INTERNATIONALIZATION STRATEGIES AND PRODUCT DIVERSIFICATION IN THE JAPANESE FOOD INDUSTRY

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Abstract

The purpose of this study is to determine whether different levels of product diversification have an impact on internationalization strategies. We conducted a case study that included three food companies that have different positions regarding the features of internationalization and product diversification. We found three obstacles to the progress of overseas expansion in the food manufacturing industry in Japan. Based on the literature review, it seems that performance becomes high as product and market diversification is increased. However, under certain circumstances, these merits can also have limits.

Key words: *food manufacturing industry, innovation, product diversification, internationalization*

1. INTRODUCTION

Product diversification is one of the most important strategy for companies (Hoskisson et al., 2000; Nippa et al., 2011). According to Amit and Livnat (1988), motivation for a company to invest in product diversification includes the ensuing improvement in its market share and synergy between its business activities, as well as a reduction in its risk of bankruptcy as a result of risk management. Rumelt (1986) pointed out that at one point in 1974, 86% of companies listed on Fortune 500 were acted in more than one business market. Porter (1987) also noted that the percentage of companies pursuing product diversification is increasing. A similar tendency has been reported in the food industry. For example, Nestlé is expanding into medical and cosmetic products by investing in product diversification (Hoskisson and Hitt, 1994).

In addition to product diversification, internationalization is another important strategy for companies (Grant, 1987). For example, Nestlé established an R&D center in Singapore for the purpose of product development in order to focus on the Asian market UNCTD, 2005). Similarly, world-renowned beverage manufacturer, Coca-Cola, began developing a variety of products around the world at an early stage (Banutu-Gomez, 2012).

There is a close relationship between product diversification and internationalization, and the importance of this correlation has been emphasized (Mayer et al., 2014). However, product and internationalization have been considered simultaneously in only a handful of studies (Palich et al., 2000). There are two reasons for this. Firstly, among companies in the same field, style or size, some succeed in product diversification and internationalization while others do not. In other words, these strategies and the factors behind their success are rather complex. Secondly, as Beckeman and Skjöldebrand (2007) and Garcia Martinez and Briz (2000) argued, the pace of innovative activity in the food industry tends to be slow compared to that in other industries, and only a few companies are interested in product diversification and internationalization.

Under these circumstances, companies, as well as but also governments and local governments have been calling for internationalization as a top priority strategy for the food industry. On the other hand, not all companies and products can succeed in internationalization. The food industry is in the process of learning this strategy. In this study, we focused on product diversification of companies. The degree of product diversification differs largely in each company. Do these differences in structure lead to differences in internationalization? To consider this issue, research for this study is conducted in two steps. First, we categorized companies into several groups according to the level of product diversification and internationalization. Then, we conducted a case study to determine a history of the strategy that had been applied by each company based on diversification level differences.

2. LITERATURE REVIEW

2.1. Product diversification

"Product diversification" is defined as the introduction of new products into new markets other than existing industries or markets in which the company is already conducting business (Sambharya, 1995).

Why do companies engage in product diversification? The relationship between product diversification and company performance has been evaluated in numerous studies (Ramanujam and Varadarajan, 1989; Datta et al., 1991; Schmid and Walter, 2009). Three main benefits have been highlighted in this regard in previous studies. Firstly, companies can gain benefits from occupying markets. By ensuring diversity of products, they are able to access broader markets; the result being an improvement in overall company performance (Caves, 1981; Miller and Pras, 1980). Secondly, companies can achieve profit stability through risk diversification (Palich et al., 2000). A third advantage is achieved through the synergy effect, whereby the knowledge acquired with regard to existing products can be adapted when marketing other similar new ones (Palich et al., 2000).

Despite the aforementioned benefits, product diversification also comes with costs that impact negatively on company performance. It has been demonstrated in previous studies that any deviation from the company's core business can be disadvantageous to its overall performance (Berger and Ofek, 1995; Wernerfelt and Montgomery, 1988).

The product diversification of companies can be divided into two categories; namely "related diversification" (diversification within the same industry) and "non-related diversification" (diversification into other industries) (Palepu, 1985). Rumelt (1974) categorized various diversification strategies and evaluated the relationship between diversification strategies and company performance. It was found in that study that the highest performing companies were those that limited the diversification of products to their main skill or capability range.

