



## Making Japanese tea a big business: The transformation of ITO EN since the 1960s

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### *Abstract*

*Although traditional industries are commonly dominated by numerous SMEs focused on their respective domestic markets, the Japanese tea industry experienced the emergence and rapid growth of large enterprises in the 1990s. This article analyzes the strategy that enabled such a change, focusing on the most important Japanese tea producer, ITO EN, which developed bottled green tea in 1985. Based on an approach of business history and industry studies, the article argues that the shift in the 1990s was made possible by the transformation of the true nature of the tea industry in going from a commodity business to a branded consumer-goods business.*

### Introduction

Since World War II, most traditional industries in Japan have undergone major mutations. The Westernization of the Japanese lifestyle since the 1960s, along with the decline of the domestic market since 2000<sup>1</sup>, have had a major impact in that context. The production and consumption of clothing (kimonos and geta sandals, for example), necessities (Japanese paper, towels), handicrafts (wood/stone sculpture, handwoven rugs), and drinks (sake and tea) were deeply influenced by social change.<sup>2</sup> While some traditional industries have entered a long phase of decline since then, the tea industry was able to enter a new period of growth in the 1990s based on the consumption of bottled green tea. This marketing innovation, developed by ITO EN, had a disruptive effect on the Japanese tea industry and enabled the company to achieve uncontested domination. ITO EN was the largest firm in this business in 2019, with over 25% of the total volume of all crude tea produced in the country.<sup>3</sup> The impressive growth of ITO EN from a small tea wholesaler with annual sales of 1.5 billion yen in 1970 to a comprehensive tea beverage maker with annual sales of 504 billion yen in 2019 exemplifies a firm in a traditional industry able to reinvent the nature of the industry's core product and establish itself as a competitor on the global market.

Understanding the transformation of ITO EN from a small wholesaler to a large enterprise is helpful in discussing the ability of small companies in traditional industries to change and regain competitiveness. Research in

<sup>1</sup> Sawai Minoru and Yuzawa Noriko, "Special Talk Jiba Sangyō to wa Nani ka, Sanchi no kore made to korekara o Kangaeru: Chiiki Keizai o Sasae, Dentō Bunka o Ninatte" in *Jiba sangyō: dentō to kakushin no kiseki* [Local Industry: Tradition and Innovation] (Tokyo: Teikoku Dētabanku Shiryō-kan Myūzu, 2018), 12-34.

<sup>2</sup> Tomoko Hashino, "The survival strategy of the Japanese kimono industry" in *Global luxury* (Singapore: Palgrave, 2018), 257-274.

<sup>3</sup> ITO EN Annual Report (hereafter IEAR) 2019, available online via: <https://www.itoen-global.com/management/pdf/2019/ar/all.pdf>

management studies has emphasized that companies that struggle to survive in traditional industries have adopted three strategies, generally: developing high value-added products, innovating in manufacturing processes, and exploring foreign markets.<sup>4</sup> For example, the development of collective brands (towel industry) and the positioning of industries as cultural heritage in touristic places (wood sculpture and the foundry industry) made it possible to increase the value of these products.<sup>5</sup> Numerous sake brewers, meanwhile, started to export their goods and improved production methods to lower costs.<sup>6</sup> Despite these various attempts, however, most of the industries failed to enter a new period of growth. Unlike small companies in modern industries that depend on large firms, companies in traditional industries are not only small but also operate mostly independently<sup>7</sup>, which makes their sustainability challenging. The case of European luxury companies, which shifted from small family businesses to large conglomerates during the 1980s and 1990s, demonstrates that firms in traditional industries can achieve a fast growth on global markets through a proper change of strategy.<sup>8</sup> In Japan, however, the emergence of big business in traditional industries is still rare. Therefore, exploring the conditions surrounding ITO EN's transformation into a large enterprise is crucial to understanding how this process occurred.

ITO EN has drawn the attention of only a few scholars whose works focus mainly on two perspectives. First, some researchers argued that product development and market creation were the key factors underlying ITO EN's growth.<sup>9</sup> The development of bottled green tea created a new market that became one of the company's major sources of income.<sup>10</sup> It occurred in the context of a metamorphosis in the non-alcoholic beverage market, characterized by the development of a broad range of new goods since the 1950s. Examples include canned beverages (1954), canned coffee (1969), canned black tea (1973), mineral water (1974), and sports drinks (1980).<sup>11</sup> The numbers of new products started to grow in the 1980s, while their overall lifecycles have shortened.<sup>12</sup> Hence, the market for each product became smaller and increasingly competitive.<sup>13</sup> In that context, ITO EN's innovation does not seem particularly original. However, bottled green tea experienced sustainable growth over the long term—a rare phenomenon among other goods. The conditions that allowed this long-term growth and the transformation of ITO EN into a big business have not yet been subject to scholarly analysis. Second, other scholars have attributed the success of ITO EN to its long-term accumulated organizational capability, notably its sales network and relationships with plantation farmers.<sup>14</sup> This argument is not convincing, however, because other competitors had similar sales networks<sup>15</sup>, and importing green tea can facilitate access to raw materials.<sup>16</sup> It is therefore unclear how the organizational abilities it accumulated in tea-production districts helped ITO EN achieve its tremendous growth. The objective of this paper is thus to fill these literature gaps. The main research question addressed by this study is: How was a small tea wholesaler able to transform into a large company and achieve sustainable growth in a once declining traditional industry?

<sup>4</sup> Washida Yūichi, *Dezain ga nobēshon o tsutaeru -- dezain no chikara o ikasu atarashī keiei senryaku no mosaku* (Tokyo: Yuhikaku, 2014), 144–145.

<sup>5</sup> Teikoku Data Bank Museum (hereafter TDB), *Jiba sangyō*.

<sup>6</sup> Ninomiya Mari, “Nadazake no dentō to kindai-ka o meguru sōkoku (jiba sangyō: Dentō to kakushin no kiseki)” in *Jiba sangyō*.

<sup>7</sup> TDB, *Jiba sangyō*, 8.

<sup>8</sup> Pierre-Yves Donzé and Rika Fujioka, *Global Luxury Organizational Change and Emerging Markets since the 1970s*, Singapore: Palgrave, 2018.

<sup>9</sup> Yanagawa Takayuki, “Mēkāmāketingu no seikō rei to shippai rei,” *Hakuōdaigaku ronshū*, 9.1 (1994): 141–170. Also see Yoshida Mari, *Fu kakuteina kankyo ni okeru ichiba yosoku to suiko-teki jissen -- kabushikigaisha Itōen inryō-ka hiritsu o sanshō-ten to shita ichiba sōzō no jirei*, *Marketing Journal* 29.3 (2010): 59–73.

<sup>10</sup> Takayama Makoto, “Hakai-teki inobēshon o jitsugen sa seru senryaku kontekusuto,” *Nihon Jōhō Keiei Gakkaishi* 38.4 (2019): 24–35.

<sup>11</sup> Ōkura Yūjirō, *Itōen no “shizentai” keiei* (Tokyo: Nikkan Kōgyō Shinbunsha, 2012), 44.

<sup>12</sup> Umeno Masatoshi, “Seiryō inryō sangyō ni miru shinseihinkaihatsu no ‘yakuwari’ to ‘kata’(tokushū rekishi ni manabu kiki e no shohōsen).” *Hikone Ronsō* 423 (2020): 172–184.

