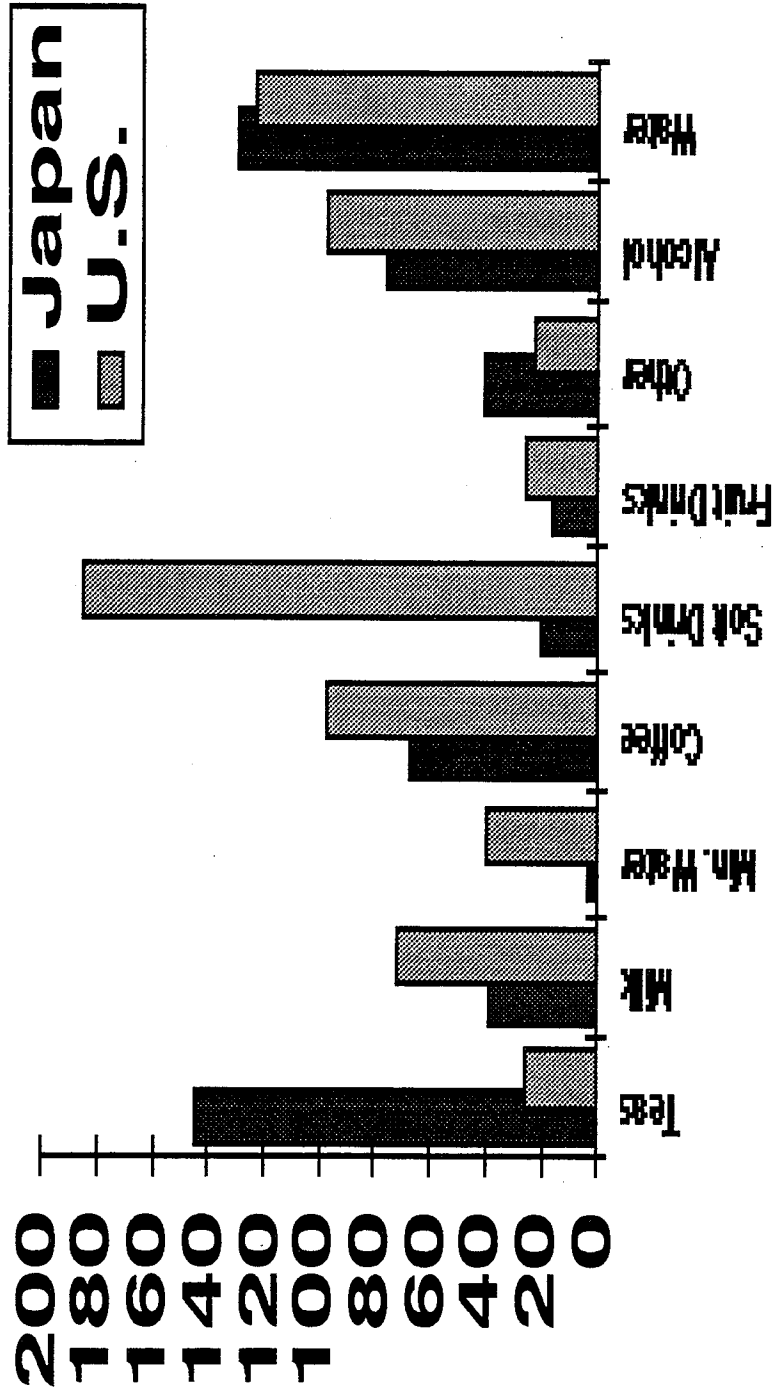


SOURCE: Japan External Trade Organization

FIGURE II

Liquid Consumption in the U.S. and Japan

(in litres per person per year)



SOURCE: Toyo Canning

illustrated by a brief discussion of one of the most important distribution channels for drinks in Japan; vending machines. In 1991, there were over 2.7 million vending machines dispensing food items in Japan, of which more than 1.9 million were used to sell soft drinks, including juice (Nihon Shokuryou Shinbunsha 1993). It is vending machine sales, especially during Japan's hot and sticky summers, that percentage juice drinks are popular. As the price for all soft drinks sold in vending machines (¥110) is the same, "natural" fruit drinks sold from vending machines tend to come in smaller sizes (170 grams) than drinks with a 10 percent juice base (350 milliliters). For a hot and thirsty Japanese consumer on the run, a percentage juice drink, carbonated beverage, iced tea or coffee satisfies more.

Not surprisingly, then, the Japanese market for juice drinks has its own unique attributes. We should not expect that developments in Japan will parallel those in the United States, although we may note interesting similarities. We should also not expect demand for food products, in general, to rise very rapidly, as Japan is certainly not a country where very many people are going underfed. Therefore, I would argue that pressure will continue to increase on overseas suppliers to provide Japanese buyers with high quality good for as low a price as possible. In the case of foods, this is going to mean that Japanese buyers are going to reflect Japanese consumer desires to purchase foods that are healthy, safe, and inexpensive.

The increasingly competitive nature of food trade in Japan is exemplified by the changes that have been taking place in the structure of apple juice concentrate imports into Japan. The first year of apple juice liberalization was 1990. This turned out to be a boom year for apple juice imports. Nearly 43 million liters of apple juice were imported into that country that year, of which a third came from the United States. As noted previously, that level of imports was much higher than could be expected to be maintained given the level of domestic apple juice consumption. Apple juice imports into Japan slipped to 37,454 kiloliters in 1991 and 31,851 kiloliters in 1992. During this period of decline in overall apple juice imports, imports from Austria, South Africa, New Zealand, and Australia all increased!