2.2. Internationalization

According to Hitt et al., (1997), "international diversification" is defined as the expansion of a company's business activities to various countries and areas. Internationalization was included in one interpretation of international diversification. Several mechanisms are involved in the internationalization of companies. For example, Hymer (1960) argues that a company can transfer skills and knowledge cultivated in its own country to foreign countries and make use of them on site. In addition, Johanson and Vahlne (1977) argue that initially companies should expand into countries (markets) in which the environment (language, culture, and nation system) is similar to that of their own country and only expand into countries (markets) with a different environment at a later stage.

The benefits of internationalization are now outlined. Firstly, in addition to product diversification, internationalization can be expected to increase market saturation (Hennart, 1982; Kogut, 1985), thereby reducing costs in the supply chain management process from supplier to consumer. Risk dispersion through internationalization is a second benefit (Kim et al., 1993). Since economic conditions and customs differ in each market, getting into several markets will reduce total risk (Miller and Pras, 1980; Caves, 1996). The last benefit is generated by making use of a company's existing expertise. The execution of various activities in each market through internationalization results in the development of company expertise, resulting in an improvement to overall competitiveness through enhanced business activity (Kogut and Zander, 1992; Zahra et al., 2000).

On the other hand, is associated with costs that impact negatively on company performance. Among these are the costs of management and adjustment of foreign branches (Jones and Hill, 1988).

The transformation in company performance in companies at various internationalization levels was evaluated in a study by Qian et al. (2008) and an inverse U-shaped relationship was observed. Internationalization was seen to have a positive effect on company performance in companies with less internationalization and a negative one above a certain level.

3. METHODOLOGY AND DATA

Based on the previous studies, this study examines how a company's product diversification affects its globalization strategy by focusing on Japanese food manufacturing companies. We used the two techniques that are described below.

First, we classified the product diversification and internationalization of each company. We used the Nikkei Value Search database, which includes a company's financial data and sales information in each segment. We analyzed the data from 131 food-manufacturing companies. Because there are no laws that require disclosure of segment information and such data are different from company to company. To achieve uniformity, we identified firms according to their SIC codes from October 2013.

We calculated each product diversification level with an index called the entropy index (Hitt et al., 1997; Palich et al., 2000). It is calculated based on each segment's sales component ratio using the formula presented below, in which the number i represents the segment and varies from 1 to n, and the specialized field's sales component ratio is Pi. The entropy index for a specialized company with a segment number of 1 is 0. The greater the number, the greater the degree of internationalization.

$$\text{Entropy index} = \sum_{i=1}^{n} P_i * \ln \frac{1}{P_i}$$

We calculated the overseas sales ratio by dividing overseas sales by total sales. We plotted the overseas sales ratio versus the entropy index (product diversification).

In the second step, we investigated the feature by extracting three companies with high product diversification and high internationalization, high product diversification and low internationalization, and low product diversification and high internationalization to identify changes in new product development. The three companies that we targeted in this case study are Ajinomoto co., inc. (Ajinomoto), House foods group inc. (House), and Yakult honsha co. ltd. (Yakult). These companies were selected for two reasons. First, the materials related to their business activities in the past have been already gathered. Second, at the time of establishment, each company's mainstream products did not exist in other companies—neither domestically nor abroad. Other companies from which we gained information were beverage and tobacco manufacturers. Since these industries already existed in overseas markets, we considered that it would be relatively easy for them to raise their ratio of overseas sales. We thus excluded them from this case study. Furthermore, we have clarified that all of these companies were located in the lower left segment of Fig. 1 at their time of establishment.

Case studies are useful for deepening one's understanding of complex phenomena, constructing new theories, and gaining understanding based on statistical deviations (Yin, 2009; Flick, 2014). There are two types of case studies, the study of one case, and the study of multiple cases. By focusing on multiple cases in this study, we were able to clarify how management process and results link under different conditions (Eisenhardt, 1989). In addition, it is also possible to create and modify theories based on multiple cases. There are potential problems with the case study approach that arise from the potential interference of intentionality in the selection of cases (George and Bennett, 2013). However, we were able to benefit from merits because we could identify the process of product diversification and internationalization in which each companies engaged.

4. RESULTS

4.1. Trend in the relationship between overseas sales ratio and product diversification

We plot internationalization versus product diversification in figure 1. The vertical axis represents the overseas sales ratio. The larger the numerical value, the higher the overseas sales fraction of total sales. The horizontal axis represents the degree of product diversification. It is displayed on the right side of the graph, if the company has the large amount of sales from diversified product lineups.