<sup>13</sup> *Ibid.*

<sup>14</sup> Osamura Tomoyuki, “Chiiki ni okeru shokuhin mēkā no senryaku tenkai to kyōsō yūi: Itōen no jirei. Rakunōgakuendaigaku kiyō,” *Jinbun Shakai Kagaku-hen*, 43.1 (2018): 25–34.

<sup>15</sup> Murayama Takatoshi, “Seiryō inryō bijinesu no tayō-ka keikō ni kansuru ichikōsatsu — bijinesu purēyā no i gyōshu san'nyū kōdō o chūshin ni shite —,” *Tōhoku Gakuin Daigaku Ronshū Keizai-gaku* 157 (2004): 41–152.

<sup>16</sup> Majumder Basu, A., B. Bera, and A. Rajan, “Tea statistics: global scenario,” *Inc J Tea Sci* 8.1 (2010): 121–4.

## Methodology

In order to understand the transformation of ITO EN into big business as an example of successful change in a traditional Japanese industry, we follow an approach of business history and industry studies. We analyze the evolution of ITO EN on the basis of original documents from an ex-ante perspective, giving importance to contextualization in order to make sense of changes and decision making.<sup>17</sup> Moreover, we discuss the growth the firm within the general context of the tea industry's evolution. Kurosawa argued that each industry has its own specificities that impact the dynamics of competition between companies.<sup>18</sup> We thus identify the specific features of the tea industry in next section before moving on to the case of ITO EN.

The main sources for this study are annual reports published by ITO EN after its IPO (1992–2020) and financial data on unlisted firms published by Nikkei before its IPO (1970–1991). Sources on the tea industry consist of statistics published by the Tea Industry Association and the Ministry of Agriculture, Forestry and Fisheries; publications by Nikkei group, the largest business news media in Japan, since 1975 (<https://t21.nikkei.co.jp>); and company market shares published by Nikkan Keizai Tsushin (1974–2019). These various sources provided the information necessary to analyze both the evolution of the environment in the tea industry since the 1960s and the ways that ITO EN has undergone changes. This article comprises six sections, including the introduction and methodology. Section three gives an overview of the long-term structural change of the Japanese tea industry, and section four introduces the marketing innovation of bottled green tea. Section five presents the transformation process of ITO EN. A final section provides concluding remarks.

## Long-term structural changes in the Japanese tea industry

This section highlights the main trends of the evolution of the Japanese tea industry since the 1880s based on consumption, production, and foreign-trade statistics. By "tea industry," we mean the green tea industry, as Japan produces mainly this type of tea (97.1% in 2016).<sup>19</sup> Figure 1 shows perfectly that this sector transformed from a mainly export-oriented industry during the Meiji period (1868–1912) to a domestic market-oriented industry in the 1960s. Between 1880 and 1885, production averaged 19,000 tons each year, 90.6% of which were exported.<sup>20</sup> Together with silk, tea was Japan's major export after the opening of the country.<sup>21</sup> The tea industry was based on small-scale production units, handicraft production methods, and low quality.<sup>22</sup> Despite the introduction of modern technology, Japanese tea manufacturers were unable to cope with the emergence of competitors in the British Empire, notably in India and Sri Lanka, and started to lose their international competitiveness. The proportional share of exports decreased gradually to 32.7% in 1931–1935. The purchasers of tea shifted from the once-powerful foreign merchants established in Japanese treaty ports, who had connections with foreign demand, to domestic traders and wholesalers, supported by urban banks.<sup>23</sup> Around 1905, the rise of domestic consumption became the driving force of the development of the Japanese tea industry.

<sup>17</sup> Takeo Kikkawa, "Fifty Years of Business History in Japan Past Achievements and Future Prospects," *Japanese Research in Business History* 30 (2013):11–29. See also Matthias Kipping, R. Daniel Wadhvani and Marcelo Bucheli, "Analyzing and interpreting historical sources: A basic methodology" in *Organizations in time: History, theory, methods* (Oxford: Oxford University Press, 2014), 305–329.

<sup>18</sup> Takafumi Kurosawa, "Industry history: Its concepts and methods" in *Industries and Global Competition: A History of Business Beyond Borders* (New York and London: Routledge, 2018), 1–23.

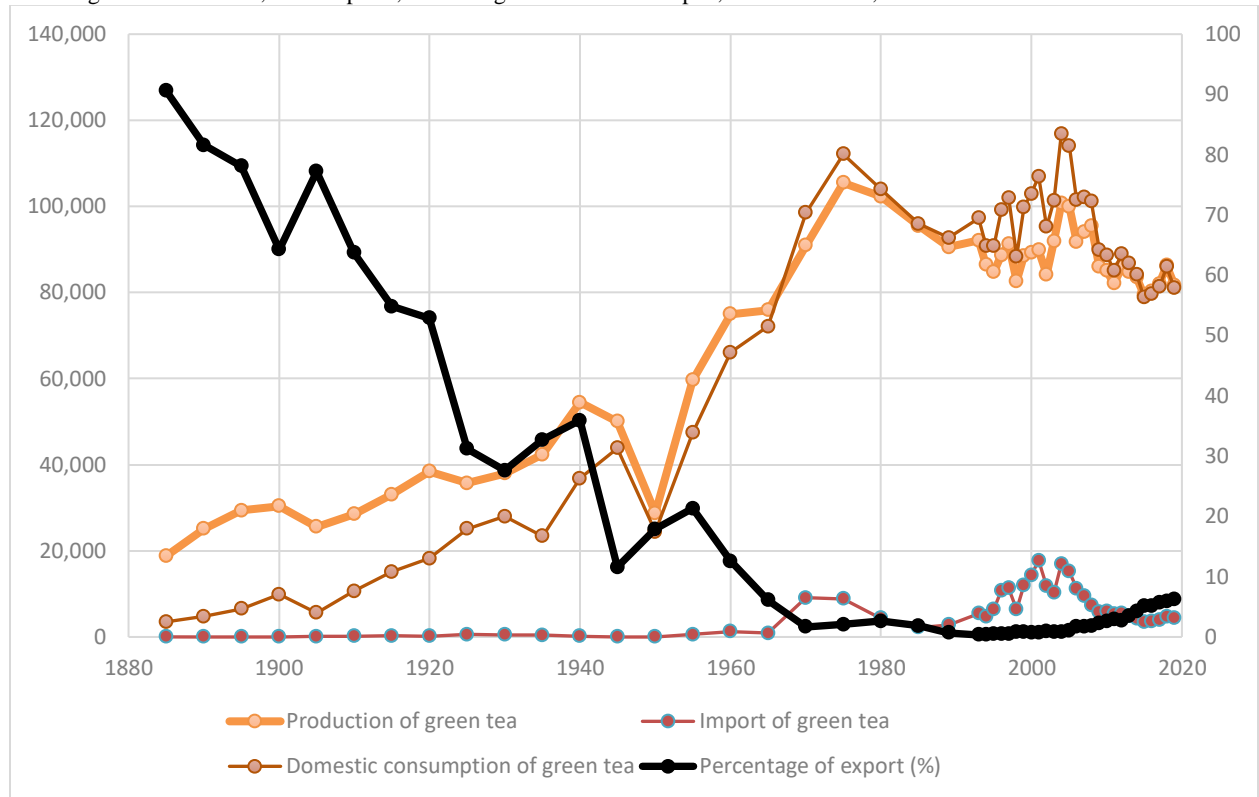
<sup>19</sup> Kōeki Shadanhōjin Nihon Chagyō Chūōkai (hereafter KSNCC), *Cha Kankei Shiryo* (hereafter CKS) (Tokyo: Kōeki shadanhōjin Nihon cha-gyō Chūōkai, 2020), 9.