Table 1 presents more up-to-date information on the structure of apple juice imports in Japan. It covers imports of the most common of the four categories of apple juice concentrate imported into Japan: apple juice with no sugar added and a sucrose concentration level of 10 percent. If we compare import levels for the first four months of 1993 and 1994, we note that overall imports of this category of apple juice have

increased. However, the share of imports coming from the United States has dropped dramatically. In addition, prices for apple juice imported from the United States are noticeably higher than for imports from other countries.

One must be cautious in interpreting this data. Year to year fluctuations in prices and import volume by country are expected due to variations in quality of harvest and global supplies. In addition, there can be differences in the types of products exported from the same country. For example, a Japanese firm with an apple juice factory in the State of Washington specializes in producing cloudy apple juice, which generally sells for a higher price, at that plant for export to Japan. In import data, the imports of this product would not necessarily be distinguished from other types of apple juice.

Nonetheless, a couple of interesting observations can be made. The first is the good news that above average prices are paid for American apple juice. This could be taken as a sign that, on the whole, U.S. apple juice is perceived to be a high value product. This is fortunate given that many of the competing nations undoubtedly have lower production costs. This suggests that apple juice producing firms in the United States should continue to work hard to maintain high quality standards that reflect Japanese tastes and desires for their product. They should work to avoid situations such as that which happened early last month when it was publicly announced that apple juice imported from the United States was found to be contaminated with TBZ!

A second point which should be noted is the fluctuations in where apple juice is sourced from and in the prices paid. This undoubtedly reflects, in part, instability in production levels and global supplies. It is also an indication of the capacity of Japanese buyers to source apple juice from a variety of sources. In other words, Japan is a very competitive market, and one which attracts the interest of numerous suppliers. Given these conditions, along with the instability in the Japanese juice market that is linked in part to the economic recession in that country, it becomes very difficult to predict what the future structure of Japanese apple juice imports, and the role of the United States within it, will be.

Conclusions

To summarize, juice products are one of a wide array of soft drink products that are retailed in Japan. Some of these drinks are more "Japanese" than others, and juice concentrate is used in a wide variety of fascinating products. In addition, Japanese consumers are very quality conscious, especially when it comes to

Table 1
Changes in Structure of Apple Juice¹ Imports into Japan
by Country of Origin, 1993-1994
(in liters, percentage and ¥/litre)

Country	Jan.-April	1993 % of Imports	Price	Jan.-April	1994 % of Imports	Price
Austria	4,063,926	30.85	227	5,347,282	32.62	172
U.S.A.	5,191,272	39.41	337	4,764,659	28.14	304
Germany	743,863	5.65	236	1,736,408	10.26	169
China	1,152,198	8.75	213	1,550,180	9.46	149
New Zealand	152,020	6.33	363	1,331,623	8.12	203
Chile	216,813	1.15	344	607,487	3.59	186
Hungary	379,351	2.88	245	315,502	1.86	175
Turkey	143,577	8.15	211	258,468	1.53	187
Australia	128,212	1.09	196	249,630	1.47	179
Argentina	120,654	0.92	301	209,369	1.24	199
South Africa	28,189	0.21	210	185,501	1.10	172
Italy	180,913	1.37	239	139,300	0.82	184
Brazil	91,446	0.69	224	117,587	0.69	179
Spain	297,047	2.26	236	82,337	0.49	215
S. Korea	-----	0.00	----	35,642	0.21	164
France	154,633	1.17	243	-----	0.00	----
Holland	109,757	0.83	255	-----	0.00	----
Poland	18,501	0.14	222	-----	0.00	----
Total/ Average	13,172,372		275	16,931,011		211

NOTE: Percentage figures are rounded

¹ For apple juice imports, no sugar added, with sucrose concentrations less than 10 percent.

Source: Ministry of Finance, as reported in *Beverage Japan 1994*.

food, and are particularly concerned about healthfulness and food safety issues. There are also a large number of willing suppliers, both domestic and foreign, who are struggling to establish a presence in the Japanese marketplace. In other words, the Japanese market for juice products, as it is for so many other food and non-food items, is complex, has many unique attributes, and is extremely competitive.

Many individuals who have experience in Japan and the rest of Asia argue that success in business in Japan is good training for success in other Asian countries. I believe this is a correct assessment. However, this does not mean that the structure of the marketplace, and in particular, the vagaries of consumer demand are going to be similar throughout Japan. On the contrary, evidence I have seen suggests the opposite. For example, I have been told by people I have interviewed in the juice industry that per capita consumption of orange juice is much higher in South Korea than it is in Japan. To expect Korean consumers to resemble Japanese consumers is probably as unreasonable as to expect the latter to represent American consumers.

Success in Japan is valuable because it teaches the importance of learning about a market on its own terms. While the countries and cultures of the Pacific Rim are becoming increasingly integrated, economically as well as socially, it would be incorrect to assume that these societies, or any particular subgroup of them, will be melding together in the near future. In other words, while a great deal of borrowing takes place as a result of international trade and cross-cultural exchanges, it is reasonable to expect that particular cultural traditions will be preserved (Pieterse 1994). It is thus reasonable to expect that variety in markets and distribution systems throughout the Pacific Rim region will persist, and that one key to success in international marketing will be in knowing when and how to adapt to each of these.

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