Regarding the overseas sales ratio, although one of the food manufacturing companies has more than 50% overseas sales, most values are less than 40%. For product diversification, we find that there are many companies that have diversified product portfolios because it varies from 0.2 to 1.2. Additionally, no specific type of industry such as beverage, oil, and seasoning business makes a group, which implies the positioning does not depend on the type of industry.

A simple linear regression was calculated to predict return on assets (ROA; M=5.5%, SD=3.7%) based on the overseas sales ratio (M=22.8%, SD=15.7%) (figure 2). A significant regression equation was found ($F\,(1,26)=4.46$, $p<0.05$), with an R2 of 0.15. The predicted ROA was equal to 3.42+0.09 (overseas sales ratio), with the overseas sales ratio measured in %.

This study focuses on three companies' features which is different in position, about product diversification and internationalization on Figure 1. We extract (1) high product diversification and high overseas sales ratio, (2) high product diversification and low overseas sales ratio, and (3) low product diversification and high overseas sales ratio.

As mentioned above, food manufacturing industry in Japan is in the process of learning about internationalization. Then, how could the companies with high overseas sales ratio have succeeded increasing their sales in other markets? How did the degree of product diversification effect? We studied three companies of Ajinomoto co., inc. (Ajinomoto), House foods group inc. (House), and Yakult honsha co. ltd. (Yakult) as the case (1), (2) and (3) respectively.

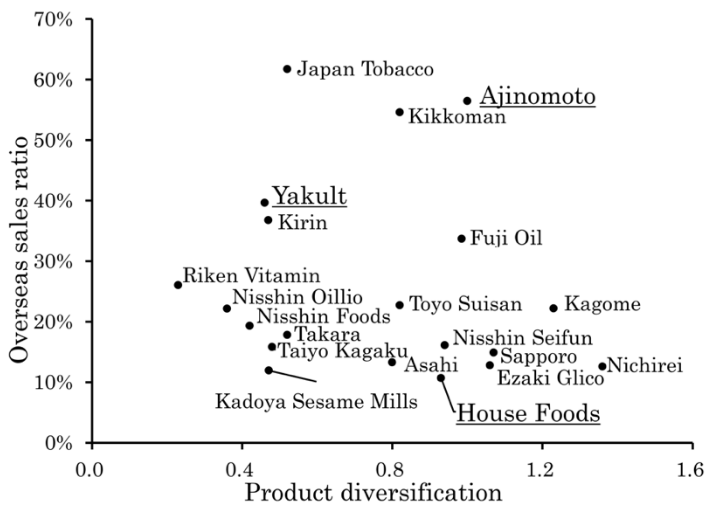

Figure 1. Product diversification versus overseas sales ratio

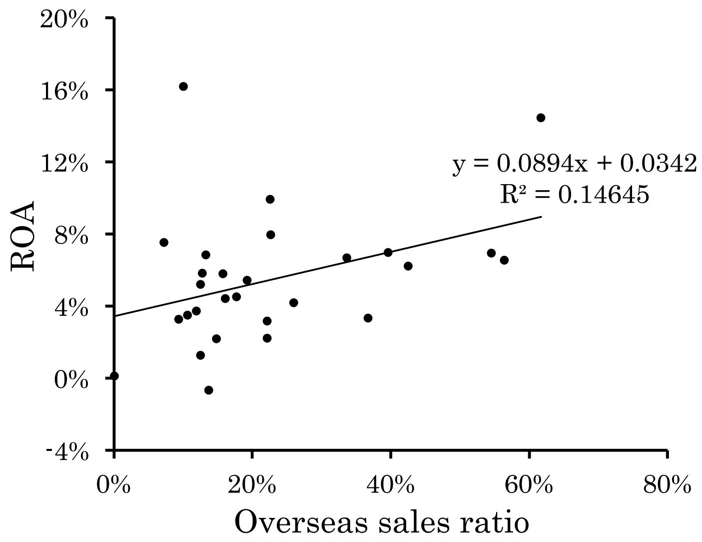

Figure 2. Overseas sales ratio versus ROA

4.2.1. Case (1): Feature of high product diversification and high overseas sales ratio

- Product diversification

The Ajinomoto's process of product diversification expanded its product´s line-up to pass from plain seasoning to multi-seasoning and then to processed food. We identified three types of processes. For over 50 years, since its inception in 1909, Ajinomoto increased its net sales of plain seasoning named "Ajinomoto" which means "origin of taste" in Japanese. "Ajinomoto" consisted of glutamine acid, which was recognized scientifically as the sixth gustation "Umami". It began its diversification in 1960, with the multi-seasoning Ajinomoto-Plus, which combined monosodium glutamate with sodium inosine acid. Subsequently, it began to sell a series of seasonings for Japanese and Chinese food.