<sup>20</sup> Teramoto Masuhide, *Senzen-ki Nihon cha-gyō-shi kenkyū* (Tokyo: Yuhikaku, 2002), 15.

<sup>21</sup> *Ibid.*, 22.

<sup>22</sup> *Ibid.*, 18.

<sup>23</sup> Uchiyama Masateru and Ishiguro Shigeaki, "Chagyō to nōson," *Nōgyō Sōgō Kenkyū* 3.4 (1949): 98-137.

Figure 1 Production, consumption, and foreign trade of tea in Japan, volume in tons, 1880–2019<sup>24</sup>

After World War II, Japanese tea was designated by the occupation army as an exchange food material for rice imports. Tea exports, organized by the Tea Agricultural Association, experienced a resurgence for a while, reaching 21.3% of production in 1955, but then started to decline again.<sup>25</sup> However, despite losing its international competitiveness, the tea industry achieved substantial growth with expanding domestic consumption, which became the driving force of growth after 1955 in the context of a fast-expanding mass-consumption society. Production increased from 73,000 tons in 1955 to 105,000 tons in 1975. At the same time, the share of exports fell to 1.5% in 1975.<sup>26</sup> To meet the challenges of low production capabilities and the growing demand of consumption, industrial production, and distribution embarked on major shifts, with the Tea Agricultural Association leading the way. First, innovations such as the development of the hybrid tea “yabukita,” the mechanization of picking and processing, and co-production improved productivity.<sup>27</sup> Second, tea-related authorities organized the tea market as a middle institution between production and distribution to allow new distributors to join and to speed up distribution.<sup>28</sup> Tea packagers emerged as a new type of distributor during this time. With the fast-growing segment of self-service stores, the sales of tea distributed by package makers to self-service stores increased from 11.6% in 1965 to 27.3% in 1977.<sup>29</sup> From

<sup>24</sup> See Ōishi Sadao, *Nihon chagyō hattatsushi* (Tokyo: Nōsan gyoson bunka kyōkai, 1983): 279 for 1880–1960 and CKS (2020) for 1960–2019. Figures for years prior to 1960 are averages for the previous five years (e.g., data for 1885 represents the average of 1880–1885); numbers for years after 1960 are the yearly numbers.

<sup>25</sup> Masuda Yoshiaki, “Kin’nen no ryokucha shōhi mondai ni kansuru kōsatsu,” *Nōrin-gyō Mondai Kenkyū* 20.3 (1984):115-123.

<sup>26</sup> Ōishi, *Nihon Chagyō Hattatsushi*, 279

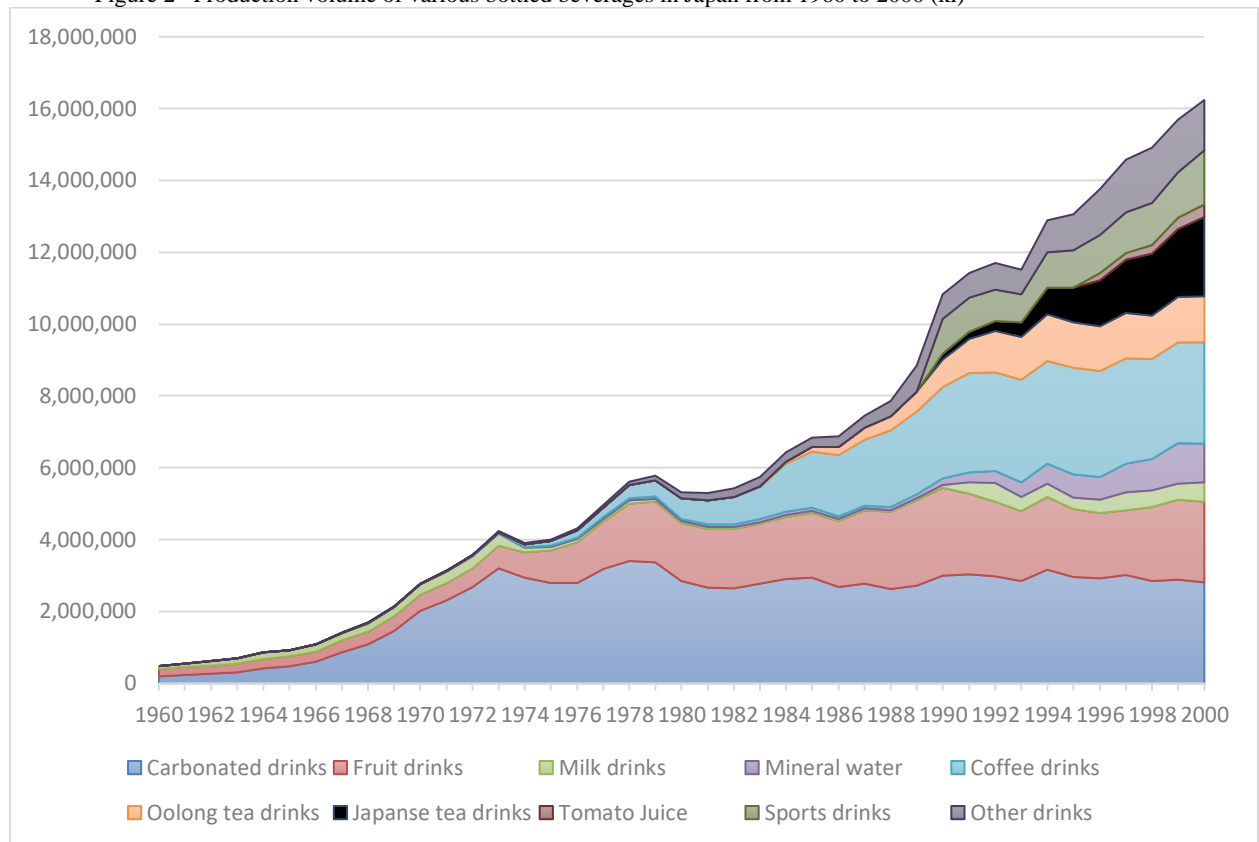
<sup>27</sup> Takeda Yoshiyuki, “Nihon ryokucha no tenkan-ten: Seisan, shōhi, yushutsu (tokushū sekai ryokucha kaigi 2019: Sekai no ryokucha ichiba kakudai e no tenbō),” *Ryokucha tsūshin = World Green Tea Association bulletin: Sekai ryokucha kyōkai kikan-shi* 46 (2020): 3-7.

<sup>28</sup> Masuda Yoshiaki, *Cha no keizai bunseki* (Tokyo: Nōrin Tōkei Kyōkai, 1986), 78.

<sup>29</sup> *Ibid.*, 92.

