

The Rice milling business *quality and profit*

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In many Asian countries, product quality has not been considered as top priority by the rice milling industry for a long period of time. Rice has been acknowledged as a stable food in the area, whose market consisted of no competition from other products and no demand for higher product quality. In other words, rice is treated differently from other regular food products as far as market price is concerned.

Today, it is common for rice packaging to carry the term “quality rice”. What is meant by quality?

The definition is unclear. Many consumers believe it includes the rice exhibiting a good appearance, with rice also having a high degree of whiteness and along with a polished reflective surface. However, technically speaking, that is not correct in terms of rice both as a vegetation and as a food product. High whiteness degree is achieved by excess milling. Once such rice is cooked, starch flows out from grains giving inferior taste. High whiteness degree also often results in less milling yield with a consequence for rice millers of reduced profit. Higher milling degree consequently does not benefit the mutual interests of both consumers and the industry. In the long history of Satake, one of the top priorities has always been contributing to the mutual benefit of all parties involved – the rice, the millers and the consumers.

In Japan, China, and many other Asian countries, the rice

milling industry is often a low profit industry, easily affected by variable cost such as the raw material, rice paddy.

Figure 1 shows a typical profit/cost relationship of a rice milling facility. This particular data was gathered by Satake in Jilin province, People’s Republic of China, in 2011 from 100ton/day facilities, paddy basis, which is considered as a middle to large scale rice mill. The X axis shows operation ratio, whilst the y axis shows Sales and Cost. Although commodity price in China has been increasing continuously, the cost structure of rice mills has not changed much. Sales amount and Product cost is shown as linear curves, and product cost through y-intercept coefficient standing out fixed cost respectively. Gap between 2 curves indicate profit and loss. The gradient of the cost curve indicates variable cost. In the research, the cost of raw materials made up more than 90% of the sales amount, and the break-even point was 39.8% of full operation capacity. It was found that rice mills in this area was a typical variable expense type industry. Conducting similar research in other rice mills in Asian countries, this cost construction was more or less same.

In general, there are 4 basic methods to increase business profit. The first is to increase operation/production rate but it has less impact in improving the fundamental cost structure. The second is to decrease fixed cost, such as equipment cost for the rice milling industry. However, as the figure above shows, fixed cost is low in the rice industry so this would give less impact to the cost structure. Third is to decrease variable costs, particularly the rice paddy cost in the rice milling industry. In many cases, paddy production and consumer consumption is determined by the market demand and both are well balanced. The rice milling industry would have difficulty controlling its purchase price.

The fourth way is a completely different approach. Increase the quality of the product and add a value that the market are prepared to accept. In the rice milling industry, that means to produce “quality rice” in the true sense, to earn both the consumers’ acceptance and to increase the profit margin through a higher selling price.

In the next article, we shall explore what Satake has been promoting to the rice millers to improve their businesses profit margins, using not only its time-proven processing machinery but also its know-how in rice!