In terms of processed food, Ajinomoto's subsidiary began to sell a type of soup in 1962. The soup was Ajinomoto's first foray into processed food. Subsequently, from the view of the diversification within processed food, the company actively worked in cooperation with overseas companies or engaged in mergers. For instance, in 1962, it signed a contract with Kellogg, an American company, to manufacture and sell cornflakes. In 1968, Ajinomoto began to manufacture and sell mayonnaise using the additional technology that was gained through the merger. Then, in a 1972 joint venture, the Ajinomoto General Food Stock Company, AGF, was created via a merger with the America General Company, and AGF began to manufacture and sell instant coffee. Additionally, Ajinomoto also entered into the frozen food industry in 1972.

- Overseas expansion

Ajinomoto built its first post-war overseas factory in Thailand and resumed sales in 1962. When sales resumed, the simple MSG seasoning, called Ajinomoto, was well-received in the domestic Thai market, making it possible to improve brand awareness and sales. However, in the early 1980s, the price of raw materials for seasonings decreased and the company found itself facing market saturation of their products as well as fierce competition from other manufacturers. As a result, Ajinomoto began to diversify its products with the goal of further expanding sales. Beginning with new multi-seasoning, using the diverse product knowledge cultivated in the Japanese market, the company developed new demand for seasonings in Thailand. Sales of ROSDEE, a seasoning launched in 1970, grew with the development of Thailand's domestic economy, reaching THB 60 million in sales in 1995 and exceeding THB 2.5 billion in 2005. Simultaneously, with diversification through multi-seasoning, Ajinomoto formed a partnership with the local Wan Thai Foods Industry Co., Ltd. and broke into the processed food industry by selling instant noodles. Subsequent growth of this product continued, accounting for

THB 1.5 billion of the THB 9 billion instant noodle market in Thailand. Thus, expansion of the product lineup in Thailand contributed greatly to Ajinomoto's current overall sales overseas.

For the next stage of expansion, the company looked to the Brazilian market, establishing Ajinomoto Brazil in 1956. Unlike Thailand, where the flagship seasoning "Ajinomoto" was successful, the Brazilian company functioned on a much smaller scale, initially targeting only consumers of Japanese descent. It was the 1988 launch of multi-seasoning adapted to the local palate that led to sales growth in Brazil. Thereafter, economic developments in Brazil followed a similar course as in Thailand. With these economic developments, the company diversified into processed foods, such as soup and beverages, adapting to the diverse consumers, which led to even further expansion of sales. Currently, Ajinomoto's sales in Brazil account for approximately 10% of the company's entire overseas consumer foods business.

In America, Ajinomoto New York (currently Ajinomoto North America, Inc.) was established alongside the Brazil location in 1956. The core of the American diet is meat products, and as bouillon was already widely used, the simple MSG seasoning that was successful in Asia and was marketed for the general consumer did not sell well. Sales growth of general consumer products began with an expansion into the processed foods business in the American market. Ajinomoto Frozen Foods USA, established in 2000, first began sales exclusively as an OEM product at a membership-style grocery store. Sales grew due to the popularity of Japanese and Asian foods in the American market in recent years, and in 2013, sales reached JPY 13 billion in the frozen food section alone. This put Ajinomoto's share of the Japanese/Asian frozen foods market in the US at 7th place. With the 2014 acquisition of Windsor Quality Holdings, a frozen food company with top market share, processed food sales in America expanded even further.

With these overseas developments and the diversification of products to adapt to various markets, Ajinomoto's expansion has enabled it to offer products in over 130 different countries, resulting in an overseas sales ratio of over 50% of its total sales.

4.2.2. Case (2): Feature of high product diversification and low overseas sales ratio

- *Product diversification*

The process of House's product diversification was not a three-step process, as it was for Ajinomoto. The case of House is an example of product diversification in the field of processed foods.

House started manufacturing and selling curry roux in 1926. In the 1960s, it increased its diversification in processed foods by selling new curry roux. Next, in 1977, it began to manufacture and sell ramen and a dessert product. Then, it established a business alliance with General Mills and began to manufacture and sell snack food such as potato chips. In 1983, it expanded into the field of drinks, selling mineral water, which was new in Japan at the time. Recently, the company has continued its product diversification efforts in the field of beverages to produce high-functional water, which includes herbal extracts.