1966 to 1979, the number of tea-specific wholesalers increased from 1,910 to 2,934, while specific tea retailers grew in number from 10,488 to 14,487.<sup>30</sup>

Figure 2 Production volume of various bottled beverages in Japan from 1960 to 2000 (kl)<sup>31</sup>



However, the domestic boom of tea consumption did not last forever (see Figure 1). The popularization of fast food, convenience stores, and vending machines has impacted young people's consumption habits severely, especially since the 1970s. The consumption of tea leaves per household dropped from 2,024 g in 1973 to 1,540 g in 1984.<sup>32</sup> Masuda (1984) also showed that tea leaves were mainly consumed by Japanese people over 60 years of age in the 1970s.<sup>33</sup> In contrast, the consumption of modern bottled beverages was growing tremendously in both volume and breadth of categories each year (see Figure 2). The diversification of bottled drinks started with carbonated drinks in the 1960s and 1970s (Coca-Cola started full operation in Japan in 1960)<sup>34</sup>, followed by fruit drinks in the 1970s, coffee drinks in the 1980s, and a multitude of products after 1990. In this context, the domestic consumption of tea reached a peak of 112,000 tons in 1973 and started to decline to 93,000 tons in 1989; the size of the market decreased by 17.3% in sixteen years. Consequently, the competition between distributors became fierce. The increase of average disposable income led tea specialty retailers to market their tea as a luxury good. ITO EN also began to operate special

<sup>30</sup> KSNCC, *CKS*, 93–94.

<sup>31</sup> Murayama, "Seiryō inryō bijinesu." By "bottled" beverages, we mean liquid drinks packaged in any kind of material, including aluminum, PET bottles, glass, and paper.

<sup>32</sup> Yanagawa, "Mēkāmāketingu," 146.

<sup>33</sup> Masuda, "Kin'nen Ryokucha," 22.

<sup>34</sup> Mark Mason, *American multinationals and Japan: The political economy of Japanese capital controls, 1899-1980* (Cambridge, MA: Harvard University Asia Center, 1992), 161–173.

tea retailer stores from 1977<sup>35</sup>. Luxury teas with a precise position on the market experienced steady development in this declining market. The number of tea-specific wholesalers continued to increase from 2,934 in 1979 to 3,519 in 1991, while special retailer stores rose in number from 14,487 in 1979 to 15,069 in 1988.<sup>36</sup> In contrast, the tea sold by packagers through the supermarkets and grocery stores, like Ume-no-en, had a cheap image and experienced sales stagnation.<sup>37</sup>

## A marketing innovation: Bottled green tea

After fifteen years of decline, tea consumption entered a new phase of growth after 1990 that lasted until its historical peak at 116,823 tons in 2004. This boom relied on a disruptive innovation: bottled green tea, which was developed in 1985 and first marketed by ITO EN in 1989. The volume of tea leaves consumed as bottled green tea had increased from only 2,660 tons in 1993 to 25,700 tons in 2005, equivalent to 23% of total tea-leaf consumption that year.<sup>38</sup> However, after 2005, the overall total domestic consumption of tea started to decline again because of increased competition by other drinks.<sup>39</sup> For example, releases of new beverages numbered only 607 products in 2001 but increased to 1,127 in 2006.<sup>40</sup> The per-household consumption of traditional green tea leaves has dropped from 1,540 g in 1984 to 1,133 g in 2005 and 791 g in 2020.<sup>41</sup> With the consumption of bottled drinks increasing each year, the amount of tea distributed through vending machines and convenience stores increased. This new consuming habit led to the disappearance of tea-leaf wholesalers and retailers in under thirty years, with the number of wholesalers dropping from 3,519 in 1991 to 1,607 in 2014 and special retailers going from 14,282 in 1985 to 6,381 in 2014.<sup>42</sup> In less than three decades, more than half of the tea wholesalers and special retailers vanished. Some tea companies that lost their shares of the domestic market started searching for foreign markets beginning around 2005.<sup>43</sup> The export quantity of Japanese tea increased in response, rising from 1,096 tons in 2005 to 5,108 tons in 2019, or 1.1% and 6.3% of national production, respectively (Figure 1).

Bottled tea was a marketing innovation that changed the true nature of green tea: it shifted from a commodity to a branded consumer good. The volume of tea leaves consumed as bottled green tea continued to grow from 25,700 tons in 2005 to 31,266 tons in 2019, representing a jump from 23% to 39% of total tea consumption during these years.<sup>44</sup> This transformation deeply impacted the industrial structure as organizational capabilities to mass-produce, mass-advertise, and mass-distribute beverages became the new competitive advantage in the Japanese green tea industry, akin to what Chandler (1990) demonstrated for large, modern US corporations since the late nineteenth century. This innovation emerged at ITO EN, a former tea-leaf packager, which repositioned itself as the largest tea manufacturer in Japan. In 2019, as the uncontested no. 1 in the industry, ITO EN's revenue was 25 times larger than that of the second-largest tea wholesaler.<sup>45</sup> The next section makes a detailed analysis of the corresponding innovation process and its impact on the development of the firm. ITO EN's successes encouraged many small firms to enter the bottled green tea business, too: 90 companies were active in the industry in 1994.<sup>46</sup> Besides ITO EN, however, none of them was able to achieve a sustainable position. The industry became fiercely competitive due to the entry of a new

<sup>35</sup> Masuda, *Cha no Keizai*, 92–94.

<sup>36</sup> KSNCC, *CKS*, 93–94.

<sup>37</sup> Masuda, *Cha no Keizai*, 93.

<sup>38</sup> KSNCC, *CKS*, 50.

<sup>39</sup> Takeda, “Nihon Ryokucha,” 4.

<sup>40</sup> Kataoka Yoshiharu, “Nihon ni okeru Ryokucha Inryō no Seisan Gaikyō,” *Hōseidaigaku Bungakubu Kiyō* 58 (2009): 45–52.

<sup>41</sup> KSNCC, *CKS*, 42.

<sup>42</sup> KSNCC, *CKS*, 93–94.

<sup>43</sup> Mizuno Haruna, “Wagakuni ni okeru Cha no Yushutsu Senryaku ni tsuite (tokushū Nihon cha no yushutsu senryaku),” *Ryokucha tsūshin: Sekai ryokucha kyōkai kikan-shi* 37 (2015): 3–6.

<sup>44</sup> KSNCC, *CKS*, 50.

<sup>45</sup> Nikkan keizai Tsushin (hereafter *NKT*), *Shurui Shokuhin Sangyō no Seisan Hanbai Shea* (Tokyo: Nikkan Keizai Tsūshinsha Chōsa-bu, 2019), 608.

<sup>46</sup> *NKT*, 1995, 532.



kind of later entrant that possessed organizational capabilities: Coca-Cola and the large beer manufacturers Asahi, Kirin, and Suntory.<sup>47</sup> In 1992, when the market was still in a formative period, ITO EN, the first mover, dominated the business with a market share of nearly 50% (see Table 1). Although the ensuing decades saw ITO EN maintain its dominant position, its share decreased to 33.7% in 2000 and stabilized around 40% in the 2010s amid rapid market expansion. The striking feature of this growing business is the emergence of industrial beverage manufactures. The total share of the six largest producers of bottled tea increased constantly, going from 77.7% in 1992 to 91.7% in 2018. In particular, the accumulative share of Coca-Cola, Kirin, and Suntory ballooned from 17.8% to 50.9% during the same time.

The competitive advantage of these large beverage companies was not only the ability to mass-produce bottled tea but also the capability to mass-distribute it. For example, these firms owned nationwide networks of vending machines. In 1993, Coca-Cola had 750,000 machines, DyDo DRI 200,000, and Suntory 180,000, but ITO EN had only 18,000.<sup>48</sup> This helped newcomers challenge ITO EN in the 1990s. The latter responded by enlarging its vending-machine network and diversifying sales channels (see section 5.3).