- *Overseas expansion*

House has engaged in more products selling in the Japanese market than overseas. That is why its overseas sales ratio is only 10%. House's internationalization began by making strategy department for overseas business in its head office in Tokyo. In 1983, it focused on the possibility of the market expansion of tofu, which is a healthy processed food, and began manufacturing and selling tofu in America. At that time, almost all of the American consumers of tofu were Asian people because the product had not yet become popular in the country. Then, in 1983, House Foods & Yamauchi Inc., was established, and "Curry House" opened in Los Angeles. The company's curry business in China manufactures and sells a form of curry roux that has been adjusted for the Chinese palette. However, the product is still not popular in the Chinese market.

4.2.3. Case (3): Feature of low product diversification and high overseas sales ratio

- Product diversification

Yakult's product diversification began with a fermented milk drink named "Yakult". Currently, its product diversification is low because drinks account for almost all of its sales.

Yakult's manufacturing and selling began in 1935. At that time, Japanese people did not have the knowledge about fermented milk. However, by introducing an original selling method, which featured the "Yakult lady," the company's sales dramatically increased. In 1970, it increased the number of products in its line-up. The company first began selling a liquid-type yoghurt, which was created by mixing fermented milk. It was first time such a product had been manufactured and sold in Japan.

The company continued to study and develop other fermented milk products, and it began selling new drinks using another type of fungus. In 1965, going beyond the production and sale of processed foods that use fermented milk, Yakult began to sell a noodle product. Then, it began to study the guava leaf, and it started selling a guava leaf tea in 1998. The product was later recognized for its specific health uses.

- Overseas expansion

Yakult's overseas business began in Taiwan in 1964. Its product line-up consisted of Yakult and other related drinks. The company's overseas sales ratio is as high as 40% because fermented milk drink products are attractive to the overseas market. Yakult's internationalization features two steps.

The first period of increased overseas expansion was between 1975 and 1985. In this period, the company expanded into Brazil, Hong Kong, Thailand, Korea, the Philippines, Singapore, and Mexico. The similarity among these countries is that they were all considered to be "developing" countries.

In the second step, after the 1990s, because of an increase in medical costs, there was major interest in probiotics in the EU. Given this context, the company entered the markets of EU countries such as the Netherlands, Belgium, the UK, and Germany, in addition to Australia and Argentina. The first step included joint ventures with local businesses, but the second step was completely funded by Yakult.

5. DISCUSSION

5.1. Development of a framework on product diversification and internationalization strategy

In this study, we reviewed how companies with different degrees of product diversification and overseas sales ratios maintained different practices of product diversification and internationalization strategies. Regarding the Ajinomoto's, after World War II, it increased its overseas sales with three steps for internationalization strategy and product diversification in the market.

5.1.1. First step: the period of expanding plain seasoning sales from the 1950s through the 1970s

During this time, Ajinomoto's internationalization strategy included selling products in the overseas market that were the same as those they sold in Japan. For other Asian markets in which the food and lifestyle are similar to those of Japan, this strategy was successful. However, in countries with lifestyles in which meat is a central factor, the company did not succeed.

5.1.2. Second step: the period of expanding multi-seasoning sales from the 1970s through the 2000s

This was a period of overseas expansion for the company's flavor seasoning, which was derived from its first step. This was succeeded by selling flavor seasoning for meat in the Brazilian market, which did not initially obtain good results in the first step. This is because the company's strategy was to develop and manufacture products for local food lifestyles on a market-by-market basis.

5.1.3. Third step: the period of expanding processed food sales after the 1990s

Until the second step, Ajinomoto had been to expand the sales of its seasoning products to the markets. However, in this period, the company expanded its processed production including soups and instant ramen. Whereas multiple-seasoning in the second step was made on a market-by-market basis, in third step, the company began to sell the same soup in multiple counties. Additionally, the company's sale to America was not successful until the second step, which resulted in the successful sale of frozen foods.

In Asian countries such as Thailand, all of the steps had been successful. However, in countries that did not accept plain seasoning initially due to differences in food styles, the second and third steps were used.