Table 1 The six largest bottled green tea companies since the 1990s, sales volume in 1,000 boxes<sup>49</sup>

1992	Sales volume	Share (%)	2000	Sales volume	Share (%)	2010	Sales volume	Share (%)	2018	Sales volume	Share (%)
ITO EN	11,050	48.3	ITO EN	36,800	33.7	ITO EN	90,100	40.4	ITO EN	104,240	38.2
Coca Cola	2,200	9.6	Kirin Beverage	24,000	22	Suntory	48,850	21.9	Coca Cola	55,600	20.4
Asahi Beer	1,600	7	Coca Cola	15,420	14.1	Coca Cola	26,500	11.9	Suntory	53,700	19.7
Pokka Corporation	1,050	4.6	Suntory	8,200	7.5	Kirin Beverage	18,340	8.2	Kirin Beverage	29,440	10.8
Suntory	1,000	4.4	Sapporo Beer	5,000	4.6	Asahi Beverage	5,820	2.6	Pokka Sapporo Food & Beverage	4,100	1.5
Kirin Beverage	860	3.8	DyDo DRINCO	4,670	4.3	Sapporo Beverage	2,960	1.3	Asahi Beverage	2,900	1.1
Top 6	17,760	77.7	Top 6	94,090	86.2	Top 6	192,570	86.3	Top 6	249,980	91.7

## From tea-leaf wholesaler to bottled tea: ITO EN

Wholesalers had been established as the dominant actors of the tea business in Japan since the end of the Meiji period (see section 3 above). They maintained this position until the early 1990s, when beverage companies started to take over this role. ITO EN was the company that precipitated this change. This section discusses how this shift was realized.

ITO EN's roots go back to the 1960s, when fast-growing tea consumption in the Japanese domestic market presented many entrepreneurs with an opportunity to establish new business ventures in distribution. Honjo Masanori (1934–2002), a former car salesman, was one of them. He discovered the high profitability of tea leaves through his grocery distributing business and began focusing on tea distribution in 1966. However, fewer than ten years later, a decline in domestic consumption forced Honjo to find a new way to sustain the development of his firm. That route

<sup>47</sup> Murayama Takatoshi, "[Ronsetsu] Wagakuni Seiryō Inryō Bijinesu ni okeru Jigyō Tokusei no Keisei ni tsuite — Kokusai Hikaku kara Mita Nihon Ichiba no Tokusei —" *Tōhoku Gakuin Daigaku Tōhoku Sangyō Keizaikenkyūsho kiyō* 25 (2006): 69-106.

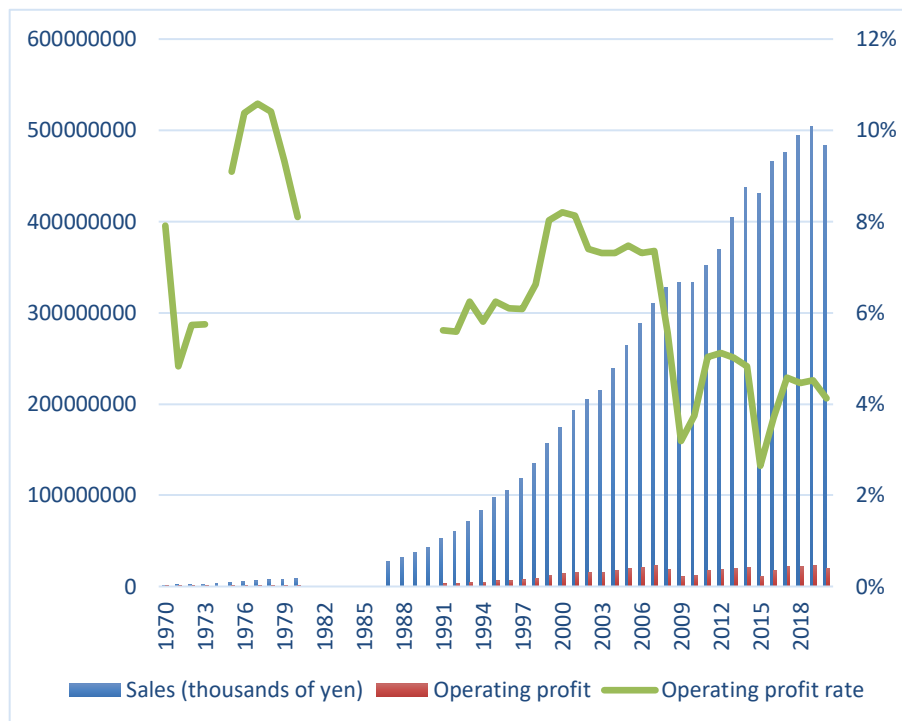
<sup>48</sup> Yanagawa, "Mēkāmāketingu," 147.

<sup>49</sup> *NKT* (1995, 2001, 2013, 2019), 533, 558, 534, 517.

came from a shift of consumption toward new beverages, which provided ITO EN with the opportunity to transform into a big business.<sup>50</sup>

Statistics on gross sales and operating profits between the foundation of the firm and 2020 shed light on various phases of ITO EN's development and emphasize three consecutive stages (see Figure 3). First, from 1966 to 1978, the company entered the traditional tea business as a green tea–leaf packager and distributor. It specialized in supplying tea to new distribution channels, such as self-service stores. Sales reached 7.3 billion yen in 1978 with an operating profit of 10%. Second, the years 1979–1991 were a period of transition. The declining consumption of tea leaves led ITO EN to diversify into the beverage industry, as we discuss below. Sales increased from 7.8 billion yen to 52.8 billion yen, while operating profit fell to 6% due to investments in facilities and factories. Sales of tea leaves dropped from 93% of all sales in 1978 to 37% in 1990, while the proportion of bottled tea increased to 43% in 1990.<sup>51</sup> Third, since 1992, ITO EN has experienced tremendous growth, with annual sales going from 60.6 billion yen in 1992 to 504 billion yen in 2019. During this period, ITO EN turned to the financial market to gain capital to enhance its R&D, enlarge its distribution resources and channels, and deploy comprehensive marketing and branding strategies. The firm realized its IPO in 1996. By 2019, the breakdown of tea sales revealed a stark divergence: tea leaves accounted for only 9% of total sales, while bottled beverages had increased their share to 79%. In 2018, ITO EN ranked as the fourth-largest beverage maker, with a share of 9.8% of the overall market, and a top share of 38.2% in the bottled green-tea category.<sup>52</sup> Below, we examine the transformation of ITO EN into a big business throughout these three periods with a focus on how the firm's competitive advantages have evolved.

Figure 3 ITO EN gross sales, in thousands of yen, and operating profit, as a %, 1969–2020<sup>53</sup>



<sup>50</sup> Ōkura, *Itōen no Keiei*, 49–61.

<sup>51</sup> IEAR, 2019, 6.

<sup>52</sup> *NKT*, 2020, 77, 517.

<sup>53</sup> *Nikkei* (1970–1991) and ITO EN (1992–2020), revenue is unknown for the years 1981–1986.



## The domestic green-tea boom and foundation of ITO EN (1966–1978)

Founded in 1966 as a tea-leaf wholesaler in Shizuoka city under the name Frontier Tea Co., Ltd., ITO EN soon developed into one of the most important companies in the industry. Its competitive advantages were based on a twofold strategy: new marketing and verticalization.

First, ITO EN joined the tea industry with only seven salesmen but novel ideas for marketing. It offered a new product (packaged tea) with a new promotional style in new distribution channels (supermarkets) and at lower prices.<sup>54</sup> While traditional distribution consisted of a complex system of multi-layered wholesalers and retailers, ITO EN decided to ignore the existing arrangement and sell packaged tea to supermarkets directly. In 1968, it was also the first one to use TV commercials to promote its branded tea leaves. The advertisements became very popular, with its core sentence “O-i Ocha ITO EN” (Hey! Tea, please! ITO EN) later becoming the main brand name of the company (O-i Ocha) (ITO EN Website, 2020). ITO EN established itself as the largest seller in the tea industry in 1968.<sup>55</sup> To compete against cheap tea offered by supermarkets, some specialty retailers launched luxury brands. ITO EN also started to build its own specialty-tea retailing stores to carve out a presence in this segment and had a lineup of 13 stores in 1979.<sup>56</sup>

Second, ITO EN verticalized production to extend its control over the value chain. It established a complete processing and distributing base in the tea-production district of Shizuoka by setting up tea-packaging and tea-processing factories.<sup>57</sup> The company invested in equipment to improve the quality of its packaged tea. For example, in 1972, it purchased a high-tech vacuum-packaging machine, originally developed for coffee packaging, from Switzerland.<sup>58</sup> ITO EN also explored organic farming methods and started to cultivate tea leaves without pesticides in 1974.<sup>59</sup> This improved the quality and the added value of its products. However, as ITO EN had borrowed most of the capital for its factory investments from banks<sup>60</sup>, the company found itself teetering on the brink of bankruptcy in 1974 due to its debts.<sup>61</sup> Nevertheless, the expansion of sales enabled it to improve its profitability and pursue development. The company had 551 employees in 1978.<sup>62</sup>

## Crisis as an opportunity for diversification (1979–1991)

After a period of rapid growth, domestic green-tea consumption started to decline during the second part of the 1970s. ITO EN adapted its strategy to pursue growth and strengthen its competitive advantage through two major changes: product diversification and cooperation with new external partners.

Diversification started with oolong tea, consumption of which was booming in Japan at the time.<sup>63</sup> In 1979, the vice-president of ITO EN, Honjo Hachiro, signed an exclusive, three-year sales contract with China Souvenirs and Livestock Exports and Imports, a Chinese state-owned company in charge of oolong tea exporting.<sup>64</sup> In this exclusive

<sup>54</sup> See “Karisumagata — Itōen shachō honjō masanorishi (naka) hitogara ga unda shin jigyo (keiei-sha no bunruigaku,” *Nikkei Sangyo Shinbun* (hereafter NSS), November 27, 1984, 32.

<sup>55</sup> Yanagawa, “Mēkāmāketingu,” 145.

<sup>56</sup> NSS, “Itōen, cha no senmon-ten chēn tenkai — tenmei mo cha jittoku to meimei, 3-nen-go 100 mise mezasu [ITO EN to develop a chain of tea specialty stores--to be named “Chajutoku” and to target 100 stores in 3 years],” August 8, 1979, 9.

<sup>57</sup> Masuda, *Cha no Keizai*, 93.

<sup>58</sup> Ōkura, *Itōen no Keiei*, 42.

<sup>59</sup> Murayama, “Seiryō inryō bijinesu,” 114.

<sup>60</sup> See “Shōnin seishin de ocha ni kakumei (2) Itōen shachō honjō masanori-shi (ningen hakken),” *Nihon Keizai Shimbun* (hereafter NKS), February 23, 1999, 5.

<sup>61</sup> NKS, “Shōnin seishin de ocha ni kakumei (4) Itōen shachō honjō masanori-shi (ningen hakken),” February 25, 1999, 5.

<sup>62</sup> *NKT*, 1978.

<sup>63</sup> Yanagawa, “Mēkāmāketingu,” 146.

<sup>64</sup> NKS, “Itōen, ūron cha no yunyū de Chūgoku miyage chikusan yushutsunyū kōshi to 3-nenkan no chōki kihon,” September 11, 1979, 9.

contract, ITO EN needed to guarantee a sales volume of 270 tons<sup>65</sup> and thus had to innovate its marketing to reduce the risk of having excess stock. It met the new consumer demand for healthy drinks by developing canned oolong tea without sugar, additives, or artificial coloring<sup>66</sup>, on the one hand, and promoting the image of natural and healthy goods to differentiate from the sugary juice beverages in the mainstream that time, on the other. Moreover, ITO EN developed its sales channels into new formats, such as vending machines, bars, and clubs, while maintaining a strong presence in supermarkets and specialty retail stores. It reorganized its sales departments and established new distribution centers close to local wholesalers and mass retailers to reduce delivery costs<sup>67</sup>. Building on the success of oolong tea, ITO EN further diversified into Sri Lankan black tea, canned coffee, canned juice, canned black tea, canned green tea, canned jasmine tea, mineral water, and more.<sup>68</sup> One of the most difficult of these new products to develop was canned green tea, as it was necessary to master techniques to prevent the oxidation of leaves—but ITO EN successfully launched a canned green tea in 1985.<sup>69</sup> In the same year, it set up a central research laboratory to carry out a broad range of activities, from the development of new beverages to organic farming.<sup>70</sup> In addition to beverages, ITO EN also utilized its expertise and resources from farming to develop organic vegetables. Similar to its tea business, it sold vegetables directly to supermarkets without going through wholesalers with its route sales method. It also developed canned vegetables and canned vegetable juices<sup>71</sup>, which also proved successful. In 1995, the sales of vegetable and fruit beverages reached 23.5 billion yen, amounting to 24.1% of ITO EN's revenue.<sup>72</sup>

In order to respond to the growing demand for canned oolong tea, the value of which grew to 180 billion yen in 1991<sup>73</sup>, ITO EN had to increase its production capabilities. It chose to subcontract most of this production to OEM beverage makers. In 1992, it had a total of 33 OEM factories.<sup>74</sup> Instead of production, ITO EN focused on product development, marketing, and distribution. Its lab also conducted joint research with outside institutions like Yamauchi Women's University, Kanagawa Dental University, and Stanford Research Institute.<sup>75</sup> Moreover, ITO EN cooperated with large industrial firms in the beverage industry like Coca-Cola and Suntory, which had boasted significant advantages in marketing and distributing resources, and supplied them with tea leaves and techniques for making canned oolong tea.<sup>76</sup> There was consequently a clear push to focus on value-adding activities and outsource mass production.

These changes made ITO EN a successful enterprise in a challenging environment. The number of employees in the company's fold increased from 551 in 1978 to 1455 in 1991 (ITO EN Annual Report, 1991). R&D and marketing (60% of the workforce were salesmen in 1991)<sup>77</sup> constituted the firm's core competitive advantages. Tea-leaf sales experienced slow growth, rising from 7.3 billion yen in 1978 to 17.3 billion in 1991, and gave way to sales of canned drinks, which increased to 33 billion in 1991.<sup>78</sup> ITO EN's average growth rate from 1989 to 1993 reached 17.3%, much higher than the average of 5% to 6% in the beverage industry.<sup>79</sup> Its operating profit of 5.6% in 1991 was lower

<sup>65</sup> Ōkura, *Itōen no Keiei*. 46.