From Ajinomoto's product diversification and internationalization strategy, there are three matters that are not examined by previous literature. These three matters are as follows:

(1) Obstacles to food traditions and flavors

(2) Obstacles to food styles on how to cook and eat

(3) Obstacles to food manufacturing and markets

In this study, we present these matters as obstacles to prevent food manufacturing companies internationalizing. These obstacles are intertwined product-by-product. For these obstacles 1 and 2 are external to the company's efforts. In the case of the first obstacle, a product is not accepted because it is not customary or familiar in certain regions. There also may be prejudices or prohibitions against eating certain foods. In the case of the second obstacle, it is possible that an alternative product should be introduced into the targeted area. There also may be no immediate need for a new product.

Finally, in the case of the third obstacle, there are possible internal factors that could improve the situation if a company makes the proper effort. For instance, if there are not enough facilities in a developing country but there is a demand for frozen food, a company could provide the necessary facilities. Alternatively, in situations where improvement is required, a company could engage activities in a latent market to affect the desired change.

Table 1. Three steps for internationalization strategy

International Strategy	Asia	South America	North America
First step (plain seasoning)	X	-	-
Second step (multi-seasoning)	X	X	-
Third step (processed food)	X	X	X

5.2. Application of the framework

A company's international expansion does not necessarily go well in these types of obstacles. House tried to form a new market by selling one of its main products in Japan, curry, on the international market. However, its overseas sales ratio was never greater than 10%. In this case, the curry spice could be understood as being a flavor obstacle. However, because of obstacle 2, i.e., the curry and its ingredients were unfamiliar, it was not accepted by Americans and Europeans.

Yakult succeeded two steps overseas expansion in view of obstacles 1 and 2. For this reason, it has been said that Yakult's product is a dairy product, and thus it had a feature that could fit easily in any country.

According to Literature review, there are three profits of diversification for products and markets. First is market control, which means that by increasing the degree of product diversification, a company can enter more markets (Caves, 1981). Furthermore, regarding market diversification, a company can grow into a market effectively by using abilities that created in one country, and it becomes easy to establish an entry obstacle (Kogut, 1985).

The second profit is distribution of risk. Increasing a company's number of products can stabilize its profits through the diversification of risk (Grant, 1998; Palich et al., 2000; Miller and Pras, 1980; Caves, 1996).

The final profit is synergy. A company's management resources are not reserved only for certain products and/or countries, it is possible to use for other products and/or countries and effectively create synergy (Grant, 1998; Palich et al., 2000; Zahra et al., 2000).

Based on the literature review, it seems that performance becomes high as product and market diversification is increased. However, under certain circumstances, these merits can also have limits.

Hitt et al. (1997) examined how product diversification affects the relationship between internationalization and business performance. This study classified the degree of product diversification into three levels and showed how individual companies' profitability changes according to their progress in internationalization. In the case of companies with a medium level of product diversification, their profitability is at a medium level when the degree of internationalization is low. Their profitability improves as the degree of market diversification rises up to a certain point, after which it gradually declines, representing an inverse U-shaped relationship. As demonstrated in this study, it is clear that the progress to internationalization does not necessarily lead to positive results for company performance.

6. CONCLUSION AND FUTURE WORK

This study analyzed three companies in the food manufacturing industry in terms of their product diversification and internationalization strategy. As a result, we clarified three obstacles to the process developing overseas markets.

Although Ajinomoto's internationalization has slowed, it continues to increase its overseas sales by adjusting its product development according to each individual market. Furthermore, Yakult is relatively increasing its overseas sales ratio with its low-cost dairy flagship products in each country that it enters. On the other hand, House's overseas sales ratio has remained steady at 10% because its products have not proved to be popular, mainly with Western consumers owing to obstacle 2.

In future work, a larger sample should be considered. We followed each strategic transition and clarified features that were extracted from each company. The first company featured a high degree of product diversification and high overseas sales ratios, the second had a low degree of product diversification and high overseas sales ratios, and the third featured a high degree of product diversification and low overseas sales ratios. A company could plan to increase its overseas sales ratio in a group of companies that have a high degree of product diversification and a low overseas sales ratio. For example, Ezaki Glico Company has announced that it plans to increase the worldwide sales of its flagship products threefold to 1 billion yen. Additionally, the Nisshin Seifun Group plans to increase its group's overall overseas sales ratio by 30%.

Because we identify companies that plan to increase their overseas sales ratios, we can conclude that internationalization strategy is significant for Japanese food manufacturing companies. Therefore, future works should focus on these companies aiming to expand overseas sales, and try to sophisticate the framework.

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