<sup>66</sup> NKS, "Shōnin seishin de ocha ni kakumei (1) Itōen shachō honjō masanori-shi (ningen hakken)," February 22, 1999, 3.

<sup>67</sup> NSS, "Seicha no Itōen Kōbe ni ryūtsū sentā, haisō kosuto sakugen, honbu setchi — Nishinihon de eigyō kyōka," November 8, 1986, 9.

<sup>68</sup> NSS, "Itōen kaichō honjō masanori-shi — nenshō 1000 Oku-en mokuhyō kaniri ryokucha de shui (kaisha rebyū)," January 22, 1994, 12.

<sup>69</sup> NSS, "Itōen, kan-iri sencha tōjō — tan'nin henka fusegu," January 23, 1985, 21.

<sup>70</sup> NSS, "Itōen, kenkyū taisei o seibi, Shizuoka ni shin kenkyūjō — saibai kakō gijutsu ni migaki," January 28, 1985, 15.

<sup>71</sup> NSS, "Itōen, yūki yasai o hatsu no kigyō-ka — sūpā nado ni chokusetsu hanbai e," December 20, 1983, 11.

<sup>72</sup> IEAR, 1996.

<sup>73</sup> Murayama, "Seiryō inryō bijinesu."

<sup>74</sup> See "Itōen, 5 gatsu 28-nichi tentō kōkai — kan-iri ūron cha' no senku (rūkī shindan)," *Nikkei Kinyū Shinbun*, May 13, 1992, 18.

<sup>75</sup> NSS, "Itōen, ocha ōyō, iyaku e tenkai — kōyō bunseki, kisogatame (baio shin senryaku o saguru)," November 16, 1987, 15.

<sup>76</sup> Yanagawa, "Mēkāmāketingu," 146, 147.

<sup>77</sup> "Itōen, 5 gatsu," *Nikkei Kinyū Shinbun*. 18.

<sup>78</sup> IEAR 1991.

<sup>79</sup> NSS, "Itōen — inryō bumon ga kō seichō, ryokucha' san'nyū aitsugi kyōsō gekika (jitsuryoku o saguru tentō kōkai kigyō)," October 26, 1993, 25.

than Coca-Cola's figure but higher than other beverage makers, including the likes of Suntory (4.6%) and Asahi (2.6%).<sup>80</sup>

## Competition and transformation into big beverage maker (1992–2020)

ITO EN transformed into a large beverage company after 1992. Gross sales went from 60 billion yen that year to 174 billion in 2000 and 483 billion in 2020. Although it was still small compared with highly diversified beer companies such as Asahi Group Holdings, which posted 2.09 trillion yen in gross sales in 2019, ITO EN was able to achieve a fourth-place share in the beverage market in 2018.<sup>81</sup> This development occurred in two phases: first with a focus on one core brand and then on the diversification of brands and products since the 2000s.

### The development of a single brand

Considering the fierce competition of the beverage market, ITO EN decided to focus on bottled green tea and develop a strong brand linked to this product innovation. To mobilize capital, ITO EN's management started to trade shares over the counter in 1992, and the company listed on the Tokyo market in 1996.<sup>82</sup> The company's new marketing strategy featured three major characteristics.

First is the element of brand-identity construction and broadcasting. ITO EN used the brand name "O-i Ocha" and linked it to a natural and healthy image.<sup>83</sup> It also launched a cartoon character to personify bottled green tea, appearing in TV spots and communicating with consumers in various activities. Moreover, ITO EN invited famous "idols" (pop icons) to be brand ambassadors in commercials and launched campaigns to collect Japanese haiku (short poems) from consumers (more than 63,000 poems in 1992 and nearly 1.7 million in 2005) and then printed the best selected haiku on packages of its tea. It has also invested heavily in maintaining a high percentage of commercial GRP rates in the tea category since the launch of the 'O-i Ocha' bottled tea brand.<sup>84</sup> Finally, it published manga to tell the legendary story of its pioneering innovation of green-tea product developments to legitimize its position as a trailblazer in bottled green tea. Altogether, the advertising campaigns have become sizable investments: advertising expenses went from 1.2 billion in 1992 (2% of gross sales) to 9.8 billion yen in 2005 (3.7% of gross sales).<sup>85</sup>

Second, ITO EN expanded its line of "O-i Ocha" green tea to include selections like PET bottle green tea (1990) and heated PET bottle green tea (2000). It also kept improving its products' tastes and health-related attributes. In 2000, to bring marketing and R&D—including its central research laboratory, product research section, agriculture section, and agricultural technology section—closer together, ITO EN merged the two departments to synchronize innovations in value-chain activities with marketing.<sup>86</sup>

Third, ITO EN expanded its distribution system by aggressively opening sales offices nationwide, hiring 200 to 300 salespeople each year, and also by cooperating with external partners with distribution channels. In 2006, it had 200 sales offices in Japan, as compared to only 72 in 1994.<sup>87</sup> It also established a vending-machine promotion department in 1992<sup>88</sup>: the total number of vending machines controlled by ITO EN increased from 17,293 in 1994 to

<sup>80</sup> Suntory Annual Report, 1992; Asahi Annual Report, 1992.

<sup>81</sup> *NKT*, 2020, 477.

<sup>82</sup> IEAR, 2020.

<sup>83</sup> Kajiwara Katsumi, "Ocha no Burando Māketingu," *Shakai Kagaku Nenpō* 46 (2012): 3-15.

<sup>84</sup> Itoku Shōgo and Shibuya Shiori, "Kirin "Namacha" no Kyōgō ni taisuru Burando Senryaku o Kangaeru: Burando Kachi Kōzō no Shiten kara," *Jōhō Kenkyū* 58 (2018): 1-19.

<sup>85</sup> IEAR, 1992, 2005.

<sup>86</sup> IEAR, 2001.

<sup>87</sup> See "Itōen shachō honjō hachirō-shi — ocha no 'ji' ima kara ikusei (toppu no senryaku)," *Nikkei MJ*, January 30, 2006, 3.

<sup>88</sup> IEAR, 1993.

123,692 in 2008.<sup>89</sup> While these numbers pale in comparison to those owned by other large beverage companies, such as Suntory's total of 440,000 in 2008<sup>90</sup>, ITO EN had a stronger presence in supermarkets and explored new areas for sales, such as hospitals, that its competitors had not paid attention to.<sup>91</sup>

## Building a portfolio of brands

In the 2000s, the domestic bottled green-tea market started to experience stagnation. Consequently, ITO EN decided to diversify into new products and brands while maintaining “O-i Ocha” as its main product. For example, it has launched natural mineral barley tea (2002), natural jasmine green tea (2003), and gold oolong tea (2015), as well as products not related to tea, like enriched vegetables (2004), supplements (2006), coffee (2007), mineral water (2008) and yogurt (2011).<sup>92</sup> As its core competence focused on green tea, ITO EN used M&A and exclusive agency rights to diversify. The most important takeovers include the US nutritional supplement manufacturer Mason Distributors (2006); the Japanese firm FoodX Globe Co., which operates Tully's Coffee chain (2006); and the Japanese dairy-product company Chichiyasu (2008). As for exclusive distribution rights, the most important agreement was signed in 2008 with the French multinational Danone for the sale of Evian natural mineral water in Japan (Okura, 2012). Despite this broad diversification, the Japanese and healthy tea beverages still represented half of the company's sales in 2019 (ITO EN annual report, 2020).

## Discussion and conclusions

The objective of this study was to understand how a small firm in a traditional industry has been able to transform into a large competitive company through the example of the tea manufacturer ITO EN. The key action that enabled this transformation was a disruptive innovation that changed the true nature of tea from a commodity (tea leaves) to a branded good (bottled tea). The company implemented a new organization (verticalization of production and R&D), developed its brand management, and extended its sale channels in order to support the growth of its new business. Moreover, the bottled green tea not only helped one firm to achieve sustainable development but stopped the decline of the tea industry. It attracted followers from the beverage industry and demonstrated that the niche strategy for luxury goods was not the only way for traditional industries to survive.

The transformation process that this article examined was not, however, the work of one innovative firm alone. The emergence of resourceful competitors supported the general expansion of the business, as the entry of big beverage firms with massive and advanced distribution resources kept challenging the leading position of ITO EN in the bottled green-tea industry. The fierce competition on the marketing front not only propelled the gradual growth of the bottled green-tea market with a broader distribution network, massive advertisements, and promotions but also drove its evolution from a drink for simply thirst-quenching purposes to a beverage with healthy, functional qualities. The bottled green-tea market expanded greatly from only 57.1 billion yen in 1993 to 445 billion yen in 2019.<sup>93</sup> Previous studies on firm survival in declining industries have paid little attention to the industrial structure and the roles of leading firms in revitalizing consumption, instead mainly emphasizing product innovations and foreign-market exploration as survival strategies.<sup>94</sup> Here, we have demonstrated that the presence of large companies, with specific capabilities, supported the revival and development of a traditional industry.

<sup>89</sup> IEAR, 1995, 2001.

<sup>90</sup> Toyo Keizai, “Inryō jihanki” setchi kyōsō no shiretsu, tenki ni tatsu doruhako jigyō, 29 October 2009, available online via: <https://toyokezai.net/articles/-/3195>

<sup>91</sup> Ōkura, *Itōden no Keiei*.143

<sup>92</sup> IEAR, 2006, 2020.

<sup>93</sup> IEAR, 2019.

<sup>94</sup> Sone Hidekazu, “Famiribijinesu ni okeru kokusai-ka senryaku oyobi dainisogyo ni kansuru junbi-teki kenkyu: Dojima sake jozoyo no jirei,” *Keizai-gaku ronkyu* 73.3 (2019), 27-46.

Although ITO EN lacked marketing knowledge in comparison with large beverage makers, it used old resources such as sales force, distribution channels, and access to raw materials to develop an innovative product. Bottled green tea launched on the strength of effective, profitable use of these resources, subsequent investments in massive advertising, and efforts to build a strong national brand. Mudambi has observed that over the last several decades, the world economy had witnessed another revolution in terms of the nature of value creation: the source of value has been shifting from tangible assets to intangible assets at an accelerating pace<sup>95</sup>. One could also attribute the successful transformation of ITO EN to its shifting toward value-added activities. In contrast to ITO EN, many firms in traditional industries are small family business that are very conservative regarding business diversification.<sup>96</sup>

This study also showed that the successful transformation of a traditional industry is not automatically followed by similar success outside its national environment. ITO EN started internationalization in 1987, establishing a subsidiary in the United States, setting up joint venture in China (1994), and expanding elsewhere in Asia after 2000.<sup>97</sup> However, in 2020, only 8% of its revenue came from overseas<sup>98</sup>, and all the overseas subsidiaries except for Mason Distributors and Ningbo Shun Yi Tea Industry Co., Ltd, were losing money.<sup>99</sup> The reason for the difficulty can be explained by the nature of the product. Japanese green tea is a product with strong cultural roots, an essential characteristic that limits its global expansion. It is therefore costly and time-consuming to build a green-tea brand that appeals to consumers in different cultures. Looking at global beverage companies, building a portfolio of locally strong brands through M&A is a way to expand internationally.<sup>100</sup> However, ITO EN's M&A strategy is more characterized by the takeover of Japanese brands like Tully's.

Finally, going beyond the case of ITO EN to avoid a simplified success story, one must mention the environmental problems posed by the specificity of the beverage industry. Plastic pollution resulting from bottled beverages continues to represent a social problem and has come under heavy criticism for endangering environmental sustainability.<sup>101</sup> Bottled beverages were first adopted by firms from Western countries after the invention of PVC bottles in the 1960s and 1970s.<sup>102</sup> Then, the format soon spread to other countries and became a mainstream consumer product on a global scale. As the example of ITO EN has demonstrated, this mass consumption of bottled beverages has offered many companies the opportunity to grow big and flourish. On the other hand, it has also led to the proliferation of packaging waste and severe pollution on entire ecosystems. Some authors argue that business is “the only institution large enough, wealthy enough, and pervasive and powerful enough to lead humankind out of the mess we [are] making”.<sup>103</sup> Japan has responded by building a national PET-bottle recycling system through collaboration by companies and the government.<sup>104</sup> It has the highest recycling rate (around 90%) of PET bottles compared to the USA (around 20%) and Europe (around 40%) in recent years.<sup>105</sup> Considering environmental problems, in 2001 ITO EN adopted a raw-material recycling system to make various products like paper and building materials from used tea leaves.<sup>106</sup> This initiative is part of a corporate social responsibility strategy that contributes to emphasizing the brand

<sup>95</sup> Ram Mudambi, “Location, control and innovation in knowledge-intensive industries,” *Journal of economic Geography* 8.5 (2008): 699-725.

<sup>96</sup> Qing Xia and Pierre-Yves Donzé, “Surviving in a declining industry: a new entrepreneurial history of Nihonsakari since the 1970s,” *Business History* (2021): 1-20.

<sup>97</sup> IEAR, 2020.

<sup>98</sup> Ibid.

<sup>99</sup> IEAR, 2015, 2016, 2017.

<sup>100</sup> Teresa da Silva Lopes, *Global brands: The evolution of multinationals in alcoholic beverages*. Cambridge: Cambridge University Press, 2007.

<sup>101</sup> David Kinkela, “Plastic Six-Pack Rings: The Business and Politics of an Environmental Problem” in *Green Capitalism?* (Pennsylvania: University of Pennsylvania Press, 2017), 115-131.

<sup>102</sup> Nicolas Marty, “The True Revolution of 1968: Mineral Water Trade and the Early Proliferation of Plastic, 1960s–1970s,” *Business History Review* 94.3 (2020): 483-505.

<sup>103</sup> Paul Hawken, *The Ecology of Commerce: A Declaration of Sustainability*. New York, USA: Harper Business, 1993.

<sup>104</sup> Berkel Van, Rene, et al. “Industrial and urban symbiosis in Japan: Analysis of the Eco-Town program 1997–2006.” *Journal of Environmental Management* 90.3 (2009): 1544-1556.

<sup>105</sup> The Council for PET bottle recycling, Japan, Statistical data – Comparison of PET bottle recycle rates among Japan, US and EU <<https://www.petbottle-rec.gr.jp/data/comparison.html>> (accessed on 5th May 2021).

<sup>106</sup> IEAR, 2019.

as healthy and eco-friendly. It demonstrates again that tea is not more a mere commodity but a manufactured branded good.